MTN Group Limited

Financial statements for the year ended 31 December 2016

Contents

The Group and Company financial statements were audited in terms of the Companies Act, No 71 of 2008.

The preparation of the Group and Company annual financial statements was supervised by the Acting Group chief financial officer, G Engling, BCom, BCompt (Hons), CA(SA).

These annual financial statements were authorised on 1 March 2017 by the board of directors.

Statement of directors' responsibility

for the year ended 31 December 2016

The directors are responsible for the integrity, preparation and fair presentation of the annual separate and consolidated financial statements of MTN Group Limited (the Company), its subsidiaries, joint ventures, associates and structured entities (together, the Group) in accordance with International Financial Reporting Standards (IFRS) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee (APC), Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the requirements of the South African Companies Act, No 71 of 2008 (the Companies Act), and the JSE Listings Requirements, which form an integral part of the annual financial statements.

The preparation of financial statements in conformity with IFRS requires management to consistently apply appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

The directors are of the opinion that the information contained in the annual financial statements fairly presents the financial position at year end and the financial performance and cash flows of the Group and the Company for the year then ended.

The directors have responsibility for ensuring that accurate and complete accounting records are kept to enable the Group and the Company to satisfy their obligation with respect to the preparation of financial statements.

The directors are also responsible for the oversight of the Group's system of internal controls. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

The Group operates in an established control environment, which is documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that the risks facing the business are controlled.

Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The Group risk committee plays an integral role in risk management, as well as in overseeing the Group's internal audit function.

The Group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the Group's audit committee, assesses and, when necessary, recommends improvements in the system of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.

The going concern basis has been adopted in preparing the Group and the Company annual financial statements. The directors have no reason to believe that the Company or its subsidiaries will not be going concerns in the year ahead based on forecasts, available cash resources and facilities. These financial statements support the viability of the Group and the Company.

The Group's external auditors, Pricewaterhouse-Coopers Incorporated and SizweNtsalubaGobodo Incorporated, jointly audited the Group and the Company financial statements and their unqualified audit report is presented on pages 9 to 13.

The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The Group and the Company annual financial statements which appear on pages 1 to 152 were approved for issue by the board of directors on 1 March 2017 and are signed on its behalf by:

PF Nhleko
Executive chairman

G Engling
Acting Group chief financial officer

Fairland

Certificate by the company secretary
for the year ended 31 December 2016

I certify that MTN Group Limited has filed all its returns and notices for the year ended 31 December 2016, as required of a public company in terms of section 88(2)(e) of the Companies Act, No 71 of 2008, and that such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

SB Mtshali
Group secretary

Fairland
1 March 2017

Report of the audit committee
for the year ended 31 December 2016

The MTN Group audit committee (the committee) presents its report in terms of section 94(7)(f) of the Companies Act and as recommended by King III for the financial year ended 31 December 2016. The committee has taken note that King IV will replace King III in its entirety with effect from 1 April 2017.

TERMS OF REFERENCE
The committee has adopted comprehensive and formal terms of reference which have been approved by the board and are reviewed on an annual basis.

MEMBERSHIP, MEETING ATTENDANCE AND EVALUATION
Members of the committee are formally nominated by the board for re-election by shareholders. The individual members satisfy the requirements to serve as members of an audit committee as provided in section 94 of the Companies Act and have adequate knowledge and experience. The composition of the committee and the attendance at the meetings by its members are set out below for the period January to December 2016:

Members	Attendance
KC Ramon (Chairman)	**4/4**
NP Mageza	**4/4**
MJN Njeke*	**2/2**
J van Rooyen	**4/4**
A Mikati**	**1/1**
P Hanratty***	**1/1**

* *MJN Njeke retired from the board on 26 May 2016.*
** *A Mikati was appointed as an audit committee member at the annual general meeting held on 25 May 2016. Subsequent to his appointment, he resigned from the committee on 4 August 2016.*
*** *P Hanratty was appointed on 4 August 2016.*

The committee meets at least four times a year and members' fees are included in the table of directors' emoluments and related payments in note 10.2.

The executive chairman and chief executive officer, the acting Group chief financial officer, the Group chief business risk officer, joint external auditors and other assurance providers attend committee meetings by invitation. The committee also meets separately with the joint external auditors, internal auditors and senior management before or after every meeting.

The effectiveness of the audit committee as a whole and its individual members is assessed on an annual basis.

EXECUTION OF FUNCTIONS OF THE AUDIT COMMITTEE
The committee is satisfied that, in respect of the period under review, it has conducted its affairs and discharged its duties and responsibilities in accordance with its terms of reference, the Companies Act and King III.

The committee discharged the following responsibilities during the year under review:

EXTERNAL AUDITORS
- Considered and satisfied itself with the independence and objectivity of the joint external auditors and designated registered auditors and ensured that the scope of non-audit services rendered did not impair their independence.
- Approved the non-audit-related services performed by the joint external auditors during the year in accordance with the policy established and approved by the board.
- Determined the joint external auditors' terms of engagement and fees for 2016.
- Pre-approved all agreements for the provision of non-audit services, through the chairman of the committee to whom this authority has been delegated.
- Satisfied itself that the joint external auditors and designated registered auditors are accredited on the JSE's list of auditors and advisers. The committee recommends the reappointment of the joint external auditors and the reappointment of the designated auditors at the next annual general meeting.

FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES
- Reviewed the accounting policies and the annual financial statements of the Group and the Company for the year ended 31 December 2016, and based on the information provided to it, the committee considers that, in all material respects, they are appropriate and comply with the provisions of the Companies Act, IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), and the JSE Listings Requirements.
- Reviewed the processes in place for the reporting of concerns and complaints relating to reporting

and accounting practices, internal audit, contents of the Group and the Company's financial statements, internal financial controls and any related matters. The committee can confirm that there were no such complaints of substance during the year under review.

INTERNAL FINANCIAL CONTROLS

- Reviewed the process in terms of which internal audit performed a written assessment of the effectiveness of the Group's system of internal control (including internal financial controls). This written assessment by internal audit formed the basis of the committee's recommendation in this regard to the board in order for the board to report thereon. The board's report on the effectiveness of the system of internal controls, which the committee fully supports, is included in the directors' report on page 8.
- Reviewed the reports of both internal and external auditors detailing their concerns arising from their audits and considered the appropriateness of the responses from management.

GOING CONCERN STATUS

- Considered the going concern status of the Group and the Company on the basis of review of the annual financial statements and the information available to the committee and recommended such going concern status for adoption by the board. The board's statement on the going concern status of the Group and Company is contained on page 5 of the directors' report.

INTERNAL AUDIT

- Considered the effectiveness of the internal audit function and monitored adherence to the annual internal audit plan.
- Reviewed the performance of the Group chief business risk officer, Mr S Sooklal, and was satisfied that he has the necessary expertise and experience to fulfil this role and that he had performed appropriately during the year under review. Mr S Sooklal will be retiring on 3 May 2017. Mr R Wessels has been appointed as his replacement.

FINANCE DIRECTOR AND FINANCE FUNCTION

- Reviewed the performance of the Group chief financial officer, Mr BD Goschen, and was satisfied that he has the necessary expertise and experience to fulfil this role and that he had performed appropriately during the year under review. The committee noted that Mr BD Goschen resigned from the Group with effect from 30 September 2016. The committee was satisfied with the experience and expertise of Mr G Engling who was appointed as the acting Group chief financial officer with effect from 1 October 2016.
- Considered, and has satisfied itself of the appropriateness of the expertise and experience of the finance function and adequacy of resources employed in this function.
- Mr R Mupita's position of Group chief financial officer will be effective on 3 April 2017.

SOLVENCY AND LIQUIDITY REVIEW

The committee is satisfied that the board has performed a solvency and liquidity test on the Company in terms of section 46 of the Companies Act and has concluded that the Company will satisfy the test after payment of the final dividend.

The committee also considered guarantees issued on behalf of subsidiaries.

The Group's joint external auditors are PricewaterhouseCoopers Incorporated and SizweNtsalubaGobodo Incorporated. Fees paid to auditors for the year under review are disclosed in note 2.4 of the annual financial statements.

KC Ramon
Audit committee chairman

1 March 2017

Directors' report
for the year ended 31 December 2016

NATURE OF BUSINESS
MTN Group Limited (the Company) incorporated in the Republic of South Africa on 23 November 1994 carries on the business of investing in the telecommunications industry through its subsidiary companies, joint ventures and associated companies. The Group is listed on the JSE Limited.

The Company's registered address is 216 14th Avenue, Fairland, Roodepoort, Gauteng, 2195.

ACCOUNTING PRACTICES
The Group and the Company annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC) and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee (APC) and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the JSE Listings Requirements and the requirements of the Companies Act.

FINANCIAL RESULTS
The Group recorded a loss after tax for the year ended 31 December 2016 of R3 103 million (2015: profit after tax of R23 570 million).

Full details of the financial results of the Group and the Company are set out in these annual financial statements and accompanying notes for the year ended 31 December 2016.

CAPITAL EXPENDITURE
Capital expenditure for the year ended 31 December 2016 totalled R35 268 million (2015: R29 611 million) which comprise the following:

	2016 Rm	2015 Rm
Property, plant and equipment	**32 095**	25 751
Land and buildings	**186**	465
Leasehold improvements	**62**	177
Network infrastructure	**13 540**	8 802
Information systems, furniture and office equipment	**1 630**	1 484
Capital work in progress/ other[1]	**16 594**	14 700
Vehicles	**83**	123
Intangible assets	**3 173**	3 860
Software	**1 868**	2 860
Capital work in progress	**1 305**	1 000
	35 268	29 611

[1] *The majority of work in progress relates to long-term network infrastructure projects.*

Licences and spectrum acquired during the year:

	2016 Rm	2015 Rm
Cameroon	–	1 515
Syria	**54***	1 591*
Ivory Coast	–	2 760
Nigeria 4G and NBC spectrum	**1 396**	3 353
Nigeria Visafone	–	3 752
Scancom (MTN Ghana)	**973**	–
Congo SA	**266**	–
Yemen	**468**	–
Other	**141**	–
	3 298	12 971

** Excluding the effects of hyperinflation.*

RELATED PARTY TRANSACTIONS
Details of related party transactions are set out in note 10 of these annual financial statements.

YEAR UNDER REVIEW
The results of the Group and Company have been set out in the attached financial statements.

BORROWING POWERS
In terms of the memorandum of incorporation (MOI), the borrowing powers of the Company are unlimited. However, all borrowings by the Company are subject to limitations set out in the treasury policy of the Group. The details of borrowings are disclosed in note 6.1.

GOING CONCERN
The directors have reviewed the Group's and Company's budget and cash flow forecast for the year to 31 December 2017. On the basis of this review, and in light of the current financial position and existing borrowing facilities, the directors are satisfied that the Company and the Group have access to adequate resources to continue in operational existence for the foreseeable future, are going concerns, and have continued to adopt the going concern basis in preparing the annual financial statements.

SUBSIDIARY COMPANIES AND JOINT VENTURES
Details of subsidiaries and joint ventures in which the Group has a direct or indirect interest are set out in note 9.1 of the annual financial statements.

All Group entities have a year end consistent to that of the Company with the exception of Irancell Telecommunication Company Services (PJSC) (MTN Irancell), a joint venture of the Group, that has a year end of 21 December.

DISTRIBUTION TO SHAREHOLDERS

Before declaring dividends, the board:
- applied the solvency and liquidity test; and
- reasonably concluded that the Company would satisfy the solvency and liquidity test immediately after payment of the interim and final dividend.

The payments of future dividends will depend on the board's ongoing assessment of the Group's earnings, financial position, cash needs, future earnings prospects and other future factors.

Final dividend

Notice is hereby given that a gross final dividend of 450 cents per share for the period to 31 December 2016 has been declared payable to shareholders. The number of ordinary shares in issue at the date of this declaration is 1 884 269 758 (including 10 206 255 treasury shares held by MTN Holdings and 76 835 378 shares held by MTN Zakhele Futhi).

The dividend will be subject to a maximum local dividend tax rate of 20% which will result in a net dividend of 360 cents per share to those shareholders who bear the maximum rate of dividend withholding tax of 90 cents per share.

The Company's tax reference number is 9692/942/71/8. In compliance with the requirements of STRATE, the electronic settlement and custody system used by the JSE, the salient dates relating to the payment of the dividend are as follows:

Last day to trade *cum* dividend on the JSE	Monday, 20 March 2017
First trading day *ex* dividend on the JSE	Wednesday, 22 March 2017
Record date	Friday, 24 March 2017
Payment date	Monday, 27 March 2017

No share certificates may be dematerialised or rematerialised between Wednesday, 22 March 2017 and Friday, 24 March 2017, both days inclusive. On Monday, 27 March 2017, the dividend will be transferred electronically to the bank accounts of certificated shareholders who make use of this facility.

In respect of those who do not use this facility, cheques dated Monday, 27 March 2017 will be posted on or about that date. Shareholders who hold dematerialised shares will have their accounts held by the Central Securities Depository Participant or broker credited on Monday, 27 March 2017.

The board confirms that the Company will satisfy the solvency and liquidity test after the completion of the dividend distribution.

Interim dividend

A gross dividend of 250 cents per share (2015: 480 cents per share) amounting to R4 585 million (2015: R8 808 million) in respect of the half-year period ended 30 June 2016 was declared on 4 August 2016 and paid to shareholders on 29 August 2016.

Shareholders on the South African register who dematerialised their ordinary shares receive payment for their dividend electronically, as provided for by STRATE. For those shareholders who have not yet dematerialised their shareholding in the Company in certificated form, the Company operates an electronic funds transmission service, whereby dividends may be electronically transferred to shareholders' bank accounts. These shareholders are encouraged to mandate this method of payment for all future dividends by approaching the Company's share registrar, Computershare Investor Services Proprietary Limited, whose contact details are:

Computershare Investor Services Proprietary Limited
Registration number: 2004/003647/07
Rosebank Towers, 15 Biermann Avenue,
Rosebank, 2196.
PO Box 61051, Marshalltown, 2107

SHARE CAPITAL

Authorised share capital

There was no change in the authorised share capital of the Company during the year under review. The authorised ordinary share capital of the Company is 2,5 billion shares of 0,01 cent each.

Issued share capital

The issued share capital of the Company is R188 427 (2015: R184 549) comprising 1 884 269 758 (2015: 1 845 493 245) ordinary shares of 0,01 cents each.

MTN Zakhele Futhi Scheme and unwind of MTN Zakhele

The Group unwound its broad-based black economic empowerment (BBBEE) scheme MTN Zakhele during November 2016. On unwind, MTN cancelled and delisted the following shares repurchased from MTN Zakhele:

- 5 882 100 shares repurchased by the Company from MTN Zakhele, in settlement of the outstanding NVF funding of R662 million;
- 23 479 083 shares repurchased by the Company from MTN Zakhele for cash to facilitate the orderly unwind of MTN Zakhele; and
- 7 253 510 shares repurchased by the Company from MTN Zakhele to facilitate the reinvestment by existing MTN Zakhele shareholders who elected to reinvest into MTN's new BBBEE vehicle, MTN Zakhele Futhi.

Simultaneously with the unwind of MTN Zakhele, MTN implemented a new R9,9 billion BBBEE transaction, structured through a separate legal entity, MTN Zakhele Futhi.

Details of the MTN Zakhele Futhi Scheme are set out in note 8.1.

Details of participation in the MTN Zakhele Futhi Scheme by directors of the Company, the Group secretary, directors and the company secretaries of major subsidiaries are set out in note 10.2 of the annual financial statements.

CONTROL OF UNISSUED SHARE CAPITAL

The unissued ordinary shares are the subject of a general authority granted to the directors in terms of section 38 of the Companies Act. As this general authority remains valid only until the next annual general meeting (AGM), shareholders will be asked at that meeting to consider an ordinary resolution placing the said unissued ordinary shares, to a maximum of 10% of the Company's issued share capital, under the control of the directors until the next AGM.

ACQUISITION OF THE COMPANY'S OWN SHARES

At the last AGM held on 25 May 2016, shareholders gave the Company or any of its subsidiaries a general approval in terms of section 48 of the Companies Act, by way of special resolution, for the acquisition of its own shares. As this general approval remains valid only until the next AGM, to be held on 25 May 2017, shareholders will be asked at that meeting to consider a special resolution to renew this general authority until the next AGM, subject to a maximum extension of 15 months.

During the year, 5 882 100 (2015: 3 361 466) shares were repurchased by the Company from MTN Zakhele. A total of 38 058 865 (2015: 2 862 644) of these shares were cancelled by the Company during the year.

In addition, MTN Zakhele Futhi acquired 76 835 378 of the Company's shares at a price of R128,50 per share.

Further details of the authorised and issued shares are set out in note 8.1.

SHAREHOLDERS' INTEREST

Details of shareholders' interest and a shareholder spread analysis are disclosed in Annexure 1 of the annual financial statements.

Details of the directors' remuneration and shareholding are set out in note 10.2 of the annual financial statements.

RETIREMENT BY ROTATION OF DIRECTORS

In accordance with the Company's MOI, PB Hanratty, SP Miller, R Mupita, R Shuter and NL Sowazi retire at the forthcoming AGM. The retiring directors, being eligible, offer themselves for election.

In accordance with the policy adopted by the board and the MOI of the Company, directors who have been in office for an aggregate period in excess of nine years are required to retire at the next AGM and at each AGM thereafter. Accordingly, AT Mikati, KP Kalyan, AF van Biljon and J van Rooyen who have served on the board for an aggregate period in excess of nine years, retire at the forthcoming AGM and are eligible and offer themselves for re-election following an evaluation of their independence.

The profiles of the directors retiring by rotation and seeking re-election will be set out in the notice of the AGM.

APPOINTMENTS AND RESIGNATIONS

During the year under review, PB Hanratty, SP Miller and NL Sowazi were appointed to the board as independent non-executive directors with effect from 1 August 2016. BD Goschen resigned as an executive director on 30 September 2016. MJN Njeke and JHN Strydom retired as non-executive directors on 25 May 2016.

The Company also announced that it had identified R Shuter for appointment as Group president and CEO with effect from 13 March 2017 and R Mupita as Group chief financial officer with effect from 3 April 2017. Once the Group president and CEO commences his term in office, the executive chairman will step down from his executive role and revert to his role as the non-executive chairman of the Group.

The appointments are subject to shareholder approval at the next AGM to be held on Thursday, 25 May 2017.

There were no other director appointments or resignations other than those mentioned above during the year under review.

INTERESTS OF DIRECTORS AND PRESCRIBED OFFICERS

Details of the interests of directors and prescribed officers are provided in note 10.2.

DIRECTORS AND PRESCRIBED OFFICERS' SHAREHOLDINGS AND DEALINGS

Details of the interests of directors and prescribed officers' shareholdings and dealings are provided in note 10.2.

EMPLOYEE SHARE SCHEMES

Details of the Group's share schemes are provided in note 8.4.

MERGERS AND ACQUISITIONS

Details of the Group's changes in shareholding and acquisitions are disclosed in notes 9.3 and 9.4.

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in relevant notes within the financial statements.

AMERICAN DEPOSITORY RECEIPT (ADR)

A sponsored ADR facility is in place. This facility is sponsored by the Bank of New York and details of the administrators are: Cusip No. 62474M108 ADR

ANNUAL GENERAL MEETING

The AGM will be held on Thursday, 25 May 2017. Refer to the notice of the twenty-second AGM, when issued, for further details of the ordinary and special business for consideration at the meeting.

INTERNAL FINANCIAL CONTROLS

During the year under review, the board, through the audit committee, assessed the results of the formal documented review of the Group's system of internal controls and risk management, including the design, implementation and effectiveness of the internal financial controls conducted by internal audit and considered information and explanations given by management and discussions with the external auditors on the results of the audit. Although certain weaknesses in financial controls, whether in design, implementation or execution were identified, the board does not consider these control weaknesses (individually or in combination with other weaknesses) to have resulted in actual material financial loss, fraud or material errors. Based on the above results, nothing has come to the attention of the board that caused it to believe that the Group's system of internal controls and risk management is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable annual financial statements. The board's opinion is supported by the audit committee.

AUDIT COMMITTEE

The report of the audit committee appears on pages 3 and 4 of the annual financial statements.

AUDITORS

PricewaterhouseCoopers Incorporated and Sizwe-NtsalubaGobodo Incorporated will continue in office as joint auditors in accordance with section 90 of the Companies Act. Suleman Lockhat will retire and Dumisani Manana will be the registered audit partner undertaking the audit for SizweNtsalubaGobodo Incorporated. Johan van Huyssteen will continue as the registered audit partner undertaking the audit for PricewaterhouseCoopers Incorporated.

The audit committee reviewed the independence of the auditors during the period under review and satisfied itself that the auditors were independent of the Group.

Independent auditors' report to the shareholders of MTN Group Limited

for the year ended 31 December 2016

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of MTN Group Limited (the Company) and its subsidiaries (together the Group) as at 31 December 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

MTN Group Limited's Group and Company financial statements set out on pages 14 to 151 comprise:

- the Group and Company statements of financial position as at 31 December 2016;
- the Group income statement for the year then ended;
- the Group and Company statements of comprehensive income for the year then ended;
- the Group and Company statements of changes in equity for the year then ended;
- the Group and Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill arising from business combinations	
Due to the number of business combinations that the Group enters into, the Group's net assets include a significant amount of goodwill. Some of the businesses that these balances relate to are still at an early stage in their lifecycle or are operating in countries subject to political turmoil and sanctioned environments. There is a risk that these businesses may not trade in line with expectations and forecasts, resulting in the risk that the carrying amount of goodwill needs to be impaired. Goodwill is tested annually for impairment or whenever there is an impairment indicator by management. This impairment assessment is considered to be a matter of most significance to the current year audit due to the significant judgements made by management regarding the discount rates, the terminal growth rates and other forecasts included in the analyses used to perform the impairment assessments. We further considered the impairment assessment of the goodwill related to the following entities to be most sensitive in the current year due to limited or no headroom available when comparing the carrying value to the value in use or due to significant impairments recognised: • MTN Guinea-Conakry, where an impairment charge of ZAR402 million was recognised resulting in the goodwill balance at year end being fully impaired; • MTN Sudan and MTN Yemen where no goodwill impairment charge was required for the current financial year; • MTN Syria where an impairment charge of ZAR269 million was recognised; and • MTN South Sudan, where the goodwill balance was fully impaired in prior periods. Refer to note 5.2.1: Goodwill, where detail on these items is included. Further disclosure is also included in note 1.5: Critical accounting judgements, estimates and assumptions of the Group financial statements. This matter relates to the consolidated financial statements level.	We have tested the mathematical accuracy of the valuation models and are satisfied that the approach adopted by management in the valuation models is in line with market practice and the applicable requirements of IAS 36: *Impairment of Assets*, which was also confirmed with our internal valuation experts. We have assessed management's cash flow forecasts and assumptions as well as in-country discount, inflation and growth rates. Management's forecasts were agreed to approved in-country budgets. We further assessed the Group's budgeting procedures (which form the basis of the forecasts) by comparing budgets to actual results and held discussions with management on the reasonability of the forecasts used in the valuations where past results were not reflective of previously approved forecasts or where subsequent adjustments were made to the in-country budgets. The terminal growth rates were compared to long-term inflation rates obtained from independent sources. Our valuation experts independently recalculated a weighted average cost of capital discount rate (which includes a country risk premium) for each territory in the Group taking into account independently obtained data such as the cost of debt, risk-free rates in the market; market risk premiums, debt/equity ratios as well as the beta of comparable companies; and this was compared to the discount rate used by management. The discount rates of management were considered to be within an acceptable range of our independent calculations. We reperformed the value-in-use calculation as calculated by management. We performed sensitivity analysis on the value-in-use calculations and focused on the discount rates, the annual growth rates, the terminal growth rates and the forecast cash flows for each entity. We further performed sensitivity procedures to determine the maximum decline that would result in limited or no headroom and compared our results with that of management in terms of identifying those operations considered sensitive or for which the recording of impairment charges were required.

Independent auditors' report to the shareholders of MTN Group Limited continued

for the year ended 31 December 2016

Key audit matter	How our audit addressed the key audit matter
Accounting treatment of current, deferred and other taxes in developing markets	
The Group operates across many tax jurisdictions and due to the inherent nature of exposures in developing markets, specifically within Africa, the Group carries a significant amount of tax provisions and contingencies at year end. Management applies their judgement to estimate the potential exposure where the interpretation of the applicable tax laws and regulations could be subjective. We consider this to be a matter of most significance to the current year's audit due to the materiality, complexity and nature of these exposures together with the significant level of management judgement involved in interpreting specific Acts or practices in determining the amounts of these liabilities. Further details of the matter have been included in note 1.5: Critical accounting judgements, estimates and assumptions and note 6.8: Contingent liabilities of the Group financial statements. This matter relates to the consolidated financial statements.	We utilised our tax specialists to evaluate management's assessment of tax exposures relating to income tax (including transfer pricing and controlled foreign company legislation), withholding tax, VAT and other taxes. Meetings were held between our tax specialists and the Group's local territories' internal tax experts and management to discuss the significant exposures and evaluate the reasonableness of management's conclusions. In-country management's tax assessment reports as communicated to those charged with governance were also considered in-country and at a Group level by our internal tax specialists to independently assess the conclusions reached by management. To corroborate management's assessment, we inspected correspondence received by management from the tax authorities and the Group's tax advisers to evaluate the adequacy of provisions and disclosures made. We also performed an independent recalculation of the tax exposures.
Accounting for the introduction of the "new" BBBEE vehicle of the Group (MTN Zakhele Futhi (RF) Limited) and the unwind of the "old" BBBEE vehicle (MTN Zakhele (RF) Limited) during the year	
The Group unwound its broad-based black economic empowerment (BBBEE) transaction "MTN Zakhele", which was established in 2010, during November 2016. As a consequence of the unwind of MTN Zakhele, a new BBBEE transaction was structured through a separate legal entity, MTN Zakhele Futhi (RF) Limited (MTN Zakhele Futhi). MTN Zakhele Futhi is consolidated by the Group in terms of IFRS. We consider this as a matter of most significance to the current year's audit due to the level of judgement and sensitivity involved in determining the charge to the income statement in terms of IFRS 2 *Share-based Payment*. A change in certain of the inputs included in the option valuation model used to calculate the IFRS 2 charge (ie share price volatility) or an error in applying the appropriate valuation methodology or applying it incorrectly, could have a significant impact on the Group and Company's 2016 financial results. Further details of the matter have been included in note 8.1: Ordinary share capital and share premium and note 1.5: Critical accounting judgements, estimates and assumptions of the Group financial statements and in note 5: Investment in subsidiaries and note 8: Ordinary share capital and share premium of the Company financial statements. This matter relates to the consolidated and separate financial statement levels.	We have considered the appropriateness of the Monte Carlo valuation methodology applied by management and deemed this to be appropriate. We considered the volatility of the MTN share price to be the most sensitive to change. Our internal actuarial valuation experts independently calculated the share price volatility using historical data, current market views and by applying their judgement. We compared the results of management's calculation to the calculation independently performed by us. The result of our calculation was within a tolerable range. We also independently recalculated the IFRS 2 *Share-based Payment* charge based on an independently developed model and no material differences were noted.

Independent auditors' report to the shareholders of MTN Group Limited continued

for the year ended 31 December 2016

Other information

The directors are responsible for the other information. The other information comprises the statement of directors' responsibility, the directors' report, the report of the audit committee and the certificate by the Company secretary as required by the Companies Act of South Africa, as well as Annexure 1 – Shareholders' information, which we obtained prior to the date of this auditors' report, and the integrated report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to

continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in *Government Gazette* Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Inc. have been the auditors of MTN Group Limited for 23 years and 14 years, respectively.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: JR van Huyssteen
Registered Auditor
Sunninghill
1 March 2017

SizweNtsalubaGobodo Inc

SizweNtsalubaGobodo Inc.
Director: SY Lockhat
Registered Auditor
Woodmead
1 March 2017

Group income statement
for the year ended 31 December 2016

	Note	2016 Rm	2015 Rm
Revenue	2.2	**147 920**	147 063
Other income	2.3	**335**	8 409
Direct network and technology operating costs		**(23 520)**	(18 809)
Costs of handsets and other accessories		**(12 304)**	(10 829)
Interconnect and roaming		**(13 393)**	(13 102)
Staff costs	2.4	**(9 152)**	(8 587)
Selling, distribution and marketing expenses		**(19 172)**	(18 412)
Government and regulatory costs		**(5 191)**	(5 888)
Other operating expenses		**(14 273)**	(11 433)
EBITDA before Nigeria regulatory fine		**51 250**	68 412
Nigeria regulatory fine	6.3	**(10 499)**	(9 287)
EBITDA		**40 751**	59 125
Depreciation of property, plant and equipment	5.1	**(20 988)**	(19 557)
Amortisation of intangible assets	5.2	**(4 748)**	(3 736)
Impairment of goodwill	5.2	**(873)**	(504)
Operating profit	2.4	**14 142**	35 328
Finance income	2.5	**4 424**	5 442
Finance costs	2.5	**(14 919)**	(8 452)
Net monetary gain		**1 723**	1 348
Share of results of associates and joint ventures after tax	9.2	**(127)**	1 226
Profit before tax		**5 243**	34 892
Income tax expense	3.1	**(8 346)**	(11 322)
(Loss)/profit after tax		**(3 103)**	23 570
Attributable to:			
Equity holders of the Company		**(2 614)**	20 204
Non-controlling interests		**(489)**	3 366
		(3 103)	23 570
Basic (loss)/earnings per share (cents)	2.7	**(144)**	1 109
Diluted (loss)/earnings per share (cents)	2.7	**(144)**	1 106

Group statement of comprehensive income

for the year ended 31 December 2016

	2016 Rm	2015 Rm
(Loss)/profit after tax	**(3 103)**	23 570
Other comprehensive income after tax:		
Items that are or may be subsequently reclassified to profit or loss:		
Net investment hedges	**(1 887)**	–
Foreign exchange movement on hedging instruments	**(2 684)**	–
Deferred tax	**797**	–
Available-for-sale financial assets[1,2]	**2 672**	–
Gains arising during the year	**2 672**	–
Exchange differences on translating foreign operations including the effect of hyperinflation[1]	**(22 907)**	22 203
(Losses)/gains arising during the year	**(22 907)**	22 203
Other comprehensive income for the year	**(22 122)**	22 203
Attributable to equity holders of the Company	**(21 077)**	21 033
Attributable to non-controlling interests	**(1 045)**	1 170
Total comprehensive income for the year	**(25 225)**	45 773
Attributable to:		
Equity holders of the Company	**(23 691)**	41 237
Non-controlling interests	**(1 534)**	4 536
	(25 225)	45 773

[1] *This component of other comprehensive income does not attract any tax.*
[2] *The available-for-sale investment relates to the Group's investment in IHS Holding Limited (IHS) (note 7.2).*

Group statement of financial position
at 31 December 2016

	Note	2016 Rm	2015 Rm
ASSETS			
Non-current assets		**189 089**	218 435
Property, plant and equipment	5.1	**95 633**	106 702
Intangible assets and goodwill	5.2	**46 473**	55 887
Investments	7.2	**11 841**	9 969
Investment in associates and joint ventures	9.2	**26 669**	35 552
Loans and other non-current receivables	7.3	**7 366**	9 783
Deferred tax assets	3.2	**1 107**	542
Current assets		**79 611**	95 432
Non-current assets held for sale		*****	10
		79 611	95 422
Inventories	4.1	**3 972**	5 635
Trade and other receivables	4.2	**37 363**	43 570
Taxation prepaid	3.3	**2 019**	1 331
Current investments	7.4	**7 858**	8 811
Derivative assets	7.5	**4**	163
Restricted cash	4.3	**1 020**	1 735
Cash and cash equivalents	4.4	**27 375**	34 177
Total assets		**268 700**	313 867
EQUITY			
Ordinary share capital and share premium	8.1	**36 786**	40 248
Retained earnings		**64 831**	87 526
Other reserves	8.2	**763**	18 595
Attributable to equity holders of the Company		**102 380**	146 369
Non-controlling interests		**2 851**	5 469
Total equity		**105 231**	151 838
LIABILITIES			
Non-current liabilities		**85 743**	72 510
Borrowings	6.1	**67 319**	52 661
Deferred tax liabilities	3.2	**9 059**	13 041
Other non-current liabilities	6.2	**8 985**	2 184
Provisions	6.3	**380**	4 624
Current liabilities		**77 726**	89 519
Trade and other payables	4.5	**45 142**	40 484
Unearned income		**6 449**	8 519
Provisions	6.3	**2 229**	7 993
Taxation liabilities	3.3	**4 213**	10 013
Borrowings	6.1	**19 635**	22 472
Derivative liabilities	7.5	**58**	–
Bank overdrafts	4.4	**–**	38
Total liabilities		**163 469**	162 029
Total equity and liabilities		**268 700**	313 867

** Amounts less than R1 million.*

Group statement of changes in equity

for the year ended 31 December 2016

	Note	Share capital Rm	Share premium Rm	Retained earnings Rm	Other reserves Rm	Total Rm	Non-controlling interests Rm	Total equity Rm
		Attributable to equity holders of the Company						
Balance at 1 January 2015		*	40 179	91 305	(2 967)	128 517	4 925	133 442
Total comprehensive income		–	–	20 204	21 033	41 237	4 536	45 773
Profit after tax		–	–	20 204	–	20 204	3 366	23 570
Other comprehensive income		–	–	–	21 033	21 033	1 170	22 203
Transactions with shareholders								
Shares cancelled		(*)	–	–	–	(*)	–	(*)
Treasury shares		*	69	–	–	69	–	69
Settlement of vested equity rights		–	–	(288)	–	(288)	–	(288)
Share-based payment transactions		–	–	–	532	532	–	532
Dividends declared	8.3	–	–	(23 506)	–	(23 506)	(4 172)	(27 678)
Transfer of profit		–	–	(127)	127	–	–	–
Share buy-back		(*)	–	–	–	(*)	–	(*)
Other movements		–	–	(62)	(130)	(192)	180	(12)
Balance at 31 December 2015		*	40 248	87 526	18 595	146 369	5 469	151 838
Balance at 1 January 2016		*****	**40 248**	**87 526**	**18 595**	**146 369**	**5 469**	**151 838**
Opening reserve adjustment for impact of hyperinflation	1.5.6	**–**	**–**	**(123)**	**–**	**(123)**	**–**	**(123)**
Adjusted balance at 1 January 2016		*****	**40 248**	**87 403**	**18 595**	**146 246**	**5 469**	**151 715**
Total comprehensive income		**–**	**–**	**(2 614)**	**(21 077)**	**(23 691)**	**(1 534)**	**(25 225)**
Loss after tax		**–**	**–**	**(2 614)**	**–**	**(2 614)**	**(489)**	**(3 103)**
Other comprehensive income		**–**	**–**	**–**	**(21 077)**	**(21 077)**	**(1 045)**	**(22 122)**
Transactions with shareholders								
Shares cancelled		**(*)**	**–**	**–**	**–**	**(*)**	**–**	**(*)**
Treasury shares		*****	**–**	**–**	**–**	*****	**–**	*****
Share buy-back from MTN Zakhele		**(*)**	**(3 462)**	**–**	**–**	**(3 462)**	**–**	**(3 462)**
Share-based payment transactions – Zakhele Futhi		**–**	**–**	**–**	**2 919**	**2 919**	**–**	**2 919**
Share-based payment transactions – other		**–**	**–**	**–**	**1**	**1**	**–**	**1**
Dividends declared	8.3	**–**	**–**	**(19 816)**	**–**	**(19 816)**	**(1 053)**	**(20 869)**
Other movements		**–**	**–**	**(142)**	**325**	**183**	**(31)**	**152**
Balance at 31 December 2016		*****	**36 786**	**64 831**	**763**	**102 380**	**2 851**	**105 231**
Note		8.1	8.1		8.2			

** Amounts less than R1 million.*

Group statement of cash flows

for the year ended 31 December 2016

	Note	2016 Rm	2015 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	2.6	**55 681**	57 598
Finance income received		**1 985**	2 591
Finance costs paid		**(4 968)**	(4 855)
Income tax paid	3.3	**(11 704)**	(13 506)
Dividends paid to equity holders of the Company		**(19 792)**	(23 506)
Dividends paid to non-controlling interests		**(1 178)**	(5 777)
Dividends received from associates	9.2	**205**	230
Dividends received from joint ventures	9.2	**487**	347
Net cash generated from operating activities		**20 716**	13 122
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		**(29 899)**	(21 612)
Acquisition of intangible assets		**(5 348)**	(10 412)
Proceeds from sale of property, plant and equipment and intangible assets		**388**	772
Proceeds on sale of towers	2.3	**–**	6 515
Increase in non-current investments		**(2 199)**	(3 319)
Acquisition of businesses, net of cash acquired	9.4	**(882)**	(3 040)
Loans granted		**(52)**	(1 007)
Increase in investment in insurance cell captives		**(90)**	(952)
Purchase of bonds, treasury bills and foreign deposits		**(2 704)**	(542)
Decrease/(increase) in restricted cash		**309**	(693)
Other investing activities		**69**	–
Net cash used in investing activities		**(40 408)**	(34 290)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**59 647**	23 384
Repayment of borrowings		**(37 211)**	(14 802)
Share buy-back		**–**	(173)
Settlement of vested equity rights		**–**	(288)
Buy-back of shares from MTN Zakhele		**(2 645)**	–
Premium received on option issued to MTN Zakhele Futhi		**1 185**	–
Other financing activities		**(25)**	(20)
Net cash from financing activities		**20 951**	8 101
Net increase/(decrease) in cash and cash equivalents		**1 259**	(13 067)
Net cash and cash equivalents at beginning of the year		**34 139**	43 072
Exchange (losses)/gains on cash and cash equivalents		**(8 192)**	3 860
Net monetary gain on cash and cash equivalents		**169**	274
Net cash and cash equivalents at end of the year	4.4	**27 375**	34 139

Index to the notes to the Group financial statements

** Events after reporting period disclosed herein.*

Notes to the Group financial statements
for the year ended 31 December 2016

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS

1.1 Basis of preparation

The Group financial statements of MTN Group Limited (the Company) comprise the Company and its subsidiaries and the Group's interest in associates and joint ventures (together referred to as the Group and individually as Group entities).

The Group financial statements and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC), and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the JSE Listings Requirements and the requirements of the South African Companies Act, No 71 of 2008. The Group and the Company have adopted all new accounting pronouncements that became effective in the current reporting period, none of which had a material impact on the Group or the Company.

The financial statements have been prepared on the historical cost basis adjusted for the effects of inflation where entities operate in hyperinflationary economies and for certain financial instruments and non-current assets held for sale that have been measured at fair value, where applicable.

The South Sudanese and Syrian economies have been considered to be hyperinflationary. Accordingly, the results, cash flows and financial position of the Group's subsidiaries, MTN South Sudan Limited and MTN Syria (JSC) have been expressed in terms of the measuring unit current at the reporting date.

Sudan ceased being regarded as a hyperinflationary economy during 2016, resulting in hyperinflation accounting relating to MTN Sudan Company Limited not being applied from 1 July 2016 onward.

The methods used to measure fair value and the adjustments made to account for the Group's entities that operate in hyperinflationary economies are discussed further in the accounting policies and in the respective notes.

Amounts are rounded to the nearest million with the exception of earnings per share and the related number of shares (note 2.7), number of ordinary shares (note 8.1), share-based payments (note 8.4) and directors' emoluments and interests (note 10.2).

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in note 1.5.

1.2 Going concern

The Group and the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group and the Company should be able to operate within their current funding levels into the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. The financial statements therefore have been prepared on a going concern basis.

1.3 Principal accounting policies[1]

The principal accounting policies applied in the preparation of these financial statements are set out on the following page and in the related notes to the Group financial statements, and should be read in conjunction with the financial definitions disclosed on pages 150 and 151 of the financial statements. The principal accounting policies applied are consistent with those adopted in the prior year, unless otherwise stated.

[1] *Where applicable, the principal accounting policies applied in the Company financial statements are consistent with those applied in the Group financial statements.*

1 **ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS** (continued)

1.3 **Principal accounting policies**[1] (continued)

1.3.1 Consolidation

Business combinations

The Group accounts for business combinations using the acquisition method when control is obtained by the Group. A business is defined as an integrated set of activities and assets that are capable of being conducted and managed for the purposes of providing a return directly to investors or other owners, members or participants. The consideration transferred is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are recognised in profit or loss. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date fair values of the identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition date fair values of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), such excess is recognised immediately in profit or loss as a bargain purchase gain.

An obligation to pay contingent consideration is classified as either a financial liability or equity based on the respective definitions set out in IAS 32 *Financial Instruments: Presentation*. The Group classifies any rights to the return of consideration previously transferred as a financial asset. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, with the corresponding gain or loss recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured after the acquisition date.

Any changes resulting from additional and new information about events and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amount recognised at that date, are considered to be measurement period adjustments. The Group retrospectively adjusts the amounts recognised for measurement period adjustments. The measurement period ends when the acquirer receives all the information they were seeking about the facts and circumstances that existed at the acquisition date or learns that information cannot be obtained. The measurement period shall, however, not exceed one year from the acquisition date. To the extent that changes in the fair value relate to post-acquisition events, these changes are recognised in accordance with the IFRS applicable to the specific asset or liability.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

[1] *Where applicable, the principal accounting policies applied in the Company financial statements are consistent with those applied in the Group financial statements.*

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.3 Principal accounting policies[1] (continued)

1.3.1 Consolidation (continued)

Consolidation of subsidiaries

The Group financial statements incorporate the financial statements of MTN Group Limited and all its subsidiaries, joint ventures, associates and structured entities (SEs) for the reporting date 31 December 2016 on the basis outlined below.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases (disposal date). When assessing whether control exists, the Group considers all existing substantive rights that result in the current ability to direct relevant activities.

All intercompany transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated on consolidation. Unrealised losses are considered an impairment indicator of the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to align any difference in accounting policies with those of the Group.

The Group does not consolidate entities where it owns more than half of the issued ordinary share capital where the contractual agreements are such that other shareholders have substantive rights that provide authority over the relevant activities of the entities.

The Company accounts for investments in subsidiaries at cost, less accumulated impairment losses.

Non-controlling interest

On an acquisition-by-acquisition basis, non-controlling interests in the acquiree may initially be measured either at fair value, or at the non-controlling shareholders' proportion of the net identifiable assets acquired and liabilities and contingent liabilities assumed.

Non-controlling shareholders are treated as equity participants; therefore, all acquisitions of non-controlling interests or disposals by the Group of its interests in subsidiaries, where control is maintained subsequent to the disposal, are accounted for as equity transactions. Consequently, the difference between the fair value of the consideration transferred and the carrying amount of a non-controlling interest purchased, is recorded in equity. All profits or losses arising as a result of the disposal of interests in subsidiaries to non-controlling shareholders (where control is subsequently maintained) are also recorded in equity.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity.

Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

[1] *Where applicable, the principal accounting policies applied in the Company financial statements are consistent with those applied in the Group financial statements.*

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.3 Principal accounting policies[1] (continued)

1.3.2 Foreign currency

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the entity's functional currency. The Group financial statements are presented in South African rand, which is the functional and presentation currency of the Company.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation of foreign operations

The results, cash flows and financial position of Group entities which are not accounted for as entities operating in hyperinflationary economies and that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

- assets and liabilities are translated at rates of exchange ruling at the reporting date;
- specific transactions in equity are translated at rates of exchange ruling at the transaction dates;
- income and expenditure and cash flow items are translated at weighted average exchange rates for the period or translated at exchange rates at the date of the transaction, where applicable; and
- foreign exchange translation differences are recognised as other comprehensive income.

The results, cash flows and financial position of the Group entities which are accounted for as entities operating in hyperinflationary economies and that have functional currencies different from the presentation currency of the Group are translated into the presentation currency of its immediate parent at rates of exchange ruling at the reporting date. As the presentation currency of the Group or that of the immediate parent is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year.

An entity may have a monetary item that is receivable from a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income as part of the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate ruling at the reporting date. Exchange differences arising are recognised in other comprehensive income.

The exchange rates relevant to the Group are disclosed in note 7.6.

Disposal of foreign operations

On disposal of a foreign operation, all exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Group are reclassified to profit or loss.

Exchange differences accumulated in equity in respect of a monetary item that is part of the Group's net investment in a foreign operation, are not reclassified to profit or loss on settlement of the monetary item.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences is reattributed to non-controlling interests and is not recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

[1] *Where applicable, the principal accounting policies applied in the Company financial statements are consistent with those applied in the Group financial statements.*

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.3 Principal accounting policies[1] (continued)

1.3.3 Hyperinflation

The financial statements (including comparative amounts) of the Group entities whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit current at the end of the reporting period.

As the presentation currency of the Group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year. Differences between these comparative amounts and current year hyperinflation adjusted equity balances are recognised in other comprehensive income.

The carrying amounts of non-monetary assets and liabilities are adjusted to reflect the change in the general price index from the date of acquisition to the end of the reporting period. An impairment loss is recognised in profit or loss if the restated amount of a non-monetary item exceeds its estimated recoverable amount.

Gains or losses on the net monetary position are recognised in profit or loss.

All items recognised in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

At the beginning of the first period of application, the components of equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. These restatements are recognised directly in equity as an adjustment to opening retained earnings. Restated retained earnings are derived from all other amounts in the restated statement of financial position. At the end of the first period and in subsequent periods, all components of equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later.

All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

The South Sudanese and Syrian economies have been classified as hyperinflationary. Accordingly, the results, cash flows and financial position of the Group's subsidiaries, MTN South Sudan Limited and MTN Syria (JSC), have been expressed in terms of the measuring unit current at the reporting date. For further details, refer to note 1.5.6.

The results, cash flows and financial position of another subsidiary, MTN Sudan Company Limited, have been classified as hyperinflationary since 2013. During the current year, MTN Sudan ceased to be hyperinflationary, effective 1 July 2016 and consequently, hyperinflationary accounting has not been applied from this date onward. Accordingly, the amounts expressed in terms of the measuring unit current at 30 June 2016 are treated as the basis for the carrying amounts with no further hyperinflation adjustments being passed from 1 July 2016 onwards.

[1] Where applicable, the principal accounting policies applied in the Company financial statements are consistent with those applied in the Group financial statements.

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.3 Principal accounting policies[1] (continued)

1.3.4 Measurement principles

Key assets and liabilities shown in the statement of financial position are subsequently measured as follows:

Items included in the statement of financial position	Measurement principle	Items included in the statement of financial position	Measurement principle
ASSETS		**LIABILITIES**	
Non-current assets		**Non-current liabilities**	
Property, plant and equipment	Historical cost, less accumulated depreciation and impairment losses	Borrowings	Amortised cost
Intangible assets	Historical cost, less accumulated amortisation and impairment losses	Deferred tax liabilities	Undiscounted amount measured at the tax rates that have been enacted and are expected to apply to the period when the liability is settled
Investments	Amortised cost/fair value	Provisions	Present value of the best estimate of settlement amount
Goodwill	Historical cost, less impairment losses		
Investment in associates and joint ventures	Cost adjusted for share of movements in net assets, less impairment losses		
Loans receivable	Amortised cost		
Deferred tax assets	Undiscounted amount measured at the tax rates that have been enacted and are expected to apply to the period when the asset is realised		
Current assets		**Current liabilities**	
Non-current assets held for sale	Lower of carrying amount and fair value less costs to sell	Trade and other payables	Amortised cost
Inventories	Lower of cost and net realisable value	Derivative liabilities	Fair value
Trade receivables	Amortised cost	Unearned income	Nominal value
Taxation prepaid	Amount expected to be recovered from tax authorities, using tax rates that have been enacted or substantively enacted at the reporting date	Provisions	Present value of the best estimate of settlement amount
Current investments	Amortised cost/fair value	Taxation liabilities	Amount expected to be paid to tax authorities, using tax rates that have been enacted or substantively enacted at the reporting date
Derivative assets	Fair value	Borrowings	Amortised cost
Restricted cash	Amortised cost	Bank overdrafts	Amortised cost
Cash and cash equivalents	Amortised cost		

[1] *Where applicable, the principal accounting policies applied in the Company financial statements are consistent with those applied in the Group financial statements.*

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.4 New accounting pronouncements

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

Topic	Key requirements	Effective date
IFRS 16 *Leases*	IFRS 16 will result in almost all leases of lessees being recognised in the statement of financial position, as the distinction between finance and operating leases has been removed. Under the new standard, a lessee will recognise an asset representing the right to use the leased item, and a financial liability to pay rentals. The only exceptions are for short-term (less than 12 months) and low-value leases. The accounting for lessors will not change significantly. The new standard contains enhanced disclosure requirements for both lessees and lessors. The Group expects that the new standard will primarily affect its accounting for operating leases, in particular those relating to its property and network sites. As at reporting date, the Group has non-cancellable operating lease commitments of R124 billion (refer to note 6.5). A major portion of operating lease commitments relate to tower leases. It is anticipated that these leases will result in the recognition of a lease liability and a corresponding right of use asset. It is anticipated that while the EBITDA and the related EBITDA margin will improve, depreciation and finance charges will increase. Leases denominated in currencies that are not the functional currency of the operation will increase foreign exchange exposure. Recognising a liability will also impact net debt and net debt:EBITDA ratios.	1 January 2019
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 replaces the two main revenue recognition standards, IAS 18 *Revenue* and IAS 11 *Construction Contracts* and their related interpretations. IFRS 15 provides a single control-based revenue recognition model and clarifies the principles for recognising revenue from contracts with customers. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. IFRS 15 also includes comprehensive disclosure requirements that will provide users with information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018

1 **ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS** (continued)

1.4 **New accounting pronouncements** (continued)

Topic	Key requirements	Effective date
IFRS 15 *Revenue from Contracts with Customers (continued)*	The standard permits either a full retrospective or modified retrospective approach for adoption and the Group is currently assessing the most appropriate approach to follow on transition. The impact on the financial statements has not yet been fully determined but it is expected to result in a change in the timing of the recognition of subscriber acquisition costs such as agent's commission which will be recognised when the related performance obligations are satisfied. The Group's current accounting policy is to expense such costs when incurred.	1 January 2018
IFRS 9 *Financial Instruments*	IFRS 9 replaces IAS 39. It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The adoption of IFRS 9 is not expected to change the measurement of the Group's financial assets and liabilities significantly, but will require a review of the current classification of financial assets and liabilities. The hedge accounting requirements will be applied prospectively and are not expected to have a significant impact on the financial results of the Group. The Group expects to choose an accounting policy to always measure the impairment at the present value of expected cash shortfalls over the remaining life of the receivable and contract assets using a provision matrix. The impact of an expected credit loss model on the financial statements has not yet been fully determined, however, it may result in an earlier recognition of credit losses. This requirement is expected to have an impact on impairments relating to long-term postpaid contracts, mainly within MTN South Africa, receivables in the Group's enterprise business unit and interconnect receivables. The Group will adopt the standard on 1 January 2018. The Group is currently assessing the most appropriate approach to follow on transition.	1 January 2018

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.5 Critical accounting judgements, estimates and assumptions

The Group makes judgements, estimates and assumptions concerning the future when preparing its financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The "Critical accounting judgements, estimates and assumptions" note should be read in conjunction with the "Principal accounting policies" disclosed in note 1.3.

1.5.1 Accounting for the Nigeria fine and related professional fees

During October 2015, the Nigerian Communications Commission (NCC) imposed a fine of N1,04 trillion (R80,7 billion[1]) on MTN Nigeria Communications Limited (MTN Nigeria). This fine related to the timing of the disconnection of 5,1 million MTN Nigeria subscribers who were disconnected in August and September 2015 and was based on a fine of N200 000 for each unregistered subscriber. During December 2015 the NCC revised the amount to N780 billion (R60,6 billion[1]).

At 31 December 2015, management exercised judgement in determining the expected timing, the amount of the possible range of cash outflows that may occur as well as the discount rate to be applied. Consequently, the Group provided R9,3 billion[1] at 31 December 2015 based on the estimated amount and timing of cash outflows and applied a discount rate of 12,87% per annum, which was a pre-tax discount rate in Nigeria based on a Nigerian bond with similar cash flows.

On 10 June 2016, MTN Nigeria resolved the matter with the Federal Government of Nigeria (FGN) after the completion of an extensive negotiation process. In terms of the agreement reached, MTN Nigeria agreed to pay a total cash amount of N330 billion over three years (R25,1 billion[3]) to the FGN as full and final settlement of the matter in accordance with the payment terms as set out below.

The N50 billion (R4 billion[2]) paid in good faith and without prejudice by MTN Nigeria on 24 February 2016 formed part of the monetary component of the settlement which resulted in a cash balance of N280 billion (R21,3 billion[3]) outstanding on 10 June 2016, to be discharged as follows:
- N30 billion on 8 July 2016
- N30 billion on 31 March 2017
- N55 billion on 31 March 2018
- N55 billion on 31 December 2018
- N55 billion on 31 March 2019
- N55 billion on 31 May 2019

The Group reclassified the provision on 10 June 2016 to a financial liability of N212,5 billion, the equivalent of R16,2 billion[3], for the outstanding cash payments using a discount rate of 14,71%. Management exercised judgement in determining an appropriate discount rate that represents the incremental borrowing rate for MTN Nigeria for a liability with similar cash flows. The additional charge to the income statement amounted to R10,5 billion and interest of R1,0 billion was recognised on the discounted provision and liability during 2016. The balance of the liability at 31 December 2016 amounts to R8,7 billion, after taking into account the payment of N30 billion (R1,9 billion[4]) on 24 June 2016.

The Group incurred professional fees of R1 324 million (included in other operating expenses in the income statement) on a range of professional services relating to the negotiations that led to a reduction of R34 billion in the Nigeria regulatory fine. The board has exercised its judgement and approved the quantum of the professional fees incurred taking into account global benchmarks and the value delivered, culminating in the final settlement of the Nigerian fine.

[1] Amounts translated at the 2015 closing exchange rate of R1 = N12,88
[2] Amount translated at an exchange rate on 24 February 2016 of R1 = N12,55
[3] Amounts translated at an exchange rate on 10 June 2016 of R1 = N13,15
[4] Amount translated at the June 2016 average rate of R1 = N15,90

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.5 Critical accounting judgements, estimates and assumptions (continued)

1.5.2 Impairment of goodwill

The Group tests goodwill for impairment on an annual basis, in accordance with the accounting policy disclosed in note 5.2. The recoverable amounts of cash-generating units (CGU) have been determined based on value-in-use calculations. These calculations are performed internally by the Group and require the use of estimates and assumptions.

The input factors most sensitive to change are management estimates of future cash flows based on budgets and forecasts, growth rates and discount rates. Further detail on these assumptions has been disclosed in note 5.2. The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the changes in input factors result in any of the goodwill allocated to appropriate CGU being impaired. Goodwill impairment in the current year amounted to R873 million (2015: R504 million), refer to note 5.2.

1.5.3 Income taxes

The Group is subject to income taxes in numerous jurisdictions. As a result, significant judgement is required in determining the Group's provision for income taxes. There are numerous calculations and transactions for which the ultimate tax position is uncertain during the ordinary course of business. The Group recognises tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be payable. In determining whether an interpretation and/or application of the various tax rules may result in a dispute of which the outcome may not be favourable to the Group, the Group seeks, where relevant, expert advice to determine whether an unfavourable outcome is probable or possible. Where payment is determined to be possible but not probable the tax exposure is disclosed as a contingent liability, refer to note 6.8. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax in the period in which such determination is made.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences (as applicable) to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be used. The Group applies judgement in assessing whether future taxable profits will be available. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the probable reversal of taxable temporary differences in future. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improves. The Group's deferred tax assets for the current year amounted to R1 107 million (2015: R542 million), refer to note 3.2.

1.5.4 Determining whether an arrangement contains a lease

The Group applies the principles of IFRIC 4 *Determining whether an Arrangement contains a Lease* in order to assess whether its arrangements constitute or contain leases. The requirements to be met in order to conclude that an arrangement constitutes or contains a lease are as follows:

- the provision of a service in terms of the arrangement should be dependent on the use of one or more specific assets; and
- the arrangement must convey a right to use these assets.

All other arrangements that do not constitute or contain leases are treated as service level agreements; the costs are expensed as incurred.

For the purpose of applying IFRIC 4 on tower space lease arrangements, the Group considers the tower asset as a whole in assessing whether the arrangement contains a lease. This is consistent with the guidance on determining a component of an asset in IAS 16 *Property, Plant and Equipment*. The Group has resolved that an arrangement contains a lease as defined in IAS 17 *Leases* where the arrangement provides an exclusive right to use specific tower space which is more than an insignificant part of the tower asset.

1.5.5 Determining whether an arrangement qualifies as an operating lease or a finance lease

The Group applies its principal accounting policies for leases to account for arrangements which constitute or contain leases and follows the guidance of IAS 17 to determine the classification of leases as either operating or finance leases.

During previous years the Group entered into sale and leaseback transactions with IHS that resulted in the sale of its mobile network towers in Nigeria, refer to note 2.3.

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.5 Critical accounting judgements, estimates and assumptions (continued)

1.5.5 Determining whether an arrangement qualifies as an operating lease or a finance lease (continued)

The critical elements that the Group considered with respect to the classification of the lease transaction were:

- whether the lease terms are for the major part of the economic life of the tower assets; and
- whether, at inception of the leases, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the tower assets.

The Group estimated that the lease term of the tower assets is not for a major part of the economic life of the tower assets, taking into account the non-cancellable period for which the Group has contracted, and any options to renew such period where it is reasonably certain that the Group will exercise the option.

The minimum lease payments were determined by separating the payments required by the lease arrangements into those pertaining to the lease and those pertaining to other elements such as services and cost of inputs on the basis of their relative fair values. Management exercised judgement in estimating the fair value of the other elements by reference to comparable cost structures of the Group and other independent tower operators. The discount rate used in calculating the present value of the minimum lease payments reflects the rate of interest MTN Nigeria Communications Limited would incur in borrowing the funds necessary to purchase similar assets.

The fair value of the tower assets was determined by reference to the amounts at which the tower assets were sold which represents the prices at which the assets could be sold in an orderly transaction between market participants under current market conditions. The Group determined that the present value of the minimum lease payments did not equal substantially all of the fair value of the underlying tower assets.

Following the Group's assessment, the leaseback transactions were classified as operating leases.

1.5.6 Hyperinflation

The Group exercises significant judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its subsidiaries, associates or joint ventures is the currency of a hyperinflationary economy.

Various characteristics of the economic environment of each country are taken into account. These characteristics include, but are not limited to, whether:

- the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency;
- prices are quoted in a relatively stable foreign currency;
- sales or purchase prices take expected losses of purchasing power during a short credit period into account;
- interest rates, wages and prices are linked to a price index; and
- the cumulative inflation rate over three years is approaching, or exceeds, 100%.

Management exercises judgement as to when a restatement of the financial statements of a Group entity becomes necessary. Following management's assessment, the Group's subsidiaries, MTN South Sudan Company Limited and MTN Syria (JSC), have been accounted for as entities operating in hyperinflationary economies. The results, cash flows and financial positions of MTN South Sudan Company Limited and MTN Syria (JSC) have been expressed in terms of the measuring units current at the reporting date.

Sudanese economy

The three-year cumulative inflation in Sudan for 2016 is below 100%, indicating that the economy has ceased to be hyperinflationary with effect from 1 July 2016. Accordingly, the amounts expressed in terms of the measuring unit current at 30 June 2016 are treated as the basis for the carrying amounts with no further hyperinflation adjustments being passed from 1 July 2016 onwards.

The general price indices used in adjusting the results, cash flows and financial position of the Group's subsidiaries are set out on the following page.

MTN South Sudan Company Limited

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

1 **ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS** (continued)

1.5 **Critical accounting judgements, estimates and assumptions** (continued)

1.5.6 Hyperinflation (continued)

The general price index used as published by the International Monetary Fund is as follows:

Date	Base year	General price index	Inflation rate (%)
31 December 2016	2016	6,8	584

The cumulative inflation rate over three years as at 31 December 2016 is 1 477%. The average adjustment factor used for 2016 was 416.

MTN Syria (JSC)

Reliable inflation data could not be obtained on the inflation rate in Syria. The general price index set out below was calculated by reference to the change in the United States dollar:Syrian pound exchange rate.

Date	Base year	General price index	Inflation rate (%)
31 December 2016	2014	3,4	260

The cumulative inflation rate over three years as at 31 December 2016 is 45,1%. The average adjustment factor used for 2016 was 135,3.

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

	2016 Rm	2015 Rm
Income statement		
Increase in revenue	**1 026**	710
Increase in EBITDA	**246**	231
Net monetary gain	**1 723**	1 348
Decrease in share of results of associates and joint ventures after tax[1]	**(1 853)**	(1 768)
Decrease in profit after tax	**(480)**	(758)

[1] *Including share of net monetary gain amounting to Rnil (2015: R390 million), as well as additional depreciation and amortisation on assets previously adjusted for hyperinflation in MTN Irancell Telecommunication Company Services (PJSC).*

1.5.7 Consolidation of MTN Zakhele Futhi

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

1.5.8 Share-based payment expense arising from the MTN Zakhele Futhi transaction

The share-based payment transaction with the ordinary shareholders of MTN Zakhele Futhi is valued using a Monte Carlo valuation model. The inputs to this valuation are disclosed in note 8.1. The key inputs are the MTN Group Limited share price, the historic volatility of an MTN share and assumptions about the risk-free and prime interest rates. The input that the share-based payment expense is most sensitive to is the historic volatility.

The impact of a potential change in the historic volatility on the share-based payment expense recognised during the year is:

	2016	
	3% increase in volatility Rm	**3% decrease in volatility Rm**
Increase/(decrease) in share-based payment expense	**108**	**(135)**

2 RESULTS OF OPERATIONS

2.1 Operating segments

The Group has identified reportable segments that are used by the Group executive committee (chief operating decision maker (CODM)) to make key operating decisions, allocate resources and assess performance. The reportable segments are grouped according to their geographic locations.

The Group has changed the composition and presentation of its segment analysis following the announcement of a change in its operational structure subsequent to the 2015 year end with a view to strengthen operational oversight, leadership, governance and regulatory compliance across the 22 operations in Africa and the Middle East.

The MTN Group is now clustered into the following three regions and their respective underlying operations based on the decision taken:
- South and East Africa (SEA)
- West and Central Africa (WECA)
- Middle East and North Africa (MENA)

Comparative numbers for the segments have been restated accordingly.

Operating results are reported and reviewed regularly by the CODM and include items directly attributable to a segment as well as those that are attributed on a reasonable basis, whether from external transactions or from transactions with other Group segments.

EBITDA (earnings before interest, tax, depreciation, amortisation, impairment of goodwill, net monetary gains and share of results of joint ventures and associates after tax) excluding the following items is used as the measure of reporting profit or loss for each segment and represents the basis on which the CODM reviews segment results:
- Hyperinflation (note 1.5.6)
- Tower sale profits
- Nigeria regulatory fine (note 6.3)
- MTN Zakhele Futhi share-based payment expense (note 8.1)

This measure has remained unchanged apart from the MTN Zakhele Futhi share-based payment expense which was also excluded in the current year.

Irancell Telecommunication Company Services (PJSC) (Iran) proportionate results are included in the segment analysis as reviewed by the CODM and excluded from IFRS reported results for revenue, EBITDA and capex due to equity accounting for joint ventures. The results of Iran in the segment analysis exclude the impact of hyperinflation accounting.

	2016 Rm	2015 Rm
Revenue		
SEA	**52 142**	51 419
South Africa	**41 922**	40 038
Uganda	**5 465**	5 148
Other SEA	**4 755**	6 233
WECA	**80 655**	81 443
Nigeria	**47 122**	51 942
Ghana	**10 291**	7 903
Cameroon	**6 189**	5 806
Ivory Coast	**7 176**	6 424
Other WECA	**9 877**	9 368
MENA	**14 288**	13 766
Syria	**2 123**	2 605
Sudan	**4 585**	3 472
Other MENA	**7 580**	7 689
Major joint venture – Iran	**16 536**	13 660
Head office companies and eliminations	**(191)**	(275)
Hyperinflation impact	**1 026**	710
Iran revenue exclusion	**(16 536)**	(13 660)
Consolidated revenue	**147 920**	147 063

2 RESULTS OF OPERATIONS (continued)

2.1 Operating segments (continued)

	2016 Rm	2015 Rm
EBITDA		
SEA	**16 368**	16 903
South Africa	**13 811**	13 370
Uganda	**1 620**	1 775
Other SEA	**937**	1 758
WECA	**33 045**	38 116
Nigeria	**21 854**	27 504
Ghana	**4 184**	3 197
Cameroon	**2 065**	2 101
Ivory Coast	**2 333**	2 195
Other WECA	**2 609**	3 119
MENA	**4 657**	4 324
Syria	**689**	460
Sudan	**1 471**	1 216
Other MENA	**2 497**	2 648
Major joint venture – Iran	**6 455**	5 665
Head office companies and eliminations[1]	**(2 089)**	575
Hyperinflation impact	**246**	231
Nigeria regulatory fine	**(10 499)**	(9 287)
Tower sale profits	**31**	8 263
MTN Zakhele Futhi share-based payment expense	**(1 008)**	–
Iran EBITDA exclusion	**(6 455)**	(5 665)
EBITDA	**40 751**	59 125
Depreciation, amortisation and impairment of goodwill	**(26 609)**	(23 797)
Net finance cost	**(10 495)**	(3 010)
Net monetary gain	**1 723**	1 348
Share of results of joint ventures and associates after tax	**(127)**	1 226
Profit before tax	**5 243**	34 892

[1] *Head office companies and eliminations consist mainly of the Group's central financing activities, management fees, professional and consulting fees and dividends received from segments as well as inter-segment eliminations.*

2 RESULTS OF OPERATIONS (continued)

2.1 Operating segments (continued)

	2016 Rm	2015 Rm
Capital expenditure incurred		
SEA	12 896	13 452
South Africa	11 085	10 948
Uganda	758	951
Other SEA	1 053	1 553
WECA	17 325	11 593
Nigeria	8 701	4 993
Ghana	2 435	1 831
Cameroon	2 166	1 911
Ivory Coast	1 721	833
Other WECA	2 302	2 025
MENA	3 310	2 583
Syria	1 049	974
Sudan	1 549	819
Other MENA	712	790
Major joint venture – Iran	5 138	4 180
Head office companies and eliminations	1 389	1 571
Hyperinflation impact	348	412
Iran capex exclusion	(5 138)	(4 180)
	35 268	29 611

The impact of hyperinflation on the segment analysis is as follows:

	2016 Rm Revenue	2016 Rm EBITDA	2016 Rm Capex
Syria	484	164	310
Sudan	122	41	38
South Sudan (included in other SEA)	420	41	–
	1 026	246	348
Iran – major joint venture	–	(294)	326

	2015 Rm Revenue	2015 Rm EBITDA	2015 Rm Capex
Syria	391	106	344
Sudan	319	125	68
	710	231	412
Iran – major joint venture	287	(215)	1 719

2 RESULTS OF OPERATIONS (continued)

2.2 Revenue

Revenue is measured at the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is presented net of indirect taxes, estimated returns and trade discounts.

Revenue from the sale of goods and the rendering of services is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Postpaid products typically include the sale of a handset, activation fee and a service contract; and prepaid products include a subscriber identification module (SIM) card and airtime.

Multiple element (or bundled) arrangements are divided into separate units of accounting, and revenue is recognised through the application of the relative fair value method, resulting in the proportionate allocation of any discount to all elements in the bundle.

The Group operates loyalty programmes in certain entities where customers accumulate points for purchases made, which entitle them to discounts on future purchases. The reward points are recognised as a separately identifiable component of the initial sale transaction by allocating the consideration received or receivable between the reward points and the other components of the sale such that the reward points are initially recognised as deferred income at their fair value. Revenue from the reward points is recognised when the points are redeemed. Breakage (forfeiture of points) is recognised when redemption becomes remote.

The main categories of revenue and the bases of recognition are as follows:

Airtime and subscription, data, digital and SMS
- airtime, data and SMS: revenue is recognised on the usage basis commencing on the date of activation;
- subscription: revenue is recognised over the period that enables a customer to access network services;
- connection fees: revenue is recognised on the date of activation of a new SIM card;
- digital: revenue is recognised on the usage basis, and includes services such as value-added services, content, mobile money, etc; and
- SIM kits: revenue is recognised on the date of sale.

The terms and conditions of postpaid bundled airtime products may allow for the carryover of unused value or minutes. The revenue related to the unused value or minutes is deferred and recognised when utilised by the customer or on termination of the contract. Breakage (forfeiture of unused value or minutes) is recognised when the unused value or minutes expire or when usage thereof becomes remote.

Revenue received on prepaid contracts is deferred and recognised when services are utilised by the customer or on termination of the customer relationship. Breakage is recognised when the prepaid credit expires or when utilisation thereof becomes remote.

Interconnect/roaming

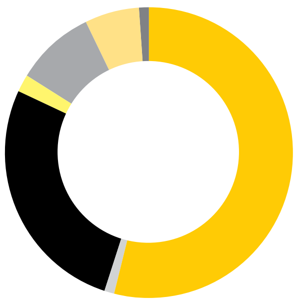
Interconnect/roaming revenue is recognised on a usage basis, unless it is not probable on the transaction date that the interconnect revenue will be received, in which case interconnect revenue is recognised only when the cash is received or where a right of set-off exists with interconnect parties in settling outstanding amounts.

Mobile telephones and accessories

Revenue on the sale of mobile telephones and accessories to third parties is recognised only when risks and rewards of ownership are transferred to the buyer.

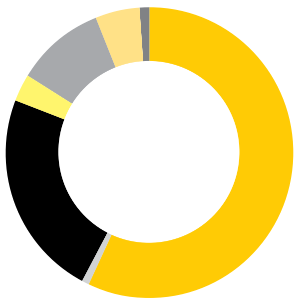
2 RESULTS OF OPERATIONS (continued)

2.2 Revenue (continued)



2016
(%)

Airtime and subscriptions	54
Roaming	1
Data	27
SMS	2
Interconnect	9
Mobile telephones and accessories	6
Other	1



2015
(%)

Airtime and subscriptions	57
Roaming	1
Data	23
SMS	3
Interconnect	10
Mobile telephones and accessories	5
Other	1

	2016 Rm	2015 Rm
Airtime and subscription	**79 300**	83 922
Roaming	**1 492**	1 524
Data	**39 795**	34 057
SMS	**3 264**	4 121
Interconnect	**13 984**	14 763
Mobile telephones and accessories	**8 139**	6 985
Other	**1 946**	1 691
	147 920	147 063

The Group's unearned income at the end of the year amounts to R6 449 million (2015: R8 519 million).

2.3 Other income

Other income is recognised when the risks and rewards of ownership of the assets are transferred to the buyer.

	2016 Rm	2015 Rm
Profit on tower sales – Nigeria	**–**	8 233
Sale proceeds	**–**	6 515
Contingent consideration	**–**	(19)
Fair value of retained interest in Nigeria Tower InterCo B.V. and equity derivative	**–**	4 888
Carrying amount of assets and related liabilities disposed	**–**	(3 151)
Realisation of deferred gain on Ghana tower sale[1]	**31**	30
Gain on dilution of investment in joint venture (note 9.2)	**277**	–
Other	**27**	146
	335	8 409

[1] *In 2011, Scancom Limited (MTN Ghana) concluded a transaction with American Tower Company (ATC), which involved the sale of MTN Ghana's base transceiver station (BTS) sites to Ghana Tower InterCo B.V. which is an associate of the Group. Profit was eliminated to the extent of the Group's interest in the associate. Such unrealised profit is realised by the Group as the underlying assets are depreciated by the associate.*

MTN Nigeria Communications Limited sold its 8 850 towers in two tranches to INT Towers Limited, a wholly owned subsidiary of Nigeria Tower InterCo B.V., as part of the Group's strategy to monetise its tower infrastructure during 2014 and 2015. The second tranche of the tower sales closed on 1 July 2015 and involved cash consideration of US$533 million and the Group recognising an additional equity interest in Nigeria Tower InterCo B.V. amounting to US$405 million.

2 RESULTS OF OPERATIONS (continued)

2.4 Operating profit

Employee benefits

Short-term employee benefits

Salaries and wages, including non-monetary benefits and accumulated leave pay (remuneration), that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised as a liability and are measured at the amounts expected to be paid when the liabilities are settled. Remuneration to employees in respect of services rendered during a reporting period is expensed in that reporting period.

A liability for bonuses is recognised when there is no realistic alternative other than to settle the liability, and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid can be reliably estimated; or
- achievement of previously agreed bonus criteria has created a valid expectation by employees that they will receive a bonus and the amount can be reliably estimated.

Post-employment benefits

Defined contribution plans

Group companies operate various defined contribution plans. Contributions to defined contribution plans in respect of services rendered during a period are recognised as an employee benefit expense as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payment transactions

The Group operates a number of share incentive schemes. For further details, refer to note 8.4.

Termination benefits

Termination benefits may be payable when an employee's employment is terminated before the normal retirement date due to retrenchment or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Group recognises termination benefits at the earlier of the following dates:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that includes the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting date are discounted to their present value.

2 RESULTS OF OPERATIONS (continued)

2.4 Operating profit (continued)

	2016 Rm	2015 Rm
Staff costs	**(9 152)**	(8 587)
Salaries and wages	**(7 297)**	(6 698)
Post-employment benefits	**(388)**	(363)
Share options granted to directors and employees (note 8.4)	**40**	(179)
Training	**(238)**	(223)
Other	**(1 269)**	(1 124)
The following disclosable items have been included in arriving at operating profit:		
Auditors' remuneration	**(138)**	(130)
Audit fees	**(118)**	(107)
Fees for other services	**(15)**	(15)
Expenses	**(5)**	(8)
Emoluments to directors and prescribed officers (note 10.2)	**(229)**	(187)
Operating lease rentals	**(12 165)**	(8 692)
Network sites and property	**(12 082)**	(8 601)
Equipment and vehicles	**(83)**	(91)
Research and development costs	**(34)**	(7)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	**43**	(8)
Impairment loss on property, plant and equipment (note 5.1)	**(175)**	(77)
Impairment loss on software (note 5.2)	**(30)**	–
Write-down of inventories to net realisable value (note 4.1)	**(39)**	(669)
Impairment of trade receivables (note 4.2)	**(459)**	(1 151)
Professional and consulting fees[1]	**(5 426)**	(3 367)
Loss on dilution of investment in joint venture (note 9.2)	**626**	–
Share-based payment transaction with MTN Zakhele Futhi (note 8.1)	**1 008**	–

[1] *Included in professional and consulting fees are professional fees incurred relating to the settlement of the Nigeria regulatory fine amounting to R1 324 million (note 1.5.1).*

In addition, the Group incurred legal and other professional consulting fees of R735 million in relation to the listing of MTN Nigeria and the MTN Zakhele Futhi transaction (note 8.1).

Certain of the fees relating to the listing of MTN Nigeria have been paid based on underlying agreements for which services will be rendered until the listing, which is estimated to occur within 12 months after the balance sheet date. Such fees are amortised over the period to listing. Fees to date have been expensed as part of other operating expenses as the fees are not considered incremental to the issuance of equity instruments. Fees incurred in the future for the issuance of new shares will be accounted for directly against equity.

2 RESULTS OF OPERATIONS (continued)

2.5 Finance income and finance costs

Finance income

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, net foreign exchange gains and any gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs

Finance costs comprise interest expenses on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, net foreign exchange losses and any losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, unless the borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, in which case the directly attributable borrowing costs are capitalised.

	2016 Rm	2015 Rm
Interest income on loans and receivables	**2 462**	2 173
Interest income on bank deposits	**1 962**	3 269
Finance income	**4 424**	5 442
Interest expense on financial liabilities measured at amortised cost[1]	**(9 020)**	(6 981)
Net foreign exchange losses	**(5 899)**	(1 471)
Finance costs	**(14 919)**	(8 452)
Net finance costs recognised in profit or loss	**(10 495)**	(3 010)

[1] *R1 billion relates to the discount unwind on the MTN Nigeria regulatory fine liability.*

2 RESULTS OF OPERATIONS (continued)
2.6 Cash generated from operations

	2016 Rm	2015 Rm
Profit before tax	**5 243**	34 892
Adjusted for:		
Finance costs (note 2.5)	**14 919**	8 452
Finance income (note 2.5)	**(4 424)**	(5 442)
Depreciation of property, plant and equipment (note 5.1)	**20 988**	19 557
Amortisation of intangible assets (note 5.2)	**4 748**	3 736
(Gain)/loss on disposal of property, plant and equipment and intangible assets (note 2.4)	**(43)**	8
Loss on disposal of joint venture (note 9.2)	**626**	–
Gain on disposal of subsidiary	**(130)**	–
Gain on dilution of investment in joint venture (note 2.3)	**(277)**	–
Share of results of associates and joint ventures after tax (note 9.2)	**127**	(1 226)
(Decrease)/increase in provisions	**(5 674)**	9 681
Write down of inventories (note 4.1)	**39**	669
Impairment of goodwill (note 5.2)	**873**	504
Impairment loss on property, plant and equipment (note 5.1)	**175**	77
Impairment loss on software (note 5.2)	**30**	–
Impairment of trade receivables (note 4.2)	**459**	1 151
Profit on sale of towers (note 2.3)	**–**	(8 233)
Realisation of previously deferred gain on Ghana tower sale (note 2.3)	**(31)**	(30)
Equity-settled share-based payment transactions (note 8.4)	**(40)**	179
Net monetary gain	**(1 723)**	(1 348)
Share-based payment transaction with MTN Zakhele Futhi (note 8.1)	**1 008**	–
Other	**(44)**	192
	36 849	62 819
Changes in working capital	**18 832**	(5 221)
Decrease/(increase) in inventories	**1 119**	(2 333)
Decrease in unearned income	**(423)**	(75)
Decrease/(increase) in receivables and prepayments	**4 032**	(4 591)
Increase in trade and other payables	**14 104**	1 778
Cash generated from operations	**55 681**	57 598

2 RESULTS OF OPERATIONS (continued)

2.7 Earnings per ordinary share

Basic earnings per share

Earnings per share is calculated using the weighted average number of ordinary shares in issue during the period and is based on the profit after tax attributable to ordinary shareholders. For the purpose of calculating earnings per share, treasury shares are deducted from the number of ordinary shares in issue.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and is based on the net profit attributable to ordinary shareholders, adjusted for the after-tax dilutive effect. The Company has dilutive potential ordinary shares which comprise share options and share rights issued in terms of the Group's share schemes, performance share plan, the MTN Zakhele Futhi transaction (note 8.1) and, in respect of 2015, the MTN Zakhele transaction.

Headline earnings per share

Headline earnings per share is calculated using the weighted average number of ordinary shares in issue during the period and is based on the earnings attributable to ordinary shareholders, after excluding those items as required by Circular 2/2015 issued by the South African Institute of Chartered Accountants (SAICA).

	2016 '000	2015 '000
Weighted average number of shares (excluding treasury shares) for calculation of basic earnings per share	**1 819 974**	1 822 454
Adjusted for:		
– Share options – MTN Zakhele	**–**	3 792
– Share options – MTN Zakhele Futhi	**42 509**	–
– Share appreciation rights	**75**	413
– Performance share plan	**967**	552
Weighted average number of shares for calculation of diluted earnings per share	**1 863 525**	1 827 211

Refer to note 8.1 for a reconciliation of total shares in issue.

The MTN Zakhele broad-based black economic empowerment (BBBEE) transaction unwound during the current year and all options outstanding were exercised. The Group implemented a new BBBEE transaction, structured through MTN Zakhele Futhi (RF) Limited (MTN Zakhele Futhi) (refer to note 8.1). The shares held by MTN Zakhele Futhi, although legally issued, are not deemed to be issued in terms of IFRS as the MTN Zakhele Futhi transaction has the substance of an option. As at 31 December 2016, 42 508 806 potential ordinary shares held by MTN Zakhele Futhi were not included in the calculation of diluted loss per share as they are antidilutive. In addition, as at 31 December 2016, 1 042 243 potential ordinary shares in the form of share options and share rights issued in terms of the Group's share schemes and performance share plan were excluded from the calculation of diluted loss per share due to being antidilutive. These potential ordinary shares could dilute basic and headline earnings per share in the future.

2 RESULTS OF OPERATIONS (continued)

2.7 Earnings per ordinary share (continued)

Reconciliation between net profit attributable to the equity holders of the Company and headline earnings:

	2016 Gross Rm	2016 Net[1] Rm	2015 Gross Rm	2015 Net[1] Rm
(Loss)/profit after tax		**(2 614)**		20 204
Adjusted for:				
Loss/(profit) on disposal of property, plant and equipment	**(1)**	**4**	(89)	(60)
– subsidiaries (IAS 16)	**4**	**8**	(67)	(43)
– joint ventures (IAS 28)	**(5)**	**(4)**	(22)	(17)
(Profit)/loss on disposal of intangible assets	**(47)**	**(59)**	87	65
– subsidiaries (IAS 38)	**(47)**	**(59)**	97	72
– joint ventures (IAS 28)	**–**	**–**	(10)	(7)
Impairment of goodwill (IAS 36)	**873**	**873**	504	504
Net impairment loss on property, plant and equipment and intangible assets (IAS 36)	**205**	**199**	38	29
Net loss on dilution of investment in joint venture (IAS 28)	**349**	**349**	–	–
Profit on disposal of non-current assets held for sale (IFRS 5)	**–**	**–**	(8 264)[2]	(7 112)
Realisation of deferred gain on disposal of non-current assets held for sale (IFRS 5)	**(31)**	**(31)**	(30)	(30)
Profit on disposal of subsidiary (IFRS 10)	**(130)**	**(130)**		
Headline (loss)/earnings		**(1 409)**		13 600

	2016 Cents	2015 Cents
(Loss)/earnings per ordinary share		
– Basic	**(144)**	1 109
– Basic headline	**(77)**	746
– Diluted	**(144)**	1 106
– Diluted headline	**(77)**	744

[1] *Amounts are measured after taking into account non-controlling interests and tax.*
[2] *Non-controlling interest share of this item amounts to R1 858 million.*

Headline (loss)/earnings is calculated in accordance with Circular 2/2015 Headline Earnings as issued by the South African Institute of Chartered Accountants, as required by the JSE Limited.

3 TAXATION
3.1 Income tax expense

The tax expense for the period comprises current, deferred and withholding tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity. For these items the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date in the countries where the Company and its subsidiaries operate and generate taxable income, and any adjustment to tax payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is recognised using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements for financial reporting purposes. Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is measured at tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply to temporary differences when they reverse.

Deferred tax is not provided on temporary differences arising on investments in subsidiaries, associates and joint ventures where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for unused tax losses or deductible temporary differences only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

As the functional currencies of MTN South Sudan Company Limited and MTN Syria (JSC) are currencies of hyperinflationary economies, deferred tax relating to these subsidiaries is recognised using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their restated carrying amounts.

Withholding tax

Withholding tax is payable at different rates varying between 0% and 25% on amounts paid to the Group companies by certain of their subsidiaries as dividends, interest and management fees.

	2016 Rm	2015 Rm
Analysis of income tax expense for the year		
Normal tax	**(8 427)**	(10 241)
Current year	**(8 648)**	(11 021)
Adjustments in respect of the prior year	**221**	780
Deferred tax (note 3.2)	**1 115**	530
Current year	**806**	1 329
Adjustments in respect of the prior year	**309**	(799)
Foreign income and withholding taxes	**(1 034)**	(1 611)
	(8 346)	(11 322)

3 **TAXATION** (continued)

3.1 **Income tax expense** (continued)

The table below explains the differences between the expected tax expense on continuing operations, at the South African statutory rate of 28% and the Group's total tax expense for each year.

The Group's effective tax rate is reconciled to the South African statutory rate as follows:

	2016 %	2015 %
Tax rate reconciliation		
Tax at statutory tax rate	**28**	28
Expenses not allowed[1]	**129,81**	11,89
Nigeria regulatory fine	**63,47**	7,45
Sudan disallowed expenses	**22,21**	2,64
MTN Zakhele Futhi share-based payment expense	**5,38**	–
Assessed loss on which deferred tax was not recognised	**12,07**	1,18
Disallowed interest expenses	**5,87**	0,13
Goodwill impairment	**4,66**	0,40
S9D imputation	**4,88**	0,47
Other	**11,27**	(0,38)
Effect of different tax rates in other countries	**(9,39)**	(0,16)
Income not subject to tax[1]	**(5,14)**	(11,16)
Exempt income	**(5,40)**	(4,01)
Tower sales income – non-taxable	**0,34**	(6,72)
Profit on sale of shares/towers/assets	**(0,08)**	(0,43)
Share of results of associates and joint ventures	**0,68**	(0,99)
Foreign income and withholding taxes	**19,73**	4,62
Other	**(4,50)**	0,25
Effective tax rate	**159,19**	32,45

[1] *The expenses not allowed and income not subject to tax lines were expanded during the current year in order to enhance the presentation of the financial statements.*

3 TAXATION (continued)

3.1 Income tax expense (continued)

The following are the corporate tax rates applicable to the various jurisdictions in which the Group operates:

	Corporate tax rate	
Country	**2016 %**	2015 %
Afghanistan	**20**	20
Benin[1]	**30**	30
Cameroon	**33**	33
Congo[2]	**30**	30
Côte d'Ivoire	**30**	30
Cyprus	**12,5**	12,5
Ethiopia	**30**	30
Ghana	**25**	25
Guinea-Bissau	**25**	25
Guinea	**35**	35
Kenya	**30**	30
Liberia	**25**	25
Monaco	**0 – 33**	0 – 33
Namibia	**32**	33
Netherlands	**25**	25
Nigeria	**30**	30
Rwanda	**30**	30
South Africa	**28**	28
South Sudan	**20**	20
Sudan	**5**	2,5
Syria	**14**	14
Uganda	**30**	30
Yemen	**50**	50
Zambia	**40**	35

[1] *The entity was granted a tax holiday until 31 December 2016.*
[2] *The entity was granted a tax holiday until April 2016. From May 2016 corporate tax of 30% became applicable.*

3 TAXATION (continued)

3.2 Deferred taxes

Deferred tax is accounted for in accordance with the accounting policy disclosed in note 3.1.

	1 January 2015 Rm	Recognised in profit or loss Rm	Exchange and other movements[1] Rm	31 December 2015 Rm	**Recognised in profit or loss Rm**	**Recognised in other compre-hensive income Rm**	**Exchange and other move-ments[1] Rm**	**31 December 2016 Rm**
Provisions	960	(368)	178	770	**822**	**–**	**(84)**	**1 508**
Tax loss carried forward	309	83	(40)	352	**(138)**	**–**	**5**	**219**
Arising due to fair value adjustments on business combinations/revaluations	22	5	(1 191)	(1 164)	**(178)**	**–**	**28**	**(1 314)**
Working capital allowances	571	(374)	(35)	162	**260**	**–**	**455**	**877**
Tax allowances in excess of depreciation	(11 783)	1 359	(1 944)	(12 368)	**(280)**	**–**	**3 650**	**(8 998)**
Foreign exchange movement on hedging instruments	–	–	–	–	**–**	**797**	**–**	**797**
Other temporary differences	18	(175)	(94)	(251)	**629**	**–**	**(1 419)**	**(1 041)**
Net deferred tax liability	(9 903)	530	(3 126)	(12 499)	**1 115**	**797**	**2 635**	**(7 952)**
Comprising:								
Deferred tax assets	1 109			542				**1 107**
Deferred tax liabilities	(11 012)			(13 041)				**(9 059)**
	(9 903)			(12 499)				**(7 952)**

[1] *Including the effect of hyperinflation.*

There were no deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset has been recognised in the statement of financial position in the current or prior year.

3.3 Income tax paid

	2016 Rm	2015 Rm
At beginning of the year	**(8 682)**	(8 998)
Amount recognised in profit or loss (note 3.1)	**(8 346)**	(11 322)
Deferred tax charge (note 3.1)	**(1 115)**	(530)
Effect of movements in exchange rates	**3 177**	(1 626)
Other[1]	**1 068**	288
At end of the year	**2 194**	8 682
Taxation prepaid	**(2 019)**	(1 331)
Taxation liabilities	**4 213**	10 013
Total tax paid	**(11 704)**	(13 506)

[1] *Mainly comprises tax credits relating to withholding tax.*

4 WORKING CAPITAL

4.1 Inventories

Inventories mainly comprise handsets, SIM cards, accessories held for sale and consumable items.

Inventories are measured at the lower of cost and net realisable value. The cost of inventory is determined using the weighted average method. Cost comprises direct materials and where applicable, overheads that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. Net realisable value represents the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

As the functional currencies of MTN South Sudan Limited and MTN Syria (JSC) are the currencies of hyperinflationary economies, inventories relating to these subsidiaries are measured at the lower of the restated cost and net realisable value.

	2016 Rm	2015 Rm
Finished goods – at cost	**5 053**	6 766[1]
Handsets	**3 110**	4 496
SIM cards and accessories	**1 943**	2 270
Consumables	**71**	59
Less: Write-down to net realisable value	**(1 152)**	(1 190)
	3 972	5 635

Scancom Limited (MTN Ghana) has secured facilities through the pledge of its inventories amounting to R227 million (2015: R47 million) (note 6.1).

Reconciliation of write-down of finished goods

	At beginning of the year Rm	**Additions[2] Rm**	**Reversals[2] Rm**	**Utilised Rm**	**Exchange and other movements Rm**	**At end of the year Rm**
2016						
Movement in write-down	**(1 190)**	**(303)**	**264**	**58**	**19**	**(1 152)**
2015						
Movement in write-down	(463)	(688)	19	33	(91)	(1 190)

[1] The finished goods were allocated into their respective categories during the current year in order to enhance the presentation of the inventories balance.

[2] A net write-down on inventories of R39 million (2015: R669 million) was recognised in the current year. This amount is included in other operating expenses in profit or loss (note 2.4).

4 WORKING CAPITAL (continued)

4.2 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services rendered in the ordinary course of business and are accounted for as loans and receivables in accordance with the accounting policy disclosed in note 7.1.

Prepayments and other receivables are stated at their nominal values.

As the functional currencies of MTN South Sudan Limited and MTN Syria (JSC) are currencies of hyperinflationary economies, prepayments relating to these subsidiaries are restated by applying the change in the general price indices from the date of payment to the current reporting date.

	2016 Rm	2015 Rm
Trade receivables (note 7.1.4)	**19 828**	22 764
Less: Allowance for impairment of trade receivables (note 7.1.4)	**(2 538)**	(3 459)
Net trade receivables	**17 290**	19 305
Loan to Irancell Telecommunication Company Services (PJSC)[1]	**1 954**	7 042
Receivable from Irancell Telecommunication Company Services (PJSC)[2]	**9 930**	8 158
Prepayments and other receivables[3]	**4 188**	4 484
Sundry debtors and advances[4]	**4 001**	4 581
	37 363	43 570

[1] *The loan to Irancell Telecommunication Company Services (PJSC) attracted interest at LIBOR +4% per annum which was capitalised against the loan. The loan and capitalised interest were payable in 2015. In January 2016 financial sanctions were lifted and the loan was settled in 2016. The balance for the current year relates to the loan receivable in 2017 (note 7.3). This loan to Irancell attracts interest at 12% per annum. The loan is repayable in a bullet payment on 30 September 2017.*
[2] *With effect from 25 August 2015, MTN Mauritius and Irancell agreed for the unpaid dividends to bear interest at 8% per annum.*
[3] *Prepayments and other receivables include prepayments for base transceiver station (BTS) sites and other property leases.*
[4] *Sundry debtors and advances include advances to suppliers.*

An impairment loss of R459 million (2015: R1 151 million) was incurred in the current year. This amount is included in other operating expenses in profit or loss (note 2.4).

Scancom Limited (MTN Ghana) has secured facilities through the pledge of its trade and other receivables amounting to R1 047 million (2015: R1 672 million) (note 6.1).

The Group does not hold any collateral for trade and other receivables.

The Group's exposure to credit and currency risk relating to trade and other receivables is disclosed in note 7.1.

4.3 Restricted cash

Restricted cash comprises short-term deposits that are not highly liquid and are accounted for as loans and receivables in accordance with the accounting policy disclosed in note 7.1.

	2016 Rm	2015 Rm
Restricted cash deposits	**1 020**	1 735

Restricted cash deposits include amounts of R55 million (2015: R271 million) and R757 million (2015: R1 259 million) relating to the Syrian and Nigerian operations respectively, which are not available for use by the Group.

In respect of Syria, this was due to exchange control regulations and deposits required to secure letters of credit. The restricted cash balance is considered to represent excess cash not required for payment of Syrian pound denominated liabilities.

Other restricted cash deposits (mainly relating to MTN Nigeria) consist of funds placed on deposit to secure letters of credit, which were undrawn and not freely available at the reporting date. Restricted cash balances in MTN Nigeria also consist of R392 million retained in an escrow account, relating to the acquisition of Visafone Communications Limited (note 9.4) .

4 WORKING CAPITAL (continued)

4.4 Cash and cash equivalents

Cash and cash equivalents are accounted for as loans and receivables and bank overdrafts are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 7.1.

Cash and cash equivalents comprise cash on hand and deposits held on call, all of which are available for use by the Group. Bank overdrafts are included within current liabilities on the statement of financial position, unless the Group has a current legally enforceable right to set off the amounts and intends to settle on a net basis, or realise the asset and settle the liability simultaneously, in which case it is netted off against cash and cash equivalents on the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2016 Rm	2015 Rm
Cash at bank and on hand	**27 375**	34 177
Bank overdrafts	**–**	(38)
Net cash and cash equivalents	**27 375**	34 139

Scancom Limited (MTN Ghana) has secured facilities through the pledge of its cash and cash equivalents amounting to R487 million (2015: R1 155 million) (refer to note 6.1).

4.5 Trade and other payables

Trade payables, sundry creditors and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 7.1.

Other payables are stated at their nominal values.

	2016 Rm	2015 Rm
Trade payables	**16 186**	12 430
Sundry creditors	**3 447**	1 940
Accrued expenses[1]	**19 866**	21 837
Nigeria regulatory fine[2]	**1 311**	–
Other payables[3]	**4 332**	4 277
	45 142	40 484

[1] Includes accruals for operating expenses, inventories and capital expenditure for which supplier invoices are outstanding at year end.
[2] The accrual for the Nigeria regulatory fine comprises N30 billion discounted at 14,71% per annum and translated at the 31 December 2016 closing rate of R1 = N22,81. The amount is payable on 31 March 2017. For additional information on the Nigeria regulatory fine refer to note 6.3.
[3] Includes dealer commissions, withholding taxes and VAT payable.

5 INFRASTRUCTURE INVESTMENTS

5.1 Property, plant and equipment

Property, plant and equipment are measured at historical cost less accumulated depreciation and impairment losses. Property, plant and equipment acquired through business combinations are initially shown at fair value (based on replacement cost) and are subsequently carried at the initially determined fair value less accumulated depreciation and impairment losses.

Property, plant and equipment under construction (capital work in progress) are measured at initial cost and depreciation commences from the date the assets are transferred to an appropriate category of property, plant and equipment, ie when commissioned and ready for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment. The Group capitalises general and specific borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are expensed in profit or loss.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to provisions (note 6.3) for further information about the recognised decommissioning provision and the accounting judgements, estimates and assumptions made.

In circumstances whereby the Group enters into an exchange transaction, the Group determines whether such an exchange has commercial substance. Property, plant and equipment acquired in an exchange transaction are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. Any consideration paid or payable is included in the cost of the asset received. Property, plant and equipment received for no consideration are accounted for at zero value.

As the functional currencies of MTN South Sudan Company Limited and MTN Syria (JSC) are currencies of hyperinflationary economies, property, plant and equipment relating to these subsidiaries are restated by applying the change in the general price indices from the date of acquisition to the current reporting date.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is calculated on a straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives. Depreciation relating to the property, plant and equipment of MTN South Sudan Company Limited and MTN Syria (JSC) is based on the restated amounts, which have been adjusted for the effects of hyperinflation.

Useful lives and residual values are reviewed on an annual basis and the effect of any changes in estimate is accounted for on a prospective basis.

In determining residual values, the Group uses historical sales and management's best estimate based on market prices of similar items.

Useful lives of property, plant and equipment are based on management estimates and take into account historical experience with similar assets, the expected usage of the asset, physical wear and tear, technical or commercial obsolescence and legal restrictions on the use of the assets.

5 **INFRASTRUCTURE INVESTMENTS** (continued)

5.1 **Property, plant and equipment** (continued)

The estimated useful lives of property, plant and equipment are as follows:

	2016 Years	2015 Years
Buildings – owned	**5 – 50**	5 – 50
Buildings – leased	**1 – 20**	1 – 20
Network infrastructure	**2 – 20**	2 – 20
Information systems equipment	**1 – 10**	1 – 10
Furniture and fittings	**3 – 15**	3 – 15
Leasehold improvements	**2 – 15**	2 – 15
Office equipment	**2 – 12**	2 – 12
Motor vehicles	**3 – 10**	3 – 10

Land is not depreciated. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the expected term of the relevant lease.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Repairs and maintenance costs are included in profit or loss during the financial period in which they are incurred. The gain or loss arising on the disposal or retirement of an asset is included in profit or loss.

Impairment

An impairment loss is recognised in profit or loss if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. For the purpose of impairment testing, assets are grouped together into CGUs. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Goodwill arising from business combinations is allocated to CGUs or the group of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is subsequently reversed only to the extent that the asset or CGU's carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised. A reversal of an impairment loss is recognised immediately in profit or loss.

The Group annually reviews the carrying amounts of its property, plant and equipment in order to determine whether there is any indication of impairment. If any such indication exists, the recoverable amounts of the assets are estimated in order to determine the extent, if any, of the impairment loss.

5 INFRASTRUCTURE INVESTMENTS (continued)

5.1 Property, plant and equipment (continued)

	Land and buildings[1] Rm	Leasehold improvements Rm	Network infrastructure Rm	Information systems, furniture and office equipment Rm	Capital work in progress/ other Rm	Vehicles[2] Rm	Total Rm
Carrying amount at 1 January 2015	6 423	1 133	65 247	3 868	10 314	561	87 546
Additions	465	177	8 802	1 484	14 700	123	25 751
Disposals	–	(2)	(328)	(20)	(68)	(16)	(434)
Reallocations[3]	124	311	14 099	519	(14 193)	(4)	856
Depreciation for the year	(412)	(328)	(16 489)	(1 849)	(285)	(194)	(19 557)
Impairment loss	–	–	(77)	–	–	–	(77)
Other movements	(5)	26	425	(300)	(49)	(2)	95
Effect of movements in exchange rates[4]	443	116	9 108	520	2 264	71	12 522
Carrying amount at 31 December 2015	7 038	1 433	80 787	4 222	12 683	539	106 702
Comprising:							
Cost	9 966	3 612	173 833	13 746	13 952	1 361	216 470
Accumulated depreciation and impairment losses	(2 928)	(2 179)	(93 046)	(9 524)	(1 269)	(822)	(109 768)
	7 038	1 433	80 787	4 222	12 683	539	106 702
Carrying amount at 1 January 2016	**7 038**	**1 433**	**80 787**	**4 222**	**12 683**	**539**	**106 702**
Acquisitions through business combinations (note 9.4)	**–**	**–**	**157**	**–**	**1**	**–**	**158**
Additions	**186**	**62**	**13 383**	**1 630**	**16 593**	**83**	**31 937**
Disposals	**–**	**(1)**	**(205)**	**(6)**	**(63)**	**(34)**	**(309)**
Reallocations[3]	**226**	**137**	**13 567**	**1 033**	**(15 358)**	**40**	**(355)**
Depreciation for the year	**(449)**	**(298)**	**(17 871)**	**(1 840)**	**(334)**	**(196)**	**(20 988)**
Impairment loss	**–**	**(9)**	**(147)**	**(6)**	**(12)**	**(1)**	**(175)**
Other movements	**(10)**	**(4)**	**234**	**(64)**	**19**	**(2)**	**173**
Effect of movements in exchange rates[4]	**(765)**	**(244)**	**(17 025)**	**(897)**	**(2 466)**	**(113)**	**(21 510)**
Carrying amount at 31 December 2016	**6 226**	**1 076**	**72 880**	**4 072**	**11 063**	**316**	**95 633**
Comprising:							
Cost	**9 021**	**3 194**	**159 615**	**13 244**	**12 444**	**971**	**198 489**
Accumulated depreciation and impairment losses	**(2 795)**	**(2 118)**	**(86 735)**	**(9 172)**	**(1 381)**	**(655)**	**(102 856)**
	6 226	**1 076**	**72 880**	**4 072**	**11 063**	**316**	**95 633**

[1] *Included in land and buildings are leased assets with a carrying amount of R144 million (2015: R162 million).*
[2] *Included in vehicles are leased assets with a carrying amount of R60 million (2015: R80 million).*
[3] *Reallocations in 2015 include an amount of R208 million relating to network infrastructure reallocated to non-current assets held for sale which was disposed off in 2015. Also included in reallocations is an amount of R69 million relating to property, plant and equipment reallocated to non-current assets held for sale at 30 June 2016, as a result of an agreement concluded by the Group to sell its investment in Afrihost Proprietary Limited. The investment was sold in November 2016.*
[4] *Includes the effect of hyperinflation.*

5 INFRASTRUCTURE INVESTMENTS (continued)

5.1 Property, plant and equipment (continued)

5.1.1 Impairment loss

The following entities recognised impairment losses/(reversals) in other operating expenses in profit or loss:

	2016 Rm	2015 Rm
Scancom Limited (Ghana)	**–**	(13)
MTN Nigeria Communications Limited	**4**	46
Mobile Telephone Network Proprietary Limited (South Africa)	**–**	39
Areeba Guinea S.A.	**–**	5
MTN South Sudan Limited	**139**	–
MTN Yemen	**32**	–
	175	77

5.1.2 Leased property, plant and equipment

The Group leases various premises and sites which have varying terms, escalation clauses and renewal rights. The carrying amount of the leased items of property, plant and equipment is disclosed in note 5.1

Finance lease commitments are disclosed in note 6.6.

5.1.3 Capital work in progress

There are various capital work in progress projects under way within the Group, a summary of which is set out below:

	2016 Rm	2015 Rm
Mobile Telephone Networks Proprietary Limited (South Africa)	**800**	1 266
Scancom Limited (Ghana)	**833**	185
MTN Sudan Company Limited	**767**	1 402
MTN Nigeria Communications Limited	**620**	1 184
MTN Afghanistan Limited	**8**	165
Areeba Guinea S.A.	**122**	308
MTN Côte d'Ivoire S.A.	**132**	81
Spacetel Benin S.A.[1]	**259**	147
MTN (Dubai) Limited	**205**	234
MTN Yemen	**312**	285
MTN South Sudan Limited	**–**	69
MTN Syria (JSC)	**1 266**	1 451
MTN Congo S.A.	**263**	356
MTN Cameroon Limited	**456**	412
Lonestar Communications Corporation LLC	**107**	222
Other	**316**	215
	6 466	7 982

[1] *Previously included in other.*

5 INFRASTRUCTURE INVESTMENTS (continued)

5.1 Property, plant and equipment (continued)

5.1.4 Changes in estimates

There where no material changes in the depreciation method, residual values or useful lives for any of the categories of property, plant and equipment during the current year.

In 2015, Scancom Limited (Ghana) revised the useful lives of its network infrastructure and information systems from five to 14 years to three to 20 years and from four to five years to three to five years, respectively. This resulted in an increase in the depreciation charge of R246 million and R35 million respectively, for the 2015 year and future years.

5.1.5 Encumbrances

Borrowings are secured by various categories of property, plant and equipment with the following carrying amounts (note 6.1):

	2016 Rm	2015 Rm
Scancom Limited (Ghana)	**5 973**	6 510
MTN Sudan Company Limited	**4 786**	5 140
MTN Congo S.A.	**4**	18
	10 763	11 668

5.2 Intangible assets and goodwill

Goodwill

Goodwill is measured at cost less accumulated impairment losses and is not amortised but tested for impairment annually.

As the functional currencies of MTN South Sudan Company Limited and MTN Syria (JSC) are currencies of hyperinflationary economies, goodwill relating to these subsidiaries is restated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Goodwill arising on the acquisition of subsidiaries is included in intangible assets. Goodwill arising on the acquisition of an associate or joint venture is included in "Investment in associates and joint ventures", and is tested for impairment as part of the overall balance.

Gains or losses on the disposal of an entity include the carrying amount of goodwill allocated to the entity sold.

The Group annually reviews the carrying amounts of intangible assets with indefinite useful lives for impairments. The recoverable amounts of the assets are estimated in order to determine the extent, if any, of the impairment loss.

Intangible assets with finite useful lives

The Group's intangible assets with finite useful lives are as follows:

- Licences;
- Customer relationships;
- Computer software; and
- Other intangible assets.

Intangible assets with finite useful lives are measured at historical cost less accumulated amortisation and impairment losses. Intangible assets acquired through business combinations are initially shown at fair value and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses. The initial cost incurred in respect of licences is capitalised. Contingent licence fees are expensed as they are incurred.

As the functional currencies of MTN South Sudan Company Limited and MTN Syria (JSC) are currencies of hyperinflationary economies, intangible assets relating to these subsidiaries are restated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Amortisation is calculated on a straight-line basis to write off the cost of intangible assets over their estimated useful lives. Amortisation relating to MTN South Sudan Company Limited and MTN Syria (JSC) is based on the restated amounts, which have been adjusted for the effects of hyperinflation.

5 INFRASTRUCTURE INVESTMENTS (continued)

5.2 Intangible assets and goodwill (continued)

Intangible assets with finite useful lives (continued)

Useful lives are reviewed on an annual basis with the effects of any changes in estimate accounted for on a prospective basis. The residual values of intangible assets are assumed to be zero.

The bases for determining the useful lives for the various categories of intangible assets is as follows:

Licences

The useful lives are determined primarily with reference to the unexpired licence period.

Customer relationships

The useful life principally reflects management's view of the average economic life of the customer base and is assessed by reference to factors such as customer churn rates. An increase in churn rates may lead to a reduction in the estimated useful life.

Software

The useful life is determined with reference to the licence term of the computer software. For unique software products controlled by the Group, the useful life is based on historical experience with similar assets as well as anticipation of future events such as technological changes, which may impact the useful life.

Other intangible assets

Useful lives are based on management's estimates and take into account historical experience as well as future events which may impact the useful lives.

The estimated useful lives of intangible assets with finite useful lives are as follows:

	2016 Years	2015 Years
Licences	**3 – 20**	3 – 20
Customer relationships	**5 – 10**	5 – 10
Software	**3 – 6**	3 – 6
Other intangible assets	**3 – 10**	3 – 10

The gain or loss arising on the disposal or retirement of an intangible asset is included in profit or loss.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Costs associated with maintaining software programmes are recognised as an expense as incurred. Research and development expenditure that does not meet the criteria above is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Expenditure that enhances or extends the performance of intangible assets beyond their original specifications is recognised as a capital improvement and capitalised to the original cost of the assets. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

5 INFRASTRUCTURE INVESTMENTS (continued)

5.2 Intangible assets and goodwill (continued)

Determination of fair values

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

The fair values of all other intangible assets acquired in a business combination applicable to the Group are based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Impairment

An impairment loss is recognised in profit or loss if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. For the purpose of impairment testing, assets are grouped together into CGUs. The recoverable amount of an asset or CGU is the higher of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is subsequently reversed only to the extent that the asset or CGU's carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised. A reversal of an impairment loss is recognised immediately in profit or loss. An impairment loss in respect of goodwill is not reversed.

5 **INFRASTRUCTURE INVESTMENTS** (continued)

5.2 **Intangible assets and goodwill** (continued)

	Goodwill Rm	Licences Rm	Customer relation-ships Rm	Software[1] Rm	Other intangible assets Rm	Capital work in progress Rm	Total Rm
Carrying amount at 1 January 2015	22 225	5 002	791	8 064	491	45	36 618
Additions[2]	–	8 948	3	2 860	4	1 000	12 815
Acquisitions through business combinations (note 9.4)	742	3 752	–	–	–	–	4 494
Disposals	–	(163)	–	(87)	–	–	(250)
Reallocations	–	217	–	(498)	–	(783)	(1 064)
Amortisation for the year	–	(1 136)	(150)	(2 439)	(11)	–	(3 736)
Impairment loss	(504)	–	–	–	–	–	(504)
Other movements	456	2	–	(299)	–	4	163
Effect of movements in exchange rates[3]	4 312	2 478	20	568	–	(27)	7 351
Carrying amount at 31 December 2015	27 231	19 100	664	8 169	484	239	55 887
Comprising:							
Cost	29 768	29 512	5 360	17 992	1 137	239	84 008
Accumulated amortisation and impairment losses	(2 537)	(10 412)	(4 696)	(9 823)	(653)	–	(28 121)
	27 231	19 100	664	8 169	484	239	55 887
Carrying amount at 1 January 2016	**27 231**	**19 100**	**664**	**8 169**	**484**	**239**	**55 887**
Additions[2,5]	**–**	**3 298**	**12**	**1 867**	**7**	**1 305**	**6 489**
Acquisitions through business combinations (note 9.4)	**229**	**–**	**455**	**1**	**–**	**–**	**685**
Disposals	**(117)**	**(15)**	**–**	**–**	**–**	**–**	**(132)**
Reallocations[4]	**–**	**(37)**	**(49)**	**957**	**(205)**	**(634)**	**32**
Amortisation for the year	**–**	**(1 798)**	**(206)**	**(2 733)**	**(11)**	**–**	**(4 748)**
Impairment loss	**(873)**	**–**	**–**	**(30)**	**–**	**–**	**(903)**
Other movements	**49**	**(169)**	**9**	**262**	**(9)**	**(7)**	**135**
Effect of movements in exchange rates[3]	**(4 451)**	**(5 564)**	**(2)**	**(892)**	**(16)**	**(47)**	**(10 972)**
Carrying amount at 31 December 2016	**22 068**	**14 815**	**883**	**7 601**	**250**	**856**	**46 473**
Comprising:							
Cost	**25 478**	**23 746**	**1 341**	**17 949**	**5 413**	**856**	**74 783**
Accumulated amortisation and impairment losses	**(3 410)**	**(8 931)**	**(458)**	**(10 348)**	**(5 163)**	**–**	**(28 310)**
	22 068	**14 815**	**883**	**7 601**	**250**	**856**	**46 473**

[1] *Included in software are leased assets with a carrying amount of R739 million (2015: R742 million).*
[2] *Included in additions are capitalised borrowing costs of R25 million (2015: R43 million). The capitalisation rate for the year was 8,6% (2015: 8,6%).*
[3] *Includes the effect of hyperinflation.*
[4] *Included in reallocations is an amount of R254 million relating to intangible assets reallocated to non-current assets held for sale at 30 June 2016, as a result of an agreement concluded by the Group to sell its investment in Afrihost Proprietary Limited. The investment was sold in November 2016.*
[5] *Included in additions is internally generated software amounting to R1 134 million.*

5 **INFRASTRUCTURE INVESTMENTS** (continued)

5.2 **Intangible assets and goodwill** (continued)

5.2.1 Goodwill

A summary of the goodwill allocation and related assumptions applied for impairment testing purposes is presented below:

	2016 Growth rate %	2016 Discount rate %	2016 Carrying amount Rm	2015 Growth rate %	2015 Discount rate %	2015 Carrying amount Rm
MTN Côte d'Ivoire S.A.	**2,0**	**11,4**	**2 678**	3,0	18,2	3 064
Scancom Limited (MTN Ghana)	**6,0**	**20,0**	**5 293**	7,4	21,9	6 905
MTN Sudan Company Limited	**13,7**	**32,9**	**1 214**	5,2	23,7	1 190
MTN Yemen	**9,0**	**23,9**	**2 950**	8,0	34,2	4 018
MTN Afghanistan Limited	**7,0**	**20,2**	**1 482**	5,0	19,2	1 656
MTN Uganda Limited	**5,0**	**17,3**	**618**	5,0	18,5	743
MTN Congo S.A.	**3,6**	**17,0**	**891**	2,5	14,2	1 035
MTN Syria (JSC)	**15,0**	**35,5**	**–**	6,0	29,0	249
MTN Cyprus Limited	**1,9**	**9,5**	**759**	1,9	11,6	902
Spacetel Benin S.A.	**2,3**	**11,3**	**1 190**	2,8	15,2	1 388
Areeba Guinea S.A.	**5,0**	**22,7**	**–**	5,0	27,2	490
Mobile Telephone Network Proprietary Limited (South Africa)	**5,5**	**13,3**	**2 583**	5,5	16,3	2 287
Afrihost Proprietary Limited	**–**	**–**	**–**	5,5	16,3	319
Lonestar Communications Corporation LLC (Liberia)	**7,5**	**23,4**	**350**	6,4	16,4	400
MTN Rwandacell	**5,0**	**17,3**	**361**	5,0	16,0	449
MTN Nigeria Communications Limited (Visafone)	**9,1**	**20,6**	**439**	7,0	20,6	742
MTN Zambia	**5,0**	**18,2**	**228**	5,0	12,9	231
Spacetel Guinea-Bissau S.A.	**3,0**	**13,7**	**321**	3,0	11,2	375
Other			**711**			788
Total			**22 068**			27 231

Goodwill is tested annually for impairment. The recoverable amounts of CGUs were determined based on value-in-use calculations. The calculations mainly used cash flow projections based on financial budgets approved by management covering a three to 10-year period. Management is confident that projections covering periods longer than three years (MTN Syria (JSC) and MTN Sudan Company Limited) are appropriate in order for terminal values to be determined using steady state cash flows. Cash flows beyond the above period were extrapolated using the estimated growth rates as mentioned above. These growth rates are in line with industry norms.

The following key assumptions were used for the value-in-use calculations:

- Growth rates: the Group used steady growth rates to extrapolate revenues beyond the budget period cash flows. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the respective CGU operated. The average growth rates used ranged from 1,9% to 15,0% (2015: 1,9% to 8,0%); and
- Discount rates: discount rates ranged from 9,5% to 35,5% (2015: 11,2% to 34,2%). Discount rates used reflect both time value of money and other specific risks relating to the relevant CGU.

5 INFRASTRUCTURE INVESTMENTS (continued)

5.2 Intangible assets and goodwill (continued)

5.2.1 Goodwill (continued)

Goodwill impairment

Impairment losses were recognised relating to the following entities:

	2016 Rm	2015 Rm
Areeba Guinea SA (Conakry)	**402**	504
MTN Syria (JSC)	**269**	–
Afrihost Proprietary Limited	**202**	–
	873	504

Areeba Guinea SA (Conakry)

Areeba Guinea SA (Conakry) experienced a decline in EBITDA and Guinea-Conakry has experienced poor economic performance countrywide. Consequently, a review of the recoverable amount of Conakry was undertaken during 2016 subsequent to which an impairment loss was recognised. As at 31 December 2016, the goodwill balance relating to Conakry is fully impaired.

MTN Syria (JSC)

Syria has been experiencing poor economic conditions countrywide due to political instability and ongoing conflict in the country. An assessment of the recoverable amount of goodwill held in MTN Syria (JSC) (MTN Syria) was performed for the year ended 31 December 2016, subsequent to which an impairment loss was recognised. As at 31 December 2016, the goodwill balance relating to MTN Syria is fully impaired.

Afrihost Proprietary Limited

Based on an agreement concluded by the Group to sell its 50,02% investment in Afrihost Proprietary Limited (Afrihost) for R325 million, a goodwill impairment loss was recognised at 30 June 2016 on the remeasurement of assets to fair value less costs to sell in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*. The investment has been disposed of during the second half of 2016.

Recoverable amounts are its value in use. A specific change in the discount and growth rates (see below) would result in the recoverable amount being equal to the carrying amount of the goodwill for the following entities:

	Change to discount rate (%)	Change to growth rate (%)
MTN Sudan Company Limited	**33,10**	**(13,10)**
MTN Yemen	**26,52**	**(6,03)**
MTN Syria (JSC)*		

** In respect of MTN Syria (JSC), due to the limited information available, there is a wide range of discount rates which could be used in the determination of the recoverable amount. The Group has applied a discount rate of 35,5%. Had a discount rate of 36,5% been used, the Group would have recognised an additional impairment loss of R126 million. This impairment loss would be recognised on the other assets of MTN Syria, pro rata to each asset based on the asset's carrying amount, as the goodwill balance relating to MTN Syria has been fully impaired as at 31 December 2016.*

5.2.2 Encumbrances

Borrowings are secured by intangible assets of Scancom Limited (MTN Ghana) with a carrying amount of R1 083 million (2015: R391 million) (note 6.1).

5 INFRASTRUCTURE INVESTMENTS (continued)
5.2 Intangible assets and goodwill (continued)
5.2.3 Licences

Licence agreements	Type	Granted/ renewed	Term
Mobile Telephone Networks Proprietary Limited (South Africa)	ECS licence	15/01/2009	15 years
	ECNS licence	15/01/2009	20 years
	900MHz	29/01/2003	Renewable annually
	1 800MHz	29/10/2004	Renewable annually
	2 100MHz	02/02/2005	Renewable annually
	7GHz	14/06/2010	Renewable annually
	8Ghz	14/06/2010	Renewable annually
	10,5GHz	07/02/2006	Renewable annually
	11GHz	23/03/2009	Renewable annually
	13GHz	06/04/2009	Renewable annually
	15GHz	21/10/2005	Renewable annually
	18GHz	14/06/2010	Renewable annually
	23GHz	14/06/2010	Renewable annually
	26GHz Sub 17	21/10/2005	Renewable annually
	26GHz Sub 18	07/02/2006	Renewable annually
	28GHz	12/04/2012	Renewable annually
	38GHz	07/10/2005	Renewable annually
MTN Uganda Limited	900MHz		
	1 800MHz	15/04/1998	20 years
MTN Rwandacell Limited	GSM	01/07/2008	13 years
	SNO	30/06/2006	15 years
MTN Zambia Limited	900MHz		
	1 800MHz		
	2 100MHz	23/09/2010	15 years
MTN Nigeria Communications Limited	1 800MHz		
	900MHz	03/11/2015	5 years
	3G spectrum licence	01/05/2007	15 years
	Unified access licence (including international gateway)	01/09/2006	15 years
	WACS	01/01/2010	20 years
	WiMax 3,5GHz spectrum	2007	Renewable annually
	Microwave spectrum 8GHz – 26GHz	2001	Renewable annually
	Digital terrestrial TV broadcasting licence	12/08/2015	10 years
	800MHz spectrum (Visafone)	01/01/2015	10 years
	2,6GHz spectrum	01/08/2016	10 years
	Unified access service licence (Visafone)	01/07/2007	10 years

5 INFRASTRUCTURE INVESTMENTS (continued)

5.2 Intangible assets and goodwill (continued)

5.2.3 Licences (continued)

Licence agreements	Type	Granted/ renewed	Term
Scancom Limited (MTN Ghana)	900MHz		
	1 800MHz	02/12/2004	15 years
	3G	23/01/2009	15 years
	Fixed access service of unified access	06/07/2015	4 years
	International gateway	08/11/2014	5 years
	4G (LTE) spectrum	01/06/2016	15 years
Mobile Telephone Networks Cameroon Limited	2G		
	3G		
	4G	15/02/2015	15 years
MTN Côte d'Ivoire S.A.[1]	900MHz		
	1 800MHz	02/04/1996	20 years
	3G/UMTS 1,9/2,1GHz	31/05/2012	10 years
	Universal networks	04/01/2016	17 years
Spacetel Benin S.A.	900MHz		
	1 800MHz	19/10/2007	25 years
	Universal licence	19/03/2012	20 years
Areeba Guinea S.A.	900MHz		
	1800MHz	31/08/2005	18 years
	3G	14/08/2013	10 years
	WiMax	04/08/2014	5 years
MTN Congo S.A.	900MHz		
	1 800MHz	25/11/2011	15 years
	International gateway	05/02/2002	15 years
	Optical fibre licence	02/04/2010	15 years
	3G	25/11/2011	17 years
	2G	25/11/2011	15 years
	International gateway by optical fibre	03/06/2013	10 years
	LTE spectrum	09/12/2016	15 years
Lonestar Communications Corporation LLC (Liberia)	Universal telecommunication licence (Novafone)	04/08/2015	15 years
Spacetel Guinea-Bissau S.A.	900MHz		
	1 800MHz	23/05/2014	10 years
	3G		
	4G	17/07/2015	10 years

[1] *The WiMax 2,5GHz – 3,5GHz licence became obsolete (no longer in use) and was derecognised in 2016.*

5 **INFRASTRUCTURE INVESTMENTS** (continued)
5.2 **Intangible assets and goodwill** (continued)
5.2.3 Licences (continued)

Licence agreements	Type	Granted/ renewed	Term
MTN Syria (JSC)[1]	Freehold licence	01/01/2015	20 years
	900MHz		
	1 800MHz		
	2 000MHz	01/01/2016	19 years
MTN Sudan Company Limited	2G and 3G		
	Transmission		
	VSAT gateway		
	VSAT hub		
	VSAT terminal	25/10/2003	20 years
MTN Afghanistan Limited	3G unified licence	01/07/2012	15 years
MTN Yemen[2]	900MHz	01/08/2015	
	1 800MHz	01/08/2015	2 years and 5 months
MTN Cyprus Limited	900MHz		
	1 800MHz	01/12/2003	
	4G (LTE)		
	2 100MHz		20 years
	800MHz	05/09/2016	
	2 600MHz		12 years

[1] *The 900MHz, 1 800MHz and 3G licences from 2015 were replaced during the current year upon termination of the BOT arrangement and entering into a freehold licence agreement.*
[2] *The licence expired on 31 July 2015 and licence fees were accrued for on a monthly basis thereafter. During 2016, the licence was renewed for a period of two years and five months, retrospectively, with effect from 1 August 2015.*

6 FINANCING STRUCTURE AND COMMITMENTS

6.1 Borrowings

Borrowings are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 7.1.

Fees paid on the establishment of loan facilities are recognised as transaction costs and capitalised to the extent that it is probable that some or all of the facility will be drawn down. When the draw down is made, the transaction costs are amortised to profit or loss using the effective interest method. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Details of the Group's significant unsecured borrowings are provided below:

	2016 Rm	2015 Rm	Denominated currency	Nominal interest (%)*	Interest payment	Final maturity
Unsecured						
MTN Holdings Proprietary Limited	**27 657**	15 829				
	–	4 517	ZAR[1, 2]	7,9	Quarterly	Loan repaid during the year
	3 117	3 105	ZAR[2, 3]	9,1	Semi-annual	December 2017
	5 532	–	ZAR[1, 2]	9,4	Quarterly	February 2021
	2 808	–	ZAR[1, 2]	9,6	Quarterly	August 2021
	4 034	–	US$[1, 2, 3]	3,1	Quarterly	August 2021
	–	2 268	ZAR[2, 3]	8,0	Quarterly	Loan repaid during the year
	1 372	1 309	ZAR[4, 5]	10,1	Semi-annual	July 2017
	481	–	ZAR[4, 5]	9,2	Annual	March 2017
	204	–	ZAR[4, 5]	10,1	Semi-annual	April 2019
	2 000	1 996	ZAR[2, 6]	8,5	Quarterly	May 2017
	1 508	–	ZAR[2, 6]	9,9	Quarterly	August 2021
	2 559	–	ZAR[2, 3]	10,0	Quarterly	February 2021
	991	–	ZAR[2, 3]	9,0	Quarterly	February 2021
	778	–	ZAR[2, 7]	8,7	Quarterly	January 2017
	1 008	2 634	ZAR[2, 7]	8,5	Quarterly	January 2017
	298	–	ZAR[2, 4]	8,6	Annual	March 2017
	967	–	ZAR[2, 4]	9,2	Annual	April 2019
MTN Nigeria Communications Limited	**12 709**	26 153				
	8 254	19 474	NGN[1, 2]	20,3	Quarterly	November 2019
	1 914	3 026	US$[1, 2]	4,6	Semi-annual	April 2019
	1 036	1 710	US$[2, 8]	2,3	Semi-annual	August 2019
	691	830	US$[5, 8]	1,7	Semi-annual	August 2019
	814	1 113	US$[2, 9]	4,0	Semi-annual	December 2019

[1] Syndicated term loan facility *[2] Variable interest rate* *[3] Revolving credit facility* *[4] Domestic medium-term notes*
[5] Fixed interest rate *[6] Bilateral term loan facility* *[7] General bank facility* *[8] Export credit facility*
[9] Vendor finance facility *[10] Senior unsecured notes* *[11] Bank borrowings* *[12] Bridge finance*
[13] Preference shares

** Contractual interest rates on loans as at 31 December 2016.*

6 FINANCING STRUCTURE AND COMMITMENTS (continued)

6.1 Borrowings (continued)

	2016 Rm	2015 Rm	Denominated currency	Nominal interest (%)*	Interest payment	Final maturity
MTN International Mauritius Limited	**7 547**	10 364				
	1 372	10 364	US$[2, 3]	3,1	Quarterly	November 2019
	6 175	–	US$[1, 2]	1,8	Monthly	August 2021
MTN (Mauritius) Investments Limited	**24 059**	11 633				
	10 354	11 633	US$[5, 10]	4,8	Annual	November 2024
	6 849	–	US$[5, 10]	5,4	Annual	February 2022
	6 856	–	US$[5, 10]	6,5	Annual	October 2026
MTN Zambia Limited	**1 241**	1 251				
	458	723	US$[2, 11]	4,4	Annual	June 2019
	537	–	ZAR[2, 6]	11,0	Quarterly	September 2017
	246	528	ZMK[1, 2]	30,0	Quarterly	December 2017
MTN Uganda Limited	**1 538**	–				
	564	–	UGX[1, 2]	18,3	Quarterly	February 2021
	601	–	US$[1, 2]	4,4	Quarterly	February 2021
	373	–	UGX[2, 3]	18,9	Quarterly	February 2021
Spacetel Benin S.A.	**794**	1 075				
	659	753	CFA[1, 5]	7,3	Semi-annual	May 2020
	135	322	CFA[5, 6]	7,5	Semi-annual	September 2019
MTN Côte d'Ivoire S.A.	**2 525**	2 838				
	2 525	–	CFA[1, 5]	6,0	Quarterly	June 2023
	–	502	CFA[5, 6]	4,0	Quarterly	Loan repaid during the year
	–	377	CFA[5, 11]	4,0	Semi-annual	Loan repaid during the year
	–	75	CFA[5, 11]	6,0	Quarterly	Loan repaid during the year
	–	1 884	CFA[5, 12]	5,0	Bi-monthly	Loan repaid during the year
MTN Cyprus Limited	**804**	1 092				
	618	830	EUR[2, 6]	5,5	Quarterly	September 2020
	186	262	EUR[2, 6]	4,9	Semi-annual	October 2020
Mobile Telephone Networks Cameroon Limited	**2 234**	769				
	1 241	769	XAF[1, 5]	4,3	Semi-annual	July 2020
	993	–	XAF[1, 5]	5,0	Semi-annual	July 2020
MTN Congo S.A.	**1 323**	–	CFA CB[1, 5]	4,8	Quarterly	March 2021
MTN Zakhele Futhi (RF) Limited	**2 179**	–	ZAR[13]	7,7	Semi-annual	November 2020
Other unsecured borrowings	**206**	501				
Total unsecured borrowings	**84 816**	71 505				

[1] Syndicated term loan facility *[2] Variable interest rate* *[3] Revolving credit facility* *[4] Domestic medium-term notes*
[5] Fixed interest rate *[6] Bilateral term loan facility* *[7] General bank facility* *[8] Export credit facility*
[9] Vendor finance facility *[10] Senior unsecured notes* *[11] Bank borrowings* *[12] Bridge finance*
[13] Preference shares

** Contractual interest rates on loans as at 31 December 2016.*

6 FINANCING STRUCTURE AND COMMITMENTS (continued)

6.1 Borrowings (continued)

Details of the Group's significant secured borrowings are provided below:

	2016 Rm	2015 Rm	Denominated currency	Nominal interest (%)*	Interest payment	Final maturity	Security/ collateral
Secured							
MTN Sudan Company Limited	**1 618**	2 435					
	458	1 216	EUR[2, 9]	6,0	Quarterly	June 2020	Pledge of network and capital work in progress assets
	373	714	US$[5, 9]	10,0	Quarterly	September 2017	Pledge of network and capital work in progress assets
	787	505	EUR[2, 9]	4,0 – 6,0	Quarterly	June 2020	Pledge of network and capital work in progress assets
Scancom Limited (MTN Ghana)	**516**	1 175					
	218	826	GHS[1, 2]	23,3	Semi-annual	May 2017	Floating charge on Company assets
	195	–	GHS[1, 2]	20,9	Quarterly	May 2017	Floating charge on Company assets
	103	349	US$[1, 2]	0,9	Semi-annual	May 2017	Floating charge on Company assets
Other secured borrowings	**4**	18					
Total secured borrowings	**2 138**	3 628					
Total unsecured borrowings	**84 816**	71 505					
Total borrowings	**86 954**	75 133					

[1] Syndicated term loan facility
[2] Variable interest rate
[3] Revolving credit facility
[4] Domestic medium-term notes
[5] Fixed interest rate
[6] Bilateral term loan facility
[7] General bank facility
[8] Export credit facility
[9] Vendor finance facility
[10] Senior unsecured notes
[11] Bank borrowings
[12] Bridge finance
[13] Preference shares

** Contractual interest rates on loans as at 31 December 2016.*

6 FINANCING STRUCTURE AND COMMITMENTS (continued)

6.1 Borrowings (continued)

	2016 Rm	2015 Rm
The classification of the Group's borrowings is as follows:		
Current	**19 635**	22 472
Non-current	**67 319**	52 661
	86 954	75 133
The carrying amounts of the Group's borrowings are denominated in the following currencies:		
Nigerian naira	**8 254**	19 474
United States dollar	**41 630**	30 462
South African rand	**26 321**	15 829
Euro	**2 049**	2 813
Benin Communauté Financière Africaine franc	**794**	1 075
Côte d'Ivoire Communauté Financière Africaine franc	**2 525**	2 838
Zambian kwacha	**246**	528
Congo-Brazzaville Communauté Financière Africaine franc	**1 323**	175
Ugandan shilling	**937**	–
Cameroon Communauté Financière Africaine franc	**2 234**	769
Other currencies	**641**	1 170
	86 954	75 133
The Group has the following undrawn committed facilities:		
Floating rate	**43 945**	19 043
Fixed rate	**18 452**	9 560
	62 397	28 603

6.2 Other non-current liabilities

Finance leases are accounted for in accordance with the accounting policy disclosed in note 6.6, deferred income is accounted for in accordance with the policy disclosed in note 2.2 and other liabilities are accounted for in accordance with the accounting policy disclosed in note 7.1.

	2016 Rm	2015 Rm
Finance lease obligations (note 6.6)	**673**	711
Deferred income[1]	**382**	527
Licence renewal liability	**172**	495
Other	**389**	451
Nigeria regulatory fine[2]	**7 369**	–
	8 985	2 184

[1] *Relates to the deferred gain for tower sales and IRU swap transactions which occurred in previous years. The amounts are amortised to the income statement on a monthly basis.*

[2] *The accrual for the Nigeria regulatory fine comprises N220 billion discounted at 14,71% per annum and translated at the 31 December 2016 closing rate of R1 = N22,81.*

For additional information on the Nigeria regulatory fine, refer to note 6.3.

6 **FINANCING STRUCTURE AND COMMITMENTS** (continued)

6.3 Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event for which it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision to pay a levy is not recognised until the obligating event specified in the legislation occurs, even if there is no realistic opportunity to avoid the obligation. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expected outflow of resources required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

	At beginning of the year Rm	Additions Rm	Reversals Rm	Reclassification to financial instruments Rm	Utilised Rm	Net monetary loss Rm	Exchange and other movements[1] Rm	At end of the year Rm
2016								
Non-current								
Decommissioning provision	293	81	(112)	–	–	–	(17)	245
Licence obligations	77	–	–	–	–	–	(77)	–
Nigeria provision for regulatory fine	4 104	–	–	(4 237)	–	–	133	–
Other provisions	150	32	(27)	–	(20)	–	–	135
	4 624	113	(139)	(4 237)	(20)	–	39	380
Current								
Bonus provision	790	646	(263)	–	(403)	1	(149)	622
Decommissioning provision	6	–	–	–	–	–	(4)	2
Licence obligations	94	–	–	–	(87)	–	123	130
Nigeria provision for regulatory fine	5 183	–	–	(1 421)	(3 983)	–	221	–
Other provisions	1 920	553	(909)	–	(205)	–	116	1 475
	7 993	1 199	(1 172)	(1 421)	(4 678)	1	307	2 229

[1] *Includes the effect of hyperinflation.*

6 FINANCING STRUCTURE AND COMMITMENTS (continued)

6.3 Provisions (continued)

	At beginning of the year Rm	Additions Rm	Reversals Rm	Utilised Rm	Net monetary loss Rm	Exchange and other move-ments[1] Rm	At end of the year Rm
2015							
Non-current							
Decommissioning provision	229	45	–	(12)	–	31	293
Licence obligations	137	–	–	–	–	(60)	77
Nigeria provision for regulatory fine	–	4 104	–	–	–	–	4 104
Other provisions	180	143	(29)	(33)	27	(138)	150
	546	4 292	(29)	(45)	27	(167)	4 624
Current							
Bonus provision	754	735	(91)	(722)	–	114	790
Decommissioning provision	21	–	(19)	–	–	4	6
Nigeria provision for regulatory fine	–	5 183	–	–	–	–	5 183
Licence obligations	74	–	–	(40)	–	60	94
Other provisions	2 565	620	(997)	(327)	–	59	1 920
	3 414	6 538	(1 107)	(1 089)	–	237	7 993

[1] *Includes the effect of hyperinflation.*

Bonus provision

The bonus provision consists of a performance-based bonus, which is determined by reference to the overall Group entity's performance with regard to a set of predetermined key performance measures. Bonuses are payable annually after the Group annual results have been approved.

Decommissioning provision

This provision relates to the estimate of the cost of dismantling and removing an item of property, plant and equipment and restoring the site on which the item was located to its original condition. The Group provides for the anticipated costs associated with the restoration of leasehold property to its original condition at inception of the lease, including removal of items included in property, plant and equipment that are erected on leased land.

The Group only recognises these decommissioning costs for the proportion of its overall number of sites for which it expects decommissioning to take place. The expected percentage has been based on actual experience in the respective operations.

Licence obligations

The licence obligations provision represents the estimated costs to be incurred in fulfilling the Universal Services Obligation (USO) in South Africa. USOs are governed by the Electronic Communications Act.

6 FINANCING STRUCTURE AND COMMITMENTS (continued)

6.3 Provisions (continued)

Nigeria provision for regulatory fine

On 10 June 2016, MTN Nigeria Communications Limited (MTN Nigeria) resolved the matter relating to the previously imposed regulatory fine with the Federal Government of Nigeria (FGN) after the completion of an extensive negotiation process.

In terms of the settlement agreement reached on 10 June 2016, MTN Nigeria agreed to pay a total cash amount of N330 billion over three years (the equivalent of R25,1 billion[1]) to the FGN as full and final settlement of the matter.

In addition to the monetary settlement set out above:

- MTN Nigeria subscribes to the voluntary observance of the Code of Corporate Governance for the Telecommunications Industry in Nigeria and will ensure compulsory compliance when the said code is made mandatory for the Telecommunications Industry;
- MTN Nigeria undertakes to take immediate steps to ensure the listing of its shares on the Nigerian Stock Exchange as soon as commercially and legally possible after the date of execution of the settlement agreement; and
- MTN Nigeria shall always ensure full compliance with its licence terms and conditions as issued by the Nigeria Communications Commission (NCC).

The N50 billion (the equivalent of R4 billion[2]) in good faith payment which was paid without prejudice by MTN Nigeria on 24 February 2016 forms part of the monetary component of the settlement.

On 10 June 2016, the nature of the fine changed from a provision under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to that of a financial liability under IAS 39 *Financial Instruments: Recognition and Measurement*. As from this date onwards MTN Nigeria was contractually obliged to settle the fine in cash. Consequently, the outstanding balance ceased to be discounted at a pre-tax risk-free rate (in terms of IAS 37) and is instead discounted at MTN Nigeria's incremental borrowing rate for a liability with similar cash flows (in terms of IAS 39), which approximated 14,71% at the re-measurement date. The additional expense recognised in the income statement amounted to R10,5 billion and a discount unwind of R1,0 billion was recognised in finance costs during 2016. The balance of the liability at 31 December 2016 amounts to R8,7 billion[3], after taking into account the payment of N30 billion (R1,9 billion[4]) on 24 June 2016. Of the balance outstanding at year end, R7,4 billion is recorded in other non-current liabilities (note 6.2) and R1,3 billion in trade and other payables (note 4.5).

Other provisions

The Group is involved in various regulatory and direct and indirect tax matters specific to the respective jurisdictions in which the Group operates. These matters may not necessarily be resolved in a manner that is favourable to the Group. The Group has therefore recognised provisions in respect of these matters based on estimates and the probability of an outflow of economic benefits and should not be construed as an admission of legal liability.

[1] *Amount translated at 10 June 2016 rate of R1 = N13,15*
[2] *Amount translated at 24 February 2016 rate of R1 = N12,55*
[3] *Amount translated at 31 December 2016 closing rate of R1 = N22,81*
[4] *Amount translated at June 2016 average rate of R1 = N15,90*

6 FINANCING STRUCTURE AND COMMITMENTS (continued)

6.4 Capital commitments

Commitments for the acquisition of property, plant and equipment and software:

	2016 Rm	2015 Rm
Capital expenditure authorised not yet incurred at the reporting date is as follows:		
Contracted	**11 458**	12 501
– Property, plant and equipment	**10 883**	11 465
– Software	**575**	1 036
Not contracted	**23 295**	18 313
– Property, plant and equipment	**18 992**	13 639
– Software	**4 303**	4 674
Total commitments for property, plant and equipment and software	**34 753**	30 814

Capital expenditure will be funded from operating cash flows, existing borrowing facilities and, where necessary, by raising additional facilities.

6.5 Operating lease commitments

Leases, where substantially all of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Sub-lease income is recognised in profit or loss on a straight-line basis over the term of the lease.

In all significant operating lease arrangements in place during the year, the Group acted as the lessee.

The Group leases various premises and sites under non-cancellable/cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Penalties are chargeable on certain leases should they be cancelled before the end of the agreement.

	2016 Rm	2015 Rm
The future aggregate minimum lease payments under non-cancellable operating lease arrangements are as follows:		
Not later than one year	**10 712**	7 373
Later than one year but no later than five years	**59 919**	30 363
Later than five years	**53 462**	30 696
	124 093	68 432

6 FINANCING STRUCTURE AND COMMITMENTS (continued)

6.6 Finance lease commitments

Assets held under finance leases are capitalised at the lower of the fair value of the leased asset and the estimated present value of the minimum lease payments at the inception of the lease. The corresponding liability to the lessor, net of finance charges, is included in the statement of financial position under other non-current/current liabilities. Each lease payment is allocated between the liability and finance charges. Finance charges, which represent the difference between the total lease commitments and fair value of the assets acquired, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period.

In all significant finance lease arrangements in place during the period, the Group acted as the lessee.

At the reporting date, the Group had outstanding commitments under non-cancellable finance leases which fall due as follows:

	Minimum lease payments Rm	**Future finance charges Rm**	**Present value Rm**
2016			
Current			
Not later than one year	**86**	**(33)**	**53**
Non-current (note 6.2)	**871**	**(198)**	**673**
Later than one year and no later than five years	**407**	**(118)**	**289**
Later than five years	**464**	**(80)**	**384**
	957	**(231)**	**726**

	Minimum lease payments Rm	Future finance charges Rm	Present value Rm
2015			
Current			
Not later than one year	100	(35)	65
Non-current (note 6.2)	945	(234)	711
Later than one year and no later than five years	419	(135)	284
Later than five years	526	(99)	427
	1 045	(269)	776

6 FINANCING STRUCTURE AND COMMITMENTS (continued)

6.7 Commercial commitments

Incentives for handset upgrades

The Group's present policy is to pay incentives to service providers (SPs) for handset upgrades. These upgrades are only payable once the subscribers have completed a 21-month period with the SP since the initial commencement of their contract or previous upgrade and the eligible subscribers have exercised their rights to receive upgrades for new postpaid contracts with minimum terms. The value of the obligation may vary depending on the prevailing business rules at the time of the upgrade. The total number of eligible subscribers who had not yet exercised their right to upgrade at 31 December 2016 was 572 235 (2015: 1 233 652) and the estimated commitment in respect of these incentives amounts to R677 million (2015: R972 million).

6.8 Contingent liabilities

The Group does not recognise contingent liabilities in the statement of financial position until future events indicate that it is probable that an outflow of resources will take place and a reliable estimate can be made, at which time a provision is recognised.

	2016 Rm	2015 Rm
Contingent liabilities	**8 127**	875
Licence fee and regulatory matters	**516**	–
Uncertain tax exposures	**7 611**	865
Other	**–**	10

Uncertain tax exposures

The Group operates in numerous tax jurisdictions and the Group's interpretation and application of the various tax rules applied in direct and indirect tax filings may result in disputes between the Group and the relevant tax authority. The outcome of such disputes may not be favourable to the Group. At year end there were a number of tax disputes ongoing in various of the Group's operating entities, the most significant of which relates to a transfer pricing dispute which the Group is contesting. The Group has applied its judgement and has recognised liabilities for anticipated issues based on whether additional amounts will be payable, and has included contingent liabilities where considered possible but not probable.

Licence fee and regulatory matters

The Group has a potential exposure relating to a regulatory directive issued. The outcome of this matter may result in a penalty being levied should it be subsequently determined that the directive has not been satisfied. The Group has applied its judgement in analysing the circumstances pertaining to the matter and concluded that a contingent liability be disclosed at reporting date.

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; and
- 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), 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 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.

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

Subsequent measurement (continued)

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.

Financial liabilities

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

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.

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

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.

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.

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.1 Categories of financial instruments

	Assets				Liabilities		
	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	Total carrying amount 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.*

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.1 Categories of financial instruments (continued)

	Assets				Liabilities		
	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	Total carrying amount Rm
2015							
Non-current financial assets							
Loans and other non-current receivables	8 269	–	–	–	–	–	8 269
Investments	–	–	262	9 707	–	–	9 969
Current financial assets		–	–	–			
Trade and other receivables	38 587	–	–	–	–	–	38 587
Current investments	802	1 187	6 822	–	–	–	8 811
Derivative assets	–	163	–	–	–	–	163
Restricted cash	1 735	–	–	–	–	–	1 735
Cash and cash equivalents	34 177	–	–	–	–	–	34 177
	83 570	1 350	7 084	9 707	–	–	101 711
Non-current financial liabilities							
Borrowings	–	–	–	–	52 661	–	52 661
Other non-current liabilities	–	–	–	–	1 514	–	1 514
Current financial liabilities							
Trade and other payables	–	–	–	–	37 957	–	37 957
Borrowings	–	–	–	–	22 472	–	22 472
Bank overdrafts	–	–	–	–	38	–	38
	–	–	–		114 642	–	114 642

[1] *All financial instruments at fair value through profit or loss are held for trading.*

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**
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**

	Gross amount Rm	Amount offset Rm	Net amount Rm
2015			
Current financial assets			
Trade and other receivables	4 320	(826)	3 494
Current financial liabilities			
Trade and other payables	858	(826)	32

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).

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
2016				
Financial assets				
Investment in IHS	–	11 240	–	11 240
Unlisted equity investments	–	–	380	380
Investment in treasury bills classified as fair value through profit and loss	669	–	–	669
Investment in treasury bills classified as available-for-sale	282	–	–	282
Investment in cell captives	–	–	1 201	1 201
Forward exchange options	–	4	–	4
Total assets	951	11 244	1 581	13 776
Financial liabilities				
Derivative liabilities	–	58	–	58
Total liabilities	–	58	–	58

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2015				
Financial assets				
Investment in IHS			9 250	9 250
Unlisted equity investments			457	457
Investment in cell captives	–	–	1 187	1 187
Forward exchange contracts	–	163	–	163
Total assets	–	163	10 894	11 057

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 has consequently been transferred from level 3 to level 2 in the fair value hierarchy.

At 31 December 2015, 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 average tower industry earnings multiples of between 10 and 14. Consequently, the investment was previously categorised within level 3 of the fair value hierarchy. An increase of one in the multiple would have resulted in an increase in the fair value of R792 million and a decrease of one in the multiple would have resulted in a decrease in the fair value by R792 million as at 31 December 2015.

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 obtained in prior years, with a carrying amount of R10 354 million (2015: R11 633 million) and a fair value of R9 494 million (2015: R10 268 million) at 31 December 2016. The fair value of these instruments is determined by reference to quoted prices in the Irish bond 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.

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 year, the Group issued a further 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 2016, the carrying amount of the 2022 notes is R6 849 million and the fair value is R6 958 million; and the carrying amount of the 2026 notes is R6 856 million and the fair value is R6 727 million. The fair value of these instruments is determined by reference to quoted prices in the Irish bond 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.

Loan to Nigeria Tower InterCo B.V. – The Group has a loan to Nigeria Tower InterCo B.V. with a carrying amount of R2 863 million (2015: R2 704 million) and a fair value of R2 969 million as at 31 December 2016. The fair value of this instrument is determined by using discounted cash flow analysis using a market-related interest rate. The fair value measurement is categorised within level 3 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 2015	906
Contributions paid to insurance cell captives	965
Claims received from cell captives	(13)
Loss recognised in profit or loss	(671)
Balance at 31 December 2015	1 187
Balance at 1 January 2016	**1 187**
Contributions paid to insurance cell captives	**527**
Claims received from cell captives	**(617)**
Gain recognised in profit or loss	**104**
Balance at 31 December 2016	**1 201**

	Investments Rm
Balance at 1 January 2015	–
Transfers from level 2[1]	5 912
Acquisitions	1 410
Foreign exchange differences	2 385
Balance at 31 December 2015	9 707
Balance at 1 January 2016	**9 707**
Transfers from level 2 (IHS)[1]	**(9 250)**
Acquisitions	**61**
Foreign exchange differences	**(138)**
Balance at 31 December 2016	**380**

[1] *The Group considers transfers between fair value hierarchy levels to have occurred at the beginning of the year.*

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:

	2016 Rm	2015 Rm
Loans and other non-current receivables	**6 249**	8 269
Investments	**221**	262
Trade and other receivables	**32 297**	38 587
Current investments	**7 858**	8 811
Derivative assets	**4**	163
Restricted cash	**1 020**	1 735
Cash and cash equivalents	**27 375**	34 177
	75 024	92 004

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+ (2015: B- to AAA).

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, R5,3 billion has been insured for which the Group's risk is limited to R5 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.

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

	2016 Gross Rm	2016 Impaired Rm	2016 Net Rm	2015 Gross Rm	2015 Impaired Rm	2015 Net Rm
Fully performing trade receivables	**10 390**	**–**	**10 390**	13 478	–	13 478
Interconnect receivables	**1 034**	**–**	**1 034**	1 922	–	1 922
Contract receivables	**1 979**	**–**	**1 979**	1 863	–	1 863
Other receivables	**7 377**	**–**	**7 377**	9 693	–	9 693
Past due trade receivables	**9 438**	**(2 538)**	**6 900**	9 286	(3 459)	5 827
Interconnect receivables	**2 827**	**(736)**	**2 091**	4 180	(1 437)	2 743
0 to 3 months	**673**	**(1)**	**672**	1 047	–	1 047
3 to 6 months	**394**	**(39)**	**355**	841	(3)	838
6 to 9 months	**416**	**(96)**	**320**	454	(187)	267
9 to 12 months	**1 344**	**(600)**	**744**	1 838	(1 247)	591
Contract receivables	**2 984**	**(1 361)**	**1 623**	3 330	(1 524)	1 806
0 to 3 months	**977**	**(46)**	**931**	1 373	(219)	1 154
3 to 6 months	**989**	**(583)**	**406**	653	(471)	182
6 to 9 months	**183**	**(132)**	**51**	149	(17)	132
9 to 12 months	**835**	**(600)**	**235**	1 155	(817)	338
Other receivables	**3 627**	**(441)**	**3 186**	1 776	(498)	1 278
0 to 3 months	**1 875**	**(16)**	**1 859**	644	(126)	518
3 to 6 months	**979**	**(353)**	**626**	236	(65)	171
6 to 9 months	**109**	**(27)**	**82**	149	–	149
9 to 12 months	**664**	**(45)**	**619**	747	(307)	440
Total	**19 828**	**(2 538)**	**17 290**	22 764	(3 459)	19 305

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
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**
2015				
MTN South Africa	157	1 129	196	1 482
MTN Nigeria	1 729	587	171	2 487
MTN Côte d'Ivoire	277	379	516	1 172
MTN Yemen	464	165	48	677
MTN Cameroon	185	264	–	449
MTN Benin	193	16	152	361
Other operations	1 175	790	693	2 658
	4 180	3 330	1 776	9 286

Allowance for impairment of trade receivables

	At beginning of the year Rm	Additions[1] Rm	Reversals[1] Rm	Utilised Rm	Net monetary gain Rm	Exchange differences and other movements[2] Rm	At end of the year Rm
2016							
Allowance for impairment of trade receivables	**(3 459)**	**(1 001)**	**542**	**625**	**18**	**737**	**(2 538)**
2015							
Allowance for impairment of trade receivables	(2 514)	(1 200)	49	485	45	(324)	(3 459)

[1] *A net impairment loss of R459 million (2015: R1 151 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.

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:

	2016 Rm	2015 Rm
Trade and other receivables	**32 297**	38 587
Current investments	**2 771**	1 989
Cash and cash equivalents, net of overdrafts	**27 375**	34 139
	62 443	74 715

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.

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**
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**
2015								
Borrowings	75 133	83 298	4 079	8 010	14 012	17 567	28 064	11 566
Other non-current liabilities	1 514	1 524	–	–	–	373	462	689
Trade and other payables	37 957	37 957	23 160	10 352	4 445	–	–	–
Bank overdrafts	38	38	38	–	–	–	–	–
	114 642	122 817	27 277	18 362	18 457	17 940	28 526	12 255

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.

Holdings companies' (as disclosed in note 9.1) 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.

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:

	2016		2015	
	Fixed rate instruments Rm	**Variable rate instruments Rm**	Fixed rate instruments Rm	Variable rate instruments Rm
Non-current financial assets				
Loans and other non-current receivables	**3 914**	**1 099**	6 040	1 253
Investments	**221**	**–**	262	–
Current financial assets				
Trade and other receivables	**10 084**	**2 028**	136	16 235
Current investments	**6 657**	**–**	7 624	–
Restricted cash	**44**	**142**	498	276
Cash and cash equivalents	**11 570**	**9 174**	18 731	5 874
	32 490	**12 443**	33 291	23 638
Non-current financial liabilities				
Borrowings	**31 704**	**35 808**	15 785	36 938
Other non-current liabilities	**909**	**185**	1 202	279
Current financial liabilities				
Trade and other payables	**3 234**	**1 008**	1 536	945
Borrowings	**4 523**	**14 623**	3 852	18 295
Bank overdrafts	**–**	**–**	–	38
	40 370	**51 624**	22 375	56 495

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. Changes in market interest rates only affect profit or loss in relation to financial instruments with fixed interest rates if these financial instruments are subsequently measured at their fair value.

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 2015.

	2016 (Decrease)/increase in profit before tax			2015 (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**	**(199,6)**	**199,6**	1	(118,3)	118,3
LIBOR	**1**	**(122,2)**	**122,2**	1	28,9	(28,9)
Three-month LIBOR	**1**	**(0,6)**	**0,6**	1	(0,0)	0,0
NIBOR	**1**	**(82,5)**	**82,5**	1	(194,7)	194,7
EURIBOR	**1**	**(18,7)**	**18,7**	1	(25,8)	25,8
Money market	**1**	**6,9**	**(6,9)**	1	14,5	(14,5)
Prime	**1**	**73,1**	**(73,1)**	1	25,5	(25,5)
Other	**1**	**(28,7)**	**28,7**	1	(20,4)	20,4

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.

Foreign currency exposure

Included in the Group statement of financial position are the following amounts denominated in currencies other than the functional currency of the reporting entities:

	2016 Rm	2015 Rm
Assets		
Non-current assets		
– United States dollar	**250**	419
– CFA franc	**220**	261
– Ghanaian cedi	**1 051**	–
– Iranian rial	**–**	2 128
	1 521	2 808
Current assets		
– United States dollar	**4 704**	6 421
– Euro	**1 604**	1 435
– Iranian rial	**1 954**	9 592
– South African rand	**21**	16
– British pound sterling	**–**	3
	8 283	17 467
Total assets	**9 804**	20 275
Liabilities		
Non-current liabilities		
– United States dollar	**39 201**	27 677
– Euro	**398**	1 059
	39 599	28 736
Current liabilities		
– United States dollar	**9 737**	8 853
– Euro	**1 800**	2 304
– South African rand	**640**	7
– Ugandan shilling	**–**	75
– British pound sterling	**7**	9
– Botswana pula	**–**	–
	12 184	11 248
Total liabilities	**51 783**	39 984

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

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

A change in the foreign exchange rates to which the Group is exposed 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 interest rates, remain constant. The analysis is performed on the same basis as applied in 2015.

	Increase/(decrease) in profit before tax, or (increase)/decrease in loss before tax		
Denominated:functional currency	Change in exchange rate %	Weakening in functional currency Rm	Strengthening in functional currency Rm
2016			
US$:ZAR	**10**	**166,9[1]**	**(166,9)[1]**
US$:SYP	**10**	**(45,2)**	**45,2**
US$:SDG	**10**	**(138,6)**	**138,6**
US$:SSP	**10**	**(490,9)**	**490,9**
US$:NGN	**10**	**(403,6)[1]**	**403,6[1]**
EUR:SDG	**10**	**(185,0)**	**185,0**
EUR:US$	**10**	**159,2**	**(159,2)**
US$:GNF	**10**	**(267,4)**	**267,4**
US$:ZMK	**10**	**(79,2)**	**79,2**
IRR:ZAR	**10**	**1 175,2**	**(1 175,2)**
EUR:ZAR	**10**	**(184,5)**	**184,5**
2015			
US$:ZAR	10	(1 256,4)	1 256,4
US$:SYP	10	(105,8)	105,8
US$:SDG	10	(136,9)	136,9
US$:SSP	10	(73,9)	73,9
US$:NGN	10	(861,7)	861,7
EUR:SDG	10	(222,1)	222,1
EUR:US$	10	9,8	(9,8)
US$:GNF	10	(63,2)	63,2
US$:ZMK	10	(37,1)	37,1
IRR:ZAR	10	1 028,6	(1 028,6)

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

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 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, tax, depreciation, amortisation and goodwill impairment/losses.

	2016	2015
Net debt:EBITDA		
Borrowings and bank overdrafts (Rm)	**86 954**	75 171
Less: Cash and cash equivalents, restricted cash and current investments (Rm)	**(35 052)**	(43 536)
Net debt (Rm)	**51 902**	31 635
EBITDA (Rm)	**40 751**	59 125
Net debt:EBITDA ratio	**1,3**	0,54
Net debt:total equity		
Net debt (Rm)	**51 902**	31 635
Total equity (Rm)	**105 231**	151 838
Net debt:total equity (%)	**49,3**	20,8
Net interest:EBITDA		
Net finance costs (Rm)	**(10 495)**	(3 010)
EBITDA (Rm)	**40 751**	59 125
Net interest:EBITDA (%)	**(25,8)**	(5,1)

7 FINANCIAL RISK (continued)

7.2 Investments

Investments consist of held-to-maturity and available-for-sale financial assets that are accounted for in accordance with the accounting policy disclosed in note 7.1.

	2016 Rm	2015 Rm
Held-to-maturity financial assets		
Treasury bills and bonds with fixed rates of 4,5% to 6,3% (2015: 5,8% to 6,3%) and maturity dates between 2018 and 2019 (2015: 2018 and 2019)[1]	**221**	262
Available-for-sale financial assets		
Investment in IHS	**11 240**	9 250
Unlisted equity investment	**380**	457
	11 841	9 969

[1] Denominated in Côte d'Ivoire Communauté Financière Africaine franc.

The recoverability of the investments was assessed at the reporting date and was found not to be impaired.

7.3 Loans and other non-current receivables

Loans and other non-current receivables are accounted for as loans and receivables in accordance with the accounting policy disclosed in note 7.1.

Prepayments include costs paid relating to subsequent financial years and are stated at nominal value.

	2016 Rm	2015 Rm
Irancell Telecommunications Services Company (PJSC)[1]	**–**	2 128
Loan to Uganda Tower InterCo B.V.[2]	**1 099**	1 159
Loan to Ghana Tower InterCo B.V.[3]	**1 051**	1 109
Loan to Nigeria Tower InterCo B.V.[4]	**2 863**	2 704
Non-current interconnect receivables	**224**	405
Other non-current receivables	**1 253**	1 216
Non-current prepayments[5]	**876**	1 062
	7 366	9 783

[1] The loan to Irancell attracts interest at 12% per annum. The loan is repayable in a bullet payment on 30 September 2017. The loan has been reclassified to current assets at 31 December 2016 (note 4.2).
[2] The loan to Uganda Tower InterCo B.V. attracts interest at LIBOR +5,3% per annum. The loan is repayable in 2019.
[3] The loan to Ghana Tower InterCo B.V. attracts interest at a fixed interest rate of 21,87% per annum. The loan is repayable in 2019.
[4] The loan to Nigeria Tower InterCo B.V. attracts interest at a fixed interest rate of 10% per annum subject to review, and is repayable in 2024.
[5] Includes prepaid rent and Global Carrier Services cables.

The recoverability of the loans was assessed at the reporting date and was found not to be impaired.

No impairment was recognised in the current or prior year.

Events after the reporting period

Loan to Uganda InterCo

Subsequent to year end, the Group converted its variable interest loan to its associate, Uganda Tower InterCo B.V. (Uganda Towerco), a provider of telecommunications towers in Uganda, with a balance of US$80,1 million, into additional equity of US$48,3 million and a replacement note in Ugandan shilling for the remaining balance which will attract fixed interest.

7 FINANCIAL RISK (continued)

7.4 Current investments

Current investments consist of loans and receivables, available-for-sale financial assets held at fair value through profit or loss and held-to-maturity financial assets that are accounted for in accordance with the accounting policy disclosed in note 7.1.

	2016 Rm	2015 Rm
Loans and receivables		
Foreign currency fixed deposits with fixed interest rates of 4,7% to 10% (2015: 3,5% to 4,3%)[1]	**340**	428
Commercial paper with fixed interest rates of 4,7% to 10% (2015: 13,5% to 13,6%)[2]	**262**	374
Foreign currency fixed deposits with a fixed interest rate of 9%[3]	**17**	–
	619	802
Financial assets held at fair value through profit or loss		
Investment in insurance cell captives – Guardrisk (note 7.1.3)	**1 201**	1 187
Treasury bills with fixed interest rates of 17,8% to 18,5% and maturity dates between June and December 2017[2]	**669**	–
	1 870	1 187
Held-to-maturity financial assets		
Treasury bills with fixed interest rates of 12,7% to 22,7% (2015: 12,9% to 15,8%) and maturity dates between February and November 2017 (2015: January and July 2016)[2]	**5 087**	6 822
Available-for-sale		
Treasury bills with fixed interest rates of 18,5% and maturity dates between August and December 2017[2]	**282**	–
Total current investments	**7 858**	8 811

[1] *Denominated in United States dollar.*
[2] *Denominated in Nigerian naira.*
[3] *Denominated in Rwandan franc.*

No allowance for impairment has been recognised as at the reporting date as all investments are considered to be fully performing.

There were no significant disposals of held-to-maturity financial assets during 2016 and 2015.

7 FINANCIAL RISK (continued)

7.5 Derivatives and hedges

The Group uses derivative financial instruments, such as forward exchange contracts and interest rate swaps, to hedge its foreign currency risks, and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

All gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss.

Hedge of a net investment

The Group applies hedge accounting to certain foreign currency differences arising between the functional currency of the foreign operation (US$) and the Company's functional currency (ZAR). To the extent that the hedge is effective, foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. Any remaining differences are recognised in profit or loss. When the hedged net investment is disposed of, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the gain or loss on disposal.

All remaining derivatives are accounted for in accordance with the accounting policy disclosed in note 7.1.

	2016 Rm	2015 Rm
Derivatives held for trading		
Current assets		
Forward exchange contracts	–	163
Forward exchange options	4	–
	4	163
Current liabilities		
Forward exchange contracts	(58)	–
	(54)	163
(Losses)/gains accounted for directly in profit or loss	(39)	141
Notional principal amount (US$ forward exchange contracts)	335	2 789

7 FINANCIAL RISK (continued)

7.5 Derivatives and hedges (continued)

Net investment hedges

During 2016, MTN International (Mauritius) Limited (MTN Mauritius) hedged its dollar net assets in MTN (Dubai) Limited (MTN Dubai) for forex exposure arising between the US$ and ZAR as part of the Group's risk management objectives. MTN Mauritius designated external borrowings (eurobonds) denominated in US$ held by MTN (Mauritius) Investment Limited with a fair value of R23,2 billion and external borrowings denominated in US$ held by MTN Nigeria Communications Limited with a fair value of R4,5 billion as hedging instruments to hedge a designated portion of its net investment in MTN Dubai. For the period of the hedge relationship, foreign exchange movements on the US$ hedging instruments (being the US$ external borrowings) is recognised in other comprehensive income as part of the foreign currency translation reserve (FCTR), offsetting the exchange differences, recognised in other comprehensive income arising on translation of the designated dollar net assets of MTN Dubai to ZAR. The cumulative forex movement recognised in other comprehensive income will only be reclassified to profit or loss upon loss of control over MTN Dubai. There was no hedge ineffectiveness recognised in profit or loss during the year.

The fair value of the financial liabilities designated as net investment hedges are:

	2016 Rm
US$ denominated bonds held by MTN (Mauritius) Investments Limited	**23 179**
US$ denominated loans held by MTN Nigeria Communications Limited	**4 455**

There was no hedge ineffectiveness recognised in profit or loss during the year.

The determination of fair value of these liabilities is disclosed in note 7.1.3.

7.6 Exchange rates to South African rand

		Closing rates		**Average rates**	
		2016	2015	**2016**	2015
United States dollar	USD	**0,07**	0,06	**0,07**	0,08
Uganda shilling	UGX	**261,73**	217,67	**232,52**	253,16
Rwanda franc	RWF	**59,15**	47,84	**53,10**	55,33
Cameroon Communauté Financière Africaine franc	XAF	**45,34**	39,02	**40,23**	46,67
Nigerian naira	NGN	**22,81**	12,88	**18,28**	15,63
Iranian rial[1]	IRR	**2 355,36**	1 947,05	**2 119,83**	2 265,98
Botswana pula	BWP	**0,78**	0,73	**0,75**	0,80
Côte d'Ivoire Communauté Financière Africaine franc	CFA	**45,56**	39,81	**40,55**	47,00
Congo-Brazzaville Communauté Financière Africaine franc	XAF	**45,56**	39,81	**40,30**	46,56
Zambian kwacha	ZMK	**0,72**	0,71	**0,70**	0,65
Swaziland lilangeni	E	**1,00**	1,00	**1,00**	1,00
Afghanistan afghani	AFN	**4,87**	4,42	**4,66**	4,81
Euro	EUR	**0,07**	0,06	**0,06**	0,07
Ghanaian cedi	GHS	**0,31**	0,25	**0,27**	0,30
Benin Communauté Financière Africaine franc	XOF	**45,56**	39,81	**40,17**	47,10
Guinean franc	GNF	**667,63**	502,98	**626,24**	579,71
Sudanese pound[1]	SDG	**0,48**	0,39	**0,43**	0,47
Syrian pound[1]	SYP	**37,71**	21,76	**32,41**	21,64
Guinea-Bissau Communauté Financière Africaine franc	XOF	**45,56**	39,81	**40,96**	47,34
Yemen rial	YER	**18,25**	13,89	**16,17**	17,80
Ethiopian birr	ETB	**1,60**	1,36	**1,47**	1,64

[1] *The financial results, positions and cash flows of foreign operations trading in hyperinflationary economies are translated as set out in note 1.3.2.*

8 EQUITY STRUCTURE

8.1 Ordinary share capital and share premium

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new ordinary shares or share options are recognised in equity as a deduction (net of tax) from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental external costs (net of tax), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Ordinary share capital (par value of 0,01 cents)	2016 Number of shares	2015 Number of shares
Authorised	**2 500 000 000**	2 500 000 000
Issued *(fully paid up)*	**1 884 269 758**	1 845 493 245
In issue at the beginning of the year	**1 845 493 245**	1 848 355 889
MTN Zakhele shares cancelled and delisted[5]	**(38 058 865)**	(2 862 644)
Shares issued to MTN Zakhele Futhi[4]	**76 835 378**	–
In issue at the end of year	**1 884 269 758**	1 845 493 245
Shares cancelled but not delisted at year end	**–**	(1 444 172)
Options held by MTN Zakhele[1]	**–**	(11 131 098)
Treasury shares[2]	**(10 206 255)**	(10 400 061)
Options held by MTN Zakhele Futhi[4]	**(76 835 378)**	–
In issue at the end of the year – excluding MTN Zakhele/MTN Zakhele Futhi transactions and treasury shares[3]	**1 797 228 125**	1 822 517 914

[1] Due to the call option over the notional vendor finance shares, these shares although legally issued to MTN Zakhele, are not deemed to be issued in terms of IFRS and are shown as such in the share capital reconciliation. During the year, the MTN Zakhele transaction was unwound.
[2] Treasury shares held by MTN Holdings Proprietary Limited.
[3] There are no restrictions, rights or preferences including restrictions on dividend distributions attached to these shares.
[4] These shares, although legally issued to MTN Zakhele Futhi, are not deemed to be issued in terms of IFRS as the MTN Zakhele Futhi transaction has the substance of an option and are shown as such in the share capital reconciliation.
[5] Included in shares cancelled and delisted are 1 444 172 shares acquired in 2015 and delisted in the current year.

	2016 Rm	2015 Rm
Share capital		
Balance at the beginning of the year	*****	*
Treasury shares	*****	*
Options exercised	**–**	–
Shares cancelled	**(*)**	(*)
Share buy-back	**(*)**	(*)
Balance at the end of the year	*****	*
Share premium		
Balance at the beginning of the year	**40 248**	40 179
Shares repurchased from MTN Zakhele	**(3 462)**	–
Decrease in treasury shares	**–**	69
Balance at the end of the year	**36 786**	40 248

** Amounts less than R1 million.*

8 EQUITY STRUCTURE (continued)

8.1 Ordinary share capital and share premium (continued)

MTN Zakhele Futhi and unwind of MTN Zakhele

The Group unwound its BBBEE transaction "MTN Zakhele" during November 2016. On unwind, the Company cancelled and delisted the following shares received from MTN Zakhele:

- 5 882 100 shares delivered to the Company in settlement of the outstanding NVF funding of R662 million;
- 23 479 083 shares repurchased by the Company for cash; and
- 7 253 510 shares to facilitate the reinvestment by existing MTN Zakhele shareholders into the new BBBEE vehicle of the Group, as described below.

As a consequence of the unwind of MTN Zakhele, a new BBBEE transaction was structured through a separate legal entity, MTN Zakhele Futhi (RF) Limited (hereafter referred to as MTN Zakhele Futhi). MTN Zakhele Futhi is consolidated by MTN. The transaction is designed to provide long-term, sustainable benefits to all BBBEE participants and will run for a period of eight years.

MTN Zakhele Futhi acquired 76 835 378 of the Company's shares at a price of R128,50 per share. The acquisition of 35 747 139 shares (and transaction costs of R36 million incurred by MTN Zakhele Futhi) was funded using equity raised from the allotment of MTN Zakhele Futhi shares totalling R1 651 million (including R557 million obtained from the Group for the purchase of MTN Zakhele Futhi shares in terms of its underwrite option); reinvestment of R817 million from the existing MTN Zakhele shareholders and third-party preference share funding of R2 161 million. The acquisition of 15 367 075 shares was funded through a donation of shares to the amount of R1 975 million received from the Group. The Company also issued 25 721 164 notional vendor finance shares (NVF shares) at par value to MTN Zakhele Futhi amounting to approximately R3 305 million.

Although the day-to-day activities of MTN Zakhele Futhi are managed by its directors, the Group has decision making rights over the relevant activities of MTN Zakhele Futhi, including management of MTN Zakhele Futhi's credit risk and the associated BBBEE credentials. MTN Zakhele Futhi's sole business is holding shares in the Group and administering the associated funding of these shares. Its success is therefore dependent on the success of the Group as well as the ongoing receipt of dividends from the Group to service and repay debt. The Group therefore consolidates MTN Zakhele Futhi, a structured entity, in terms of IFRS 10.

MTN Zakhele Futhi must repay the preference shares and NVF before the Company's shares held by it become unencumbered, while the Company's shares are the only security offered by MTN Zakhele Futhi for the debt funding obtained. Until the Company's shares held by MTN Zakhele Futhi become unencumbered, the ordinary shareholders of MTN Zakhele Futhi are exposed to the gains on the Company's shares, while their exposure to downside risk or risk of loss is limited to their equity contributions (ie the purchase price paid by them for the MTN Zakhele Futhi shares). Consequently, the Company does not recognise its shares issued to MTN Zakhele Futhi and does not recognise the NVF as outstanding but treats it as an option for accounting purposes.

Further, no non-controlling interest is recognised in respect of the shares held by the ordinary shareholders of MTN Zakhele Futhi. From a consolidated perspective, their equity contributions (comprising cash received from new investors and the reinvestment by existing MTN Zakhele shareholders in MTN Zakhele Futhi) are in substance treated as a premium paid for the option to acquire the Company's shares in future.

During the year, and as a result of the option granted as described above, the Group recognised a share-based payment expense of R1 008 million. A further share-based payment expense is expected when the shares of MTN Zakhele Futhi held by the Group resulting from the exercise of the underwrite are issued to the public. Transaction costs amounted to R173 million and have been recognised as an expense during the year.

8 EQUITY STRUCTURE (continued)

8.1 Ordinary share capital and share premium (continued)

Share-based payment expense in respect of MTN Zakhele Futhi

The grant date of the option is 23 November 2016. The fair value of the share-based payment at this date was determined using a Monte Carlo valuation model.

The significant inputs into the Monte Carlo valuation model were as follows:

	2016
Price per share (R)	**114,10**
NVF balance (Rm)	**3 305**
Preference share liability balance (Rm)	**2 161**
Shares issued to MTN Zakhele Futhi (number)	**76 835 378**
Volatility (%)	**33,05**
Dividend yield[1] (%)	**6,04**
Expected option life (years)	**8**
Annual risk free rate (%)	**8,42**
Contribution from equity participants and MTN underwrite (Rm)	**2 468**

[1] *Calculated based on a risk adjusted MTN share price of R114,10 at the date of valuation and a dividend of 700 cents per share.*

Third-party preference share funding obtained by MTN Zakhele

A reconciliation of the third-party preference share funding obtained by MTN Zakhele to purchase shares of the Company is provided below:

	2016 Rm	2015 Rm
Class A cumulative redeemable non-participating preference shares		
Balance at the beginning of the year	**3 189**	3 182
Accrued interest paid	**(247)**	(211)
Interest accrued at effective interest rate	**198**	218
Redemption of preference shares during the year	**(3 140)**	
Balance at the end of the year	**–**	3 189

The Class A preference shares were redeemed on 24 November 2016.

Dividends paid to MTN Zakhele

Dividends paid by the Company to MTN Zakhele amounted to R814 million (2015: R965 million) for the year.

The dividend income earned on the MTN shares held by MTN Zakhele was required to firstly pay permitted operational fees, costs, expenses and tax liabilities and thereafter to meet the dividend obligations to the third-party funders.

Third-party preference share funding obtained by MTN Zakhele Futhi

A reconciliation of the third-party preference share funding obtained by MTN Zakhele Futhi to purchase shares of the Company is provided below:

	2016 Rm
Class A cumulative redeemable non-participating preference shares	
Balance at the beginning of the year	**–**
Preference shares issued	**2 161**
Interest accrued at the effective interest rate	**18**
Balance at the end of the year	**2 179**

The Class A preference shares are held by Jabisan 04 Proprietary Limited. The preference shares are mandatorily redeemable five years following the date of issue. Dividends are paid semi-annually on 30 April and 30 September. The preference share dividend rate is 75% of prime.

8 EQUITY STRUCTURE (continued)

8.2 Other reserves

	2016 Rm	2015 Rm
Balance at beginning of the year	**18 595**	(2 967)
Share-based payment transactions	**2 920**	532
Exchange differences on translating foreign operations	**(21 862)**	21 033
Transfer from retained earnings	**–**	127
Foreign exchange movements on hedging instruments	**(1 887)**	–
Net change in fair value of available-for-sale investments	**2 672**	–
Other	**325**	(130)
Balance at end of the year	**763**	18 595
Consisting of:		
Contingency reserve (as required by insurance regulations)[1]	**4**	4
Statutory reserve (as required by Rwanda and Congo-Brazzaville legislation)[2]	**211**	211
Transactions with non-controlling interests[3]	**(11 396)**	(11 396)
Share-based payment transactions[4]	**5 966**	3 046
Foreign currency translation reserve[5]	**3 074**	26 823
Available-for-sale reserve[6]	**2 672**	–
Other	**232**	(93)
	763	18 595

[1] *A contingency reserve has been created in terms of the Short-term Insurance Act, 1988. Transfers to the contingency reserve are treated as an appropriation of income, and the balance of the reserve is disclosed in the statement of financial position as a non-distributable reserve, forming part of shareholders' funds. On dissolution of the structured entities to which the reserve relates, they will become available for distribution.*

[2] *A statutory reserve has been created in terms of local legislation. Transfers to the statutory reserve are treated as an appropriation of income, and the balance of the reserve is disclosed in the statement of financial position as a non-distributable reserve, forming part of the shareholders' funds.*

[3] *Non-controlling shareholders are treated as equity participants and, therefore, all acquisitions of non-controlling interests or disposals by the Group of its interests in subsidiary companies where control is maintained subsequent to the disposal are accounted for as equity transactions. Consequently, the difference between the fair value of the consideration transferred and the carrying amount of a non-controlling interest purchased is recorded in equity. All profits or losses arising as a result of the disposal of interests in subsidiaries to non-controlling shareholders, where control is maintained subsequent to the disposal, are also recorded in equity.*

[4] *Refer to the accounting policy in note 8.4 with regards to equity-settled share-based payments.*

[5] *Refer to the translation and disposal of foreign operations sections in accounting policy 1.3.2 Foreign currency. The Group's functional and presentation currency is rand. The strengthening of the closing rate of the rand against the functional currencies of the Group's largest operations contributed significantly to the decrease in assets and liabilities and the resulting foreign currency translation reserve reduction of R21 862 million since 31 December 2015. The amount also comprises foreign currency differences arising on the translation of financial liabilities designated as net investment hedges in a foreign operation of R1 887 million.*

[6] *This comprises all fair-value adjustments on all financial assets that have been classified as available-for-sale. On the disposal or impairment of available-for-sale financial assets, the cumulative gains recognised on these instruments are recognised in profit or loss for the financial year.*

8 EQUITY STRUCTURE (continued)

8.3 Dividends

Dividends declared to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's directors.

	2016		2015	
	Cents per share	**Rm**	Cents per share	Rm
Dividends paid				
Final dividend paid in respect of the prior year	**830**	**15 231[2]**	800	14 698[2]
Interim dividend paid in respect of the current year	**250**	**4 585[2]**	480	8 808[2]
		19 816		23 506
Dividends declared				
Approved after the reporting date and not recognised as a liability	**450[1]**	**8 088[2]**	830	15 219[2]

[1] *Declared at the board meeting on 1 March 2017.*
[2] *Excluding 10 206 255 (2015: 10 400 061) treasury shares held by MTN Holdings and 76 835 378 (2015: Rnil) shares held by MTN Zakhele Futhi.*

8.4 Share-based payments

Equity-settled share-based payments
The schemes described on the following page are accounted for as equity-settled share-based payments to employees. Equity-settled share-based payments are measured at fair value (excluding the effect of service or non-market-based vesting conditions) at the grant date. The fair value is measured using a stochastic model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations, where applicable. The fair value determined at the grant date of the equity-settled share-based options or rights is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity, based on the Group's estimate of the shares that will eventually vest. The expense is adjusted to reflect the actual number of options and share rights for which the related service and non-market-based vesting conditions are met.

Where employees exercise options or share rights in terms of the rules and regulations of the schemes, new shares are issued to participants as beneficial owners. The directors procure a listing of these shares on the JSE Limited, the securities exchange on which the Company's shares are listed. In terms of the Share Option Scheme, participants entitled to share options pay a consideration equal to the option price when the options are exercised. The nominal value of shares issued is credited to share capital and the difference between the nominal value and the option price is credited to share premium. Settlement of the Performance Share Plan (PSP) awards are done through the acquisition of shares in the open market and the subsequent delivery to participants.

8 EQUITY STRUCTURE (continued)

8.4 Share-based payments (continued)

The MTN Group share options, share appreciation rights and share rights schemes and performance share plan

The Group operates a number of equity-settled share-based payment schemes for the benefit of eligible employees, including executive directors, in accordance with the schemes' rules. The schemes are designed to retain and recognise the contributions of executive directors and eligible employees and to provide additional incentives to contribute to the Group's continued growth.

The performance share plan is the active scheme which superseded the Share Option Scheme, the share appreciation rights and the Share Rights Scheme. The superseded schemes will be wound up once all unvested and/or unexercised awards previously made have run their remaining course.

The vesting periods under the Share Rights Scheme, Share Option Scheme and Share Appreciation Rights Scheme are as follows: 20%, 20%, 30% and 30% on the anniversary of the second, third, fourth and fifth years, respectively, after the grant date. The strike price for these schemes is determined as the closing market price for the MTN Group Limited shares on the day prior to the date of allocation. Unexercised options and rights lapse 10 years from the date of grant and are forfeited if the employee leaves the Group before they vest.

The vesting period for the performance share plan is three years and the awards vest in full based on set performance targets. Employees are not entitled to receive dividends on the shares during the vesting period.

The total number of shares which may be allocated for the purposes of the schemes shall not exceed 5% of the total issued ordinary share capital of the Company, being 94 213 488 shares as approved by shareholders in 2001.

MTN Group Share Appreciation Rights Scheme and Share Rights Scheme (the rights schemes)

The Share Appreciation Rights Scheme was implemented on 31 May 2006.

On 26 August 2008, the board approved the Share Rights Scheme, which superseded the Share Appreciation Rights Scheme. Both the rights schemes operate under the same provisions with the exception that the share rights scheme was extended to allow participation by junior managers.

Share rights under the rights schemes are granted to eligible employees by the relevant employer subsidiary company.

Exercised rights are equity-settled whereby the relevant subsidiary purchases the required MTN shares in the open market.

Details of the outstanding share appreciation rights are as follows:

	Strike price R	Number outstanding at 31 December 2015	**Forfeited during 2016**	**Exercised during 2016**	**Number outstanding at 31 December 2016**
Offer date					
31 May 2006	56,83	126 760	**(80 800)**	**(45 960)**	**–**
21 November 2006	71,00	45 800	**(43 400)**	**(2 400)**	**–**
22 June 2007	96,00	12 240	**–**	**–**	**12 240**
19 March 2008	126,99	190 900	**(72 200)**	**(66 300)**	**52 400**
Total		375 700	**(196 400)**	**(114 660)**	**64 640**

8 **EQUITY STRUCTURE** (continued)

8.4 **Share-based payments** (continued)

Details of the outstanding share rights are as follows:

	Strike price R	Number outstanding at 31 December 2015	Forfeited during 2016	Exercised during 2016	Number outstanding at 31 December 2016
Offer date					
1 September 2008	118,64	137 390	(9 400)	(25 900)	102 090
28 June 2010	107,49	402 640	(4 300)	(114 230)	284 110
Total		540 030	(13 700)	(140 130)	386 200

The share rights and share appreciation rights outstanding at the end of the year have a weighted average remaining contractual life of two years (2015: three years).

There were no new grants during the current and prior years.

MTN performance share plan (PSP)

During prior financial years the Group granted eligible employees share rights under the PSP, established in 2010. The rights were granted to employees on levels 3, 4, 5 and 6. The PSP was established in order to attract, retain and reward selected employees who are able to contribute to the business of the employer companies and to stimulate their personal involvement thereby encouraging their continued service and encouraging them to advance the interests of the relevant employer company and the Group in general.

The share rights vest after three years from date of grant. The following performance conditions must be fulfilled to qualify for the percentage of the shares granted as stated in the table below:

	Proportion of grant	
	Employee levels 3 – 4 %	Employee levels 5 – 6 %
Vesting conditions for shares granted		
Total shareholder return	37,5	50,0
Adjusted free cash flow growth	37,5	50,0
Individual retention (guaranteed, subject to remaining on the PSP for the duration of the award fulfilment period)	25,0	–

For the total shareholder return vesting condition, vesting is based on a sliding scale that ranges from 25% vesting at the median to 100% vesting at the 75th percentile of the performance of a comparable group of companies listed on the JSE. For the adjusted free cash flow vesting condition, vesting is based on a sliding scale between 11% and 19% compound annual growth in the adjusted free cash flow, for all grants prior to 2014. The sliding scale has been revised by the board of directors to between 6% and 10% compound annual growth in the adjusted free cash flow, for all grants made in 2014 and thereafter. The individual return retention condition is guaranteed subject to the employee remaining employed by the Group for the duration of the vesting period.

8 EQUITY STRUCTURE (continued)

8.4 Share-based payments (continued)

Details of the outstanding equity-settled performance share plan rights are as follows:

	Number outstanding at 31 December 2015	**Offered**	**Forfeited**	**Exercised during 2016**	**Number outstanding at 31 December 2016**
Offer date					
28 December 2012[1]	1 278 483	**–**	**(1 084 677)**	**(193 806)**	**–**
20 December 2013	1 632 373	**–**	**(110 860)**	**–**	**1 521 513**
19 December 2014	1 804 638	**–**	**(146 242)**	**–**	**1 658 396**
30 June 2016	–	**3 793 700**	**(166 662)**	**–**	**3 627 038**
28 December 2016	–	**5 553 300**	**(4 197)**	**–**	**5 549 103**
Total	4 715 494	**9 347 000**	**(1 512 638)**	**(193 806)**	**12 356 050**

[1] *The options granted in 2012 were forfeited due to the applicable market conditions not being met.*

A valuation has been prepared using a stochastic model to determine the fair value of the performance share plan and the expense to be recognised for share rights granted during the prior year.

The range of inputs into the stochastic model used for rights granted during the year was as follows:

	June 2016	**December 2016**
Share price (R)	**144,09**	**126,17**
Expected life (years)	**3 years**	**3 years**
Risk-free rate (%)	**7,45% – 7,83%**	**7,88% – 8,01%**
Expected volatility (%)	**31,80% – 43,19%**	**32,10% – 37,65%**
Dividend yield (%)	**8,58%**	**9,43%**

The risk-free rate was estimated using the implied yield on SA zero-coupon government bonds.

Volatility was estimated using the weekly closing share price and the dividend yield was estimated by using a one-year moving average of the dividend yield at valuation date.

	2016 Rm	2015 Rm
(Income)/expense arising from equity-settled share-based payment transactions (note 2.4)[1]	**(40)**	179

[1] *The (income)/expense has fluctuated due to non-market vesting conditions not being met and termination of employment before the vesting date.*

9 GROUP COMPOSITION

9.1 Interest in subsidiaries and joint ventures

MTN Group

HOLDING COMPANIES

- Mobile Telephone Networks Holdings Limited, South Africa – 100%
- MTN International Proprietary Limited, South Africa – 100%

TELECOMMUNICATIONS/ISP

- MTN Business Solutions Botswana Proprietary Limited, Botswana – 80%
- MTN Business Limited (Kenya), Kenya – 70%
- MTN Business Kenya Limited, Kenya – 70%
- Satellite Data Networks Mauritius Proprietary Limited, Mauritius – 100%
- MTN Business Solutions Namibia Proprietary Limited, Namibia – 100%
- Cell Place Proprietary Limited, South Africa – 100%
- iTalk Cellular Proprietary Limited, South Africa – 100%
- Mobile Telephone Networks Proprietary Limited, South Africa – 100%
- MTN Business Solutions Proprietary Limited, South Africa – 100%
- MTN Network Solutions Proprietary Limited, South Africa – 100%
- MTN Media Holdings Proprietary Limited, South Africa[5] – 100%
- Smart Village Proprietary Limited[4] – 100%

PROPERTY

- Aconcagua 11 Proprietary Limited, South Africa – 100%
- MTN Propco Proprietary Limited, South Africa – 100%

ELECTRONIC SERVICES

- Africa Internet Holding GmbH[1] Berlin – 31,28%

TELECOMMUNICATION/ISP

- Swazi MTN Limited[1], Swaziland – 30%

MANAGEMENT SERVICES

- MTN Group Management Services Proprietary Limited, South Africa – 100%

HOLDING COMPANY

- MTN International (Mauritius) Limited, Mauritius – 100%

HOLDING COMPANIES

- Cotel Holdings Limited, Zambia – 100%
- Econet Wireless Citizens Limited, Mauritius – 82,8%
- Deci Investments Proprietary Limited[1], Botswana – 33,3%
- Mobile Botswana Limited, Mauritius – 100%

TELECOMMUNICATIONS/ISP

- Mobile Telephone Networks Cameroon Limited, Cameroon – 70%
- MTN Network Solutions Limited, Cameroon – 70%
- Afnet, Côte d'Ivoire[3] – 58,83%
- Arobase, Côte d'Ivoire[3] – 58,83%
- MTN Côte d'Ivoire S.A., Côte d'Ivoire[3] – 58,83%
- MTN Nigeria Communications Limited, Nigeria – 78,83%
- XS Broadband Limited, Nigeria – 78,83%
- MTN Uganda Limited, Uganda – 96%
- MTN (Zambia) Limited, Zambia – 86%
- Mascom Wireless Botswana Proprietary Limited[1], Botswana – 53,1%
- Irancell Telecommunication Company Services (PJSC)[1], Iran – 49%
- MTN Publicom Limited, Uganda – 96%
- MTN Rwandacell Limited, Rwanda – 80%
- MTN Congo S.A., Republic of the Congo – 100%
- Visafone Communications Limited[2], Nigeria – 78,83%

ELECTRONIC SERVICES

- MTN Mobile Money Limited, Zambia – 86%
- Electronic Funds Transfer Operations Nigeria Limited – 50%

STRUCTURED ENTITY

- Munyati Buffalo Zambia Limited, Zambia – 100%
- MTN (Mauritius) Investment Limited, Mauritius – 100%

[1] *Joint venture.*
[2] *Subsidiary acquired during 2015 (see note 9.4.2).*
[3] *Effective shareholding of 66,8% (see note 9.3).*
[4] *Acquired during the year (see note 9.2 and 9.4.1).*

There were no changes in the effective holding in any of the Group's subsidiaries during the year unless otherwise indicated.

Notes to the Group financial statements continued
for the year ended 31 December 2016

9 GROUP COMPOSITION continued
9.1 Interest in subsidiaries and joint ventures continued

MTN Group

HOLDING COMPANY

Entity	Country	Interest
MTN (Dubai) Limited		100%

HOLDING COMPANIES

Entity	Country	Interest
Easy Dial International Limited	British Virgin Islands	99%
Investcom Telecommunications Guinea (Conakry) Limited	British Virgin Islands	99%
Investcom Consortium Holding S.A.	British Virgin Islands	99%
Investcom Mobile Benin Limited	British Virgin Islands	99%
Investcom Mobile Communications Limited	British Virgin Islands	100%
Investcom Telecommunications Afghanistan Limited	British Virgin Islands	100%
MTN NIC BV	Netherlands	100%
MTN (Netherlands) BV	Netherlands	100%
MTN (Netherlands) Co-Op UA	Netherlands	100%
Galactic Engineering Projects SA	Panama	78%
Vernis Associates SA	Panama	100%
Starcom Global Limited	British Virgin Islands	89%
Investcom Global Limited	British Virgin Islands	99%
Fourteenth Avenue Investment Holding Limited	UAE	100%
Servico SAL	Lebanon	99,97%
MTN Nigeria Towers SPV B.V.	Netherlands	100%
Investcom Telecommunications Yemen Limited	British Virgin Islands	100%

PROCUREMENT

Entity	Country	Interest
Global Trading Company LLC	UAE	100%
Global Sourcing Company LLC	UAE	100%
Telecom Sourcing Services FZ-LLC	UAE	100%
MTN Investments Limited	UAE	100%
MTN SEA Shared Services Limited	Uganda	100%

MANAGEMENT SERVICES

Entity	Country	Interest
Inteltec Offshore SAL	Lebanon	99,8%

INTERNATIONAL BUSINESS

Entity	Country	Interest
Interserve Overseas Limited	British Virgin Islands	99%

ELECTRONIC SERVICES

Entity	Country	Interest
International Digital Services Middle East Limited (IME)[1]	UAE	50%
Middle East Internet Holding S.A.R.L[1]	Luxemburg	50%
aYo Holdings[1,4] Limited	Mauritius	50%
TravelLab[1,4] AB (Travelstart)	Sweden	39,1%
Amadeus IV Digital 1		98%

TELECOMMUNICATIONS/ISP

Entity	Country	Interest
Lonestar Communications Corporation LLC	Liberia	60%
MTN Cyprus Limited	Cyprus	100%
MTN Afghanistan Limited	Afghanistan	100%
MTN South Sudan Limited	South Sudan	100%
MTN Sudan Company Limited	Sudan	85%
Scancom Limited	Ghana	97,7%
Spacetel Guinea-Bissau S.A.	Guinea-Bissau	100%
MTN Syria (JSC)	Syria	75%
Areeba Guinea S.A.	Guinea	75%
Spacetel Benin SA	Benin	75%
MTN Yemen	Yemen	82,8%
Easynet Search Limited	Ghana	99,6%
MTN ICT Services PLC	Ethiopia	99,9%
Novafone Incorporated[4]	Liberia	100%

9 GROUP COMPOSITION (continued)

9.2 Investment in associates and joint ventures

Associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of post-acquisition accumulated profits or losses of associated companies and joint ventures in the carrying amount of the investments, which are generally determined from their latest audited annual financial statements or management accounts and the annual profit attributable to the Group is recognised in profit or loss. The Group's share of any post-acquisition movement in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Where an associate or joint venture's functional currency is the currency of a hyperinflationary economy, the results and financial position of the associate or joint venture are restated in order to calculate the Group's share of net assets and profit or loss.

The carrying amount of the Group's investments in associates and joint ventures is reduced to recognise any potential impairment in the value of individual investments. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless the Group has an obligation, issued guarantees or made payments on behalf of the associate or joint venture.

Dilution gains or losses arising on investments in associates and joint ventures are recognised in profit or loss. If the ownership interest in an associate or joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss. Profits or losses resulting from upstream and downstream transactions between the Group and its associates and joint ventures are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the associates and joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Adjustments have been made where necessary to bring the accounting policies of the associates and joint ventures in line with those of the Group.

	2016 Rm	2015 Rm
Investment in associates	**6 369**	12 624
Investment in joint ventures	**20 300**	22 928
Total investment in associates and joint ventures	**26 669**	35 552
Share of results of associates after tax	**(1 988)**	(493)
Share of results of joint ventures after tax	**1 861**	1 719
Total share of results of associates and joint ventures after tax	**(127)**	1 226

9 GROUP COMPOSITION (continued)

9.2 Investment in associates and joint ventures (continued)

Investment in associates

Significant judgement

The Group, together with another shareholder, hold the shares in Nigeria Tower InterCo B.V., Uganda Tower InterCo B.V. and Ghana Tower InterCo B.V. The Group does not have substantive rights that give it power over the relevant activities of these entities. However, the Group participates in the significant financial and operating decisions and consequently it has determined that it has significant influence over these entities, resulting in them being classified as associates of the Group.

Unless otherwise stated, the Group's associates' countries of incorporation are also their principal place of operation.

The Group has the following effective interests in associates:

			Effective % interest in issued ordinary share capital	
Associate	Principal activity	Country of incorporation	**2016**	2015
Belgacom International Carrier Services SA (BICS)	Telecommunications	Belgium	**20**	20
Nigeria Tower InterCo B.V.	Management of telecommunication infrastructure	Netherlands	**51**	51
Uganda Tower InterCo B.V.	Management of telecommunication infrastructure	Netherlands	**49**	49
Ghana Tower InterCo B.V.	Management of telecommunication infrastructure	Netherlands	**49**	49
Number Portability Proprietary Limited	Porting	South Africa	**20**	20
Content Connect Africa Proprietary Limited	Telecommunications	South Africa	**36**	36

9 GROUP COMPOSITION (continued)

9.2 Investment in associates and joint ventures (continued)

Investment in associates (continued)

Significant judgement (continued)

	Belgacom International Carrier Services SA (BICS) Rm	Uganda Tower InterCo B.V. Rm	Ghana Tower InterCo B.V.[1] Rm	Nigeria Tower InterCo B.V.[2] Rm	Other Rm	Total Rm
2015						
Balance at beginning of the year	1 661	163	–	4 148	3	5 975
Additions	–	217	1 342	4 962	–	6 521
Other income (note 2.3)	–	–	30	–	–	30
Share of results after tax	216	(301)	136	(545)	1	(493)
Dividend income	(230)	–	–	–	–	(230)
Other equity movements	–	–	(30)	–	–	(30)
Effect of movements in exchange rates	342	(31)	(1 478)	2 017	1	851
Balance at end of the year	1 989	48	–	10 582	5	12 624
2016						
Balance at beginning of the year	**1 989**	**48**	**–**	**10 582**	**5**	**12 624**
Other income (note 2.3)	**–**	**–**	**31**	**–**	**–**	**31**
Share of results after tax	**273**	**(8)**	**(29)**	**(2 227)**	**3**	**(1 988)**
Dividend income	**(205)**	**–**	**–**	**–**	**–**	**(205)**
Other equity movements	**–**	**–**	**(31)**	**–**	**–**	**(31)**
Effect of movements in exchange rates	**(287)**	**(40)**	**29**	**(3 765)**	**1**	**(4 062)**
Balance at end of the year	**1 770**	**–**	**–**	**4 590**	**9**	**6 369**

[1] *During 2015, the Group accounted for the conversion of a portion of its loan to Ghana Tower InterCo B.V. into equity for an amount of R1,3 billion.*

[2] *During 2015 and 2014, the Group sold its mobile network towers in MTN Nigeria Communications Limited to INT Towers Limited, a wholly owned subsidiary of Nigeria Tower InterCo B.V. The tower sales resulted in IHS obtaining a 49% interest in Nigeria Tower InterCo B.V. and the Group obtaining an equity interest of US$775 million.*

Events after reporting period

Investment in IHS

In January 2017, the Group exchanged its 51% interest in Nigeria Tower InterCo B.V., the parent company of INT Towers Limited (INT), the Nigerian telecom tower operator, for an additional shareholding in IHS Holding Limited (IHS Group). As a result of the transaction, the Group's economic interest in the IHS Group increased from approximately 15% class B non-voting shares to an economic interest of approximately 29% comprising class A voting shares and class B non-voting shares. The original IHS Group shareholders' agreement remains in place and there will be no changes to IHS Group's independence as an operator. Neither the current nor the interest obtained subsequent to the transaction will allow the Group to appoint a board member. In addition, IHS Group has the right to decide what strategic, financial and operational information is shared with the Group. As a result of these restrictions, the Group's vote is limited to matters which relate to fundamental changes in the business or which apply in exceptional circumstances and are considered to be protective in nature. The Group's rights do not constitute significant influence to participate in the financial and operating policy decisions of IHS Group. Consequently, the Group will continue to account for its investment in IHS Group as an available-for-sale financial instrument.

9 GROUP COMPOSITION (continued)

9.2 Investment in associates and joint ventures (continued)

Events after reporting period (continued)

Investment in IHS (continued)

The exchange, which closed on 23 February 2017, will be accounted for as a disposal of the Group's equity accounted interest in INT and an acquisition of an additional investment in the IHS Group. The net impact on profit before tax is estimated to be R5,6 billion, which is determined as the difference between the fair value of the new interest obtained and the carrying value of the equity accounted interest in INT and after recycling any amount in FCTR to the income statement. The financial effects are estimated based on provisional 31 December 2016 carrying values translated at 31 January 2017 closing rates.

The decision to exchange the shares was made following a thorough review of the commercial benefits of the exchange and an agreement on the number of shares that the Group will qualify for in IHS Group. Consensus on these matters and board approval for the sale was obtained in January 2017. As a result, the investment in INT was not accounted for as held for sale in accordance with the requirements of IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* at 31 December 2016.

The transaction had no tax impact.

Summarised financial information of associates

Set out below is the summarised financial information of each associate that is material to the Group. The summarised financial information is adjusted to reflect adjustments made by the Group when applying the equity method, including fair value adjustments at acquisition and modifications for differences in accounting policy.

	Belgacom International Carrier Services SA (BICS)		Uganda Tower InterCo B.V.	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Summarised statement of financial position				
Total assets	**12 499**	14 609	**2 660**	3 083
Non-current assets	**2 140**	2 575	**2 015**	2 609
Current assets	**10 359**	12 034	**645**	474
Total liabilities	**9 110**	10 982	**2 799**	2 986
Non-current liabilities	**96**	170	**2 264**	2 395
Current liabilities	**9 014**	10 812	**535**	591
Net assets	**3 389**	3 627	**(139)**	97
% ownership interest held	**20**	20	**49**	49
Interest in associate	**678**	725	**(68)**	48
Goodwill	**1 092**	1 264	**–**	–
Accumulated unrecognised share of losses from associate	**–**	–	**29**	–
Forex losses on net investment loan recorded in equity	**–**	–	**39**	–
Balance at end of the year	**1 770**	1 989	**–**	48
Summarised income statement				
Revenue	**23 647**	22 547	**847**	716
EBITDA	**2 419**	2 241	**380**	196
Profit/(loss) before tax	**1 831**	1 827	**(156)**	(614)
Income tax expense	**(466)**	(747)	**–**	–
Profit/(loss) after tax	**1 365**	1 080	**(156)**	(614)
% ownership interest held	**20**	20	**49**	49
Share of results after tax	**273**	216	**(76)**	(301)
Unrecognised share of losses from associate	**–**	–	**29**	–
Forex losses on net investment loan recorded in equity	**–**	–	**39**	–
Share of results after tax	**273**	216	**(8)**	(301)

9 GROUP COMPOSITION (continued)

9.2 Investment in associates and joint ventures (continued)

Summarised financial information of associates (continued)

	Nigeria Tower InterCo B.V.		Ghana Tower InterCo B.V.	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Summarised statement of financial position				
Total assets	**12 965**	23 353	**2 308**	3 124
Non-current assets	**12 965**	23 353	**566**	1 237
Current assets	**–**	–	**1 742**	1 887
Total liabilities	**3 966**	2 604	**2 744**	3 310
Non-current liabilities	**3 956**	2 480	**2 058**	2 150
Current liabilities	**10**	124	**686**	1 160
Net assets	**8 999**	20 749	**(436)**	(186)
% ownership interest held	**51**	51	**49**	49
Interest in associate excluding goodwill	**4 590**	10 582	**(214)**	(91)
Accumulated unrecognised share of losses from associate[1]	**–**	–	**49**	–
Accumulated unrecognised share of other comprehensive income from associate[1]	**–**	–	**165**	91
Balance at end of the year	**4 590**	10 582	**–**	–
Summarised income statement				
Revenue	**4 624**	–	**1 695**	1 203
EBITDA	**(1 692)**	(1 069)	**526**	570
(Loss)/profit before tax	**(5 658)**	(1 069)	**(131)**	303
Income tax expense	**1 291**	–	**(29)**	(25)
(Loss)/profit after tax	**(4 367)**	(1 069)	**(160)**	278
% ownership interest held	**51**	51	**49**	49
Share of results after tax	**(2 227)**	(545)	**(78)**	136
Unrecognised share of losses from associate	**–**	–	**49**	–
Share of results after tax	**(2 227)**	(545)	**(29)**	136

[1] *Translated at rates of exchange ruling at the reporting date.*

There are no significant contingent liabilities relating to the Group's interests in these associates at the end of the current or prior year.

9 GROUP COMPOSITION (continued)

9.2 Investment in associates and joint ventures (continued)

Investment in joint ventures

Classification of significant joint arrangements

Joint arrangements are all arrangements where two or more parties contractually agree to share control of the arrangement, which only exists when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group exercises judgement in determining the classification of its joint arrangements. The Group's joint arrangements provide the Group and the other parties to the agreements with rights to the net assets of the entities. The Group has joint control over these arrangements as, under the contractual arrangements, unanimous consent is required for all decisions made with regards to the relevant activities. Judgement has been applied in determining that the following entities should be classified as joint ventures of the Group:

- Irancell Telecommunication Company Services (PJSC) (49%).
- Mascom Wireless Botswana Proprietary Limited (Mascom) (53,11%).
- Middle East Internet Holding S.A.R.L (MEIH) (50%).
- Africa Internet Holding GmbH (AIH) (31,28%).
- International Digital Services Middle East Limited (iME) (50%).

The Group has the following effective interests in joint ventures:

Joint venture	Principal activity	Country of incorporation	Effective % interest in issued ordinary share capital 2016	2015
Irancell Telecommunication Company Services (PJSC)	Network operator	Iran	**49**	49
Mascom Wireless Botswana Proprietary Limited	Network operator	Botswana	**53,1**	53,1
Swazi MTN Limited	Network operator	Swaziland	**30**	30
Deci Investments Proprietary Limited	Holding company	Botswana	**33,3**	33,3
Middle East Internet Holding S.A.R.L (MEIH)[1]	Telecommunications	Luxembourg	**50**	50
Africa Internet Holding GmbH (AIH)[2]	Telecommunications	Germany	**31,28**	33,3
International Digital Services Middle East Limited (iME)[3]	Telecommunications	United Arab Emirates	**50**	50
aYo Holdings Limited	Mobile insurance	Mauritius	**50**	–
TravelLab Global AB (Travelstart)	Online travel services	Sweden	**37,16**	–

[1] *The entity operates in various countries across the Middle East.*
[2] *The entity operates in various countries across Africa.*
[3] *The entity operates in Iran.*

The joint ventures listed above are unlisted and their countries of incorporation are also their principal place of operation unless otherwise indicated.

All joint ventures have a year end consistent with that of the Company with the exception of Irancell Telecommunication Company Services (PJSC) that has a year end of 21 December, in line with statutory requirements in Iran.

9 GROUP COMPOSITION (continued)

9.2 Investment in associates and joint ventures (continued)

Investment in joint ventures (continued)

	Irancell Telecom-munication Company Services (PJSC) Rm	Mascom Wireless Botswana Proprietary Limited Rm	Africa Internet Holdings GmbH (AIH) Rm	Middle East Internet Holdings S.A.R.L (MEIH) Rm	International Digital Services Middle East Limited (iME) Rm	TravelLab Global AB (Travelstart)[2] Rm	Other Rm	Total Rm
2015								
Balance at beginning of the year	13 976	1 329	2 253	1 638	–	–	343	19 539
Additions	–	–	–	–	–	–	–	–
Share of results after tax	1 903	345	(418)	(129)	(78)	–	96	1 719
Dividend income	(2 513)	(231)	–	–	–	–	(116)	(2 860)
Other comprehensive income and effect of movements in exchange rates including the effect of hyperinflation[1]	3 908	(92)	432	(364)	656	–	(10)	4 530
Balance at end of the year	17 274	1 351	2 267	1 145	578	–	313	22 928
2016								
Balance at beginning of the year	**17 274**	**1 351**	**2 267**	**1 145**	**578**	**–**	**313**	**22 928**
Additions	**–**	**–**	**2 312**	**109**	**–**	**405**	**22**	**2 848**
Share of results after tax	**2 073**	**398**	**(478)**	**(121)**	**(110)**	**(6)**	**105**	**1 861**
Dividend income	**(2 797)**	**(400)**	**–**	**–**	**–**	**–**	**(87)**	**(3 284)**
Other equity movements	**–**	**15**	**(246)**	**–**	**–**	**–**	**–**	**(231)**
Other comprehensive income and effect of movements in exchange rates including the effect of hyperinflation[1]	**(2 968)**	**(92)**	**(526)**	**(157)**	**(65)**	**(13)**	**(1)**	**(3 822)**
Balance at end of the year	**13 582**	**1 272**	**3 329**	**976**	**403**	**386**	**352**	**20 300**

[1] *Refer to note 1.3.3 for the Group's accounting policy with regard to those entities whose functional currency is the currency of a hyperinflationary economy.*

[2] *On 22 January 2016, the Group made an investment in TravelLab Global AB (Travelstart) amounting to US$27 million. Travelstart is an online travel agency focused on emerging markets. MTN Group jointly controls Travelstart through funds managed by its venture capital manager, Amadeus Capital Partners.*

9 GROUP COMPOSITION (continued)

9.2 Investment in associates and joint ventures (continued)

Investment in joint ventures (continued)

Summarised financial information of joint ventures

Set out below is the summarised financial information of each joint venture that is material to the Group. The summarised financial information is adjusted to reflect adjustments made by the Group when applying the equity method including fair value adjustments at acquisition and modifications for differences in accounting policy.

	Irancell Telecommunication Company Services (PJSC)		Africa Internet Holdings GmbH (AIH)[1]		Mascom Wireless Botswana Proprietary Limited	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Summarised statement of financial position						
ASSETS						
Non-current assets	**45 693**	52 921	**5 396**	1 856	**1 355**	1 393
Property, plant and equipment	**38 858**	44 096	**63**	120	**1 123**	1 172
Intangible assets	**6 319**	8 706	**7**	5	**210**	219
Loans and other non-current receivables	**227**	12	**5 326**	1 731	**–**	1
Investment in associate	**89**	107	**–**	–	**1**	–
Deferred tax assets	**200**	–	**–**	–	**21**	1
Current assets	**23 489**	28 946	**749**	1 405	**323**	349
Inventories	**160**	106	**74**	142	**9**	8
Trade and other receivables	**9 058**	8 778	**286**	255	**111**	154
Restricted cash	**52**	206	**–**	–	**–**	–
Cash and cash equivalents	**14 219**	19 856	**318**	616	**203**	187
Other current assets	**–**	–	**71**	392	**–**	–
Total assets	**69 182**	81 867	**6 145**	3 261	**1 678**	1 742
LIABILITIES						
Non-current liabilities	**5 253**	9 757	**–**	16	**161**	189
Borrowings	**–**	2 117	**–**	14	**–**	–
Deferred tax liabilities	**4 956**	7 304	**–**	1	**111**	120
Provisions	**291**	333	**–**	–	**–**	–
Other non-current liabilities	**6**	3	**–**	1	**50**	69
Current liabilities	**36 299**	37 057	**813**	808	**717**	654
Trade and other payables	**21 492**	26 044	**526**	440	**618**	484
Unearned income	**1 764**	1 760	**29**	6	**–**	–
Provisions	**338**	291	**11**	29	**–**	–
Taxation liabilities	**1 351**	1 903	**228**	333	**14**	33
Borrowings	**1 971**	7 059	**19**	–	**85**	137
Dividends declared	**9 383**	–	**–**	–	**–**	–
Total liabilities	**41 552**	46 814	**813**	824	**878**	843
Net assets	**27 630**	35 053	**5 332**	2 437	**800**	899
Non-controlling interests	**–**	–	**962**	450	**–**	–
Total net assets	**27 630**	35 053	**6 294**	2 887	**800**	899
% ownership interest held	**49**	49	**31,28**	33,3	**53,1**	53,1
Interest in joint venture excluding goodwill	**13 539**	17 176	**1 969**	961	**425**	477
Adjustment up to 31 December[1]	**–**	–	**242**	(101)	**–**	–
Goodwill	**43**	98	**1 118**	1 407	**847**	874
Balance at end of the year	**13 582**	17 274	**3 329**	2 267	**1 272**	1 351

[1] *Summarised financial information presented with regard to the Group's interest in AIH is as per the latest available management accounts at 30 September. Preparation of financial statements at 31 December by AIH was impracticable. Appropriate adjustments have been made to the Group's interest and share of results for the effects of significant transactions and events that occurred for the three months up to the reporting date.*

9 GROUP COMPOSITION (continued)

9.2 Investment in associates and joint ventures (continued)

Investment in joint ventures (continued)

Summarised financial information of joint ventures (continued)

	Irancell Telecommunication Company Services (PJSC)		Africa Internet Holdings GmbH (AIH)[1]		Mascom Wireless Botswana Proprietary Limited	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Summarised income statement						
Revenue	**33 746**	28 463	**1 381**	2 150	**1 891**	1 779
Other income	**–**	–	**–**	–	**–**	–
Operating expenses	**(21 174)**	(17 338)	**(2 909)**	(4 198)	**(772)**	(734)
EBITDA	**12 572**	11 125	**(1 528)**	(2 048)	**1 119**	1 045
Depreciation of property, plant and equipment	**(7 742)**	(4 707)	**–**	–	**(200)**	(138)
Amortisation of intangible assets	**(1 718)**	(1 174)	**–**	–	**(7)**	(97)
Operating profit/(loss)	**3 112**	5 244	**(1 528)**	(2 048)	**912**	810
Finance income	**3 320**	3 003	**–**	–	**22**	15
Finance costs	**(1 556)**	(1 601)	**–**	–	**(3)**	(11)
Net monetary gain	**–**	797	**–**	–	**–**	–
Profit/(loss) before tax	**4 876**	7 443	**(1 528)**	(2 048)	**931**	814
Income tax expense	**(646)**	(3 560)	**–**	–	**(182)**	(165)
Profit/(loss) after tax	**4 230**	3 883	**(1 528)**	(2 048)	**749**	649
Non-controlling interests	**–**	–	**(290)**	(794)	**–**	–
Profit/(loss) attributable to equity holders of the Company	**4 230**	3 883	**(1 238)**	(1 254)	**749**	649
% ownership interest held	**49**	49,0	**31,28**	33,3	**53, 1**	53,1
Share of results after tax	**2 073**	1 903	**(478)**	(418)	**398**	345

[1] *Summarised financial information presented with regard to the Group's interest in AIH is as per the latest available management accounts at 30 September. Preparation of financial statements at 31 December by AIH was impracticable. Appropriate adjustments have been made to the Group's interest and share of results for the effects of significant transactions and events that occurred for the three months up to the reporting date.*

A receivable of R9 930 million (2015: R8 158 million) from Irancell Telecommunication Company Services (PJSC) has not been received by the Group as at 31 December 2016, but is still considered recoverable, as the financial sanctions in Iran have been lifted.

During 2015, the Group formed iME by moving EUR40 million, being the Iranian business interests previously held in MEIH, to the newly formed entity. There was no resulting change in the total investment held prior to and subsequent to the restructure.

The Group's investment of R2 312 million in AIH, made in terms of the rights obtained in 2015, became effective during March 2016. This additional investment increased the Group's interest in this joint venture from 33,3% to 41,4%. Subsequently AIH received additional investments from new investors which became effective during April, May, June and July 2016. These additional investments diluted the Group's investment in AIH from 41,4% to 31,28%. Following a share swap transaction with non-controlling interest (NCI) of Africa eCommerce Holdings GmbH (AEH), a subsidiary of AIH, in terms of which AEH became a wholly owned subsidiary of AIH and the NCI received shares in AIH in exchange. The Group recognised a net loss dilution of R349 million (comprising a gain of R277 million and a loss of R626 million). The Group retains joint control over AIH.

9 **GROUP COMPOSITION** (continued)

9.2 **Investment in associates and joint ventures** (continued)

Investment in joint ventures (continued)

Summarised financial information of joint ventures (continued)

	Middle East Internet Holdings S.A.R.L		International Digital Services Middle East Limited (iME)		TravelLab Global AB[2]
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**
Summarised statement of financial position					
ASSETS					
Non-current assets	**587**	679	**86**	457	**548**
Current assets	**574**	489	**111**	39	**251**
Total assets	**1 161**	1 168	**197**	496	**799**
LIABILITIES					
Non-current liabilities	**9**	–	**4**	–	**505**
Current liabilities	**118**	90	**30**	18	**41**
Total liabilities	**127**	90	**34**	18	**546**
Net assets	**1 034**	1 078	**163**	478	**253**
Non-controlling interest	**12**	16	**–**	–	**–**
Total assets	**1 046**	1 094	**163**	478	**253**
% ownership interest held	**50**	50	**50**	50	**37,16**
Interest in joint venture excluding goodwill	**523**	547	**82**	239	**94**
Adjustment up to 31 December[1]	**(97)**	(39)	**11**	(20)	**–**
Goodwill	**550**	637	**310**	359	**292**
Balance at end of the year	**976**	1 145	**403**	578	**386**
Summarised income statement					
Revenue	**487**	126	**112**	38	**300**
Other income	**–**		**–**		**–**
Operating expenses	**(729)**	(383)	**(332)**	(194)	**(319)**
EBITDA and loss after tax	**(242)**	(257)	**(220)**	(156)	**(19)**
Income tax expense	**–**		**–**		**3**
Loss after tax	**(242)**	(257)	**(220)**	(156)	**(16)**
% ownership interest held	**50**	50	**50**	50	**37,16**
Share of results after tax	**(121)**	(129)	**(110)**	(78)	**(6)**

[1] *Summarised financial information presented with regard to the Group's interest in MEIH and iME is as per the latest available management accounts at 30 September. Preparation of the financial statements at 31 December by MEIH and iME was impracticable. Appropriate adjustments have been made to the Group's interest and share of results for the effects of significant transactions and events that occurred for the three months up to the reporting date.*

[2] *No comparative information as Travelstart was acquired during the year.*

9 GROUP COMPOSITION (continued)

9.2 Investment in associates and joint ventures (continued)

Investment in joint ventures (continued)

Commitments relating to joint ventures

Commercial commitments

Irancell Telecommunication Company Services (PJSC)

The investment in Irancell is subject to a number of sovereign, regulatory and commercial risks, which could result in the Group failing to realise full market value of its investment should it be required to dispose of any portion thereof. In this regard, 21% of Irancell is required to be offered to members of the Iranian public within approximately three years from the date of the licence. Such offering could have a proportional dilutory effect on the Company's 49% shareholding, effectively reducing its shareholding by 10,3% to 38,7%. Local management together with the shareholders continue to engage the regulator on this matter.

	2016 Rm	2015 Rm
Capital commitments		
Share of capital commitments of joint ventures not yet incurred at the reporting date:		
Contracted	**2 819**	3 077
– Property, plant and equipment	**2 819**	3 028
– Software	**–**	49
Authorised but not contracted	**2 884**	1 046
– Property, plant and equipment	**1 542**	583
– Software	**1 342**	463
	5 703	4 123
Operating lease commitments		
The Group's share of future aggregate minimum lease payments under non-cancellable operating lease arrangements are as follows:		
Not later than one year	**2**	24
Later than one year and no later than five years	**1**	–
	3	24

Contingent liabilities relating to joint ventures

There are no significant contingent liabilities relating to the Group's interests in its joint ventures during the current or prior year.

Licences

Licences awarded to the joint ventures are set out below:

Licence agreements	Type	Granted/ renewed	Term
Irancell Telecommunication Company Services (PJSC)	2G	07/09/2006	15 years
	WiMax[1]	28/02/2009	6 years
	3G	17/08/2014	7 years
	LTE	23/08/2015	6 years
Mascom Wireless Botswana	900MHz		
	1 800MHz		
	2 100MHz	13/06/2013	15 years
Swazi MTN Limited	900MHz		
	1 800MHz	28/11/2008	10 years
	2 100MHz	26/09/2011	7 years
	4G/LTE	3/11/2016	3 years

[1] *Renewal application lodged.*

9 GROUP COMPOSITION (continued)

9.3 Changes in shareholding

Changes in shareholding of subsidiaries are transactions that result in increases or reductions in the interest held in a subsidiary of the Group, but which do not result in a loss of control and are accounted for as transactions with non-controlling shareholders as disclosed in note 1.3.1.

9.3.1 Current year changes in shareholding

There were no material changes in shareholding during the current year.

9.3.2 Prior year changes in shareholding

New licence requirements in Ivory Coast require that 15% of the share capital of MTN Côte d'Ivoire SA be held by an Ivorian citizen. On 21 May 2015, MTN Mauritius disposed of 8% of its interest in MTN Côte d'Ivoire SA to Teyliom Global Capital Limited (TGCL), a fellow subsidiary of an entity which already holds a 7% interest in MTN Côte d'Ivoire SA. MTN Dubai advanced an interest-bearing loan to TGCL in order to effect the purchase. The loan is repayable in 20 years' time, and is secured by the 8% holding in MTN Côte d'Ivoire SA. The transaction was subject to certain conditions subsequent at agreement signature date, consequently although the shares were legally sold at that date, the transaction was only effective on 15 December 2015 for accounting purposes. At a Group level, it is viewed that an option was granted to TGCL, consequently neither the loan to TGCL nor the disposal of the 8% interest is recognised. As a result, the legal ownership percentage and the accounting ownership percentage differs by 8% at 31 December 2015. The option resulted in the recognition of an IFRS 2 charge at a Group level. This charge was capitalised as part of the licence cost as it is considered to be a cost which is directly attributed to the cost of acquiring this licence.

9 **GROUP COMPOSITION** (continued)

9.4 **Business combinations**

9.4.1 Current year business combinations

9.4.1.1 Altech Autopage subscriber base

On 11 February 2016, the Group acquired its Altech Autopage subscriber base from Altron TMT Proprietary Limited for R678 million. The acquisition of the subscriber base will allow the Group to consolidate the Mobile Telephone Networks Proprietary Limited postpaid subscriber base in one entity. The acquisition has been accounted for in accordance with IFRS 3 *Business Combinations*.

If the acquisition had occurred on 1 January 2016, management estimates that the Group's profit for the year would have increased by R63 million. In determining this amount, management has assumed that the fair value adjustments, determined provisionally, that arose on date of acquisition would have been the same if the acquisition had occurred on 1 January 2016.

The following table summarises the consideration transferred by the Group, the fair value of assets acquired and liabilities assumed at the acquisition date.

	2016 Rm
Consideration transferred	
Cash outflow on acquisition	678

Recognised amounts of identifiable assets acquired and liabilities assumed

	2016 Rm
Assets acquired	665
Intangible assets	455
Loans and other non-current receivables	210
Liabilities assumed	
Deferred tax liabilities	(186)
Total identifiable net assets	479
Total consideration paid	678
Net identifiable assets acquired	(479)
Goodwill	199

The goodwill of R199 million comprises the fair value of expected synergies arising from the acquisition.

Measurement of fair values

The valuation techniques applied in measuring the fair value of material assets acquired are as follows:

Asset acquired	Valuation technique
Intangible assets	Multi-excess earnings method, taking into account a contributory asset charge based on assets
Loans and other non-current receivables	Discounted cash flows method

9 GROUP COMPOSITION (continued)

9.4 Business combinations (continued)

9.4.1 Current year business combinations (continued)

9.4.1.2 Smart Village Proprietary Limited

On 29 November 2016, the Group acquired 100% of the share capital of Smart Village Proprietary Limited (Smart Village) for a R220 million cash consideration and R12 million deferred consideration. As a result, the Group obtained control of Smart Village. Control over Smart Village will enable the Group to grow its fibre-to-the-home (FTTH) footprint and services and strengthen its presence in the market.

In the one month to 31 December 2016, Smart Village contributed revenue of R6 million and a loss of R2 million to the Group's results. If the acquisition had occurred on 1 January 2016, management estimates that the Group's revenue and loss for the year would have increased and decreased by R96 million and R12 million, respectively. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on date of acquisition would have been the same if the acquisition had occurred on 1 January 2016.

The following table summarises the consideration transferred by the Group, the fair value of assets acquired and liabilities assumed at the acquisition date.

	2016 Rm
Consideration transferred	
Cash	**220**
Deferred consideration	**12**
Total consideration transferred	**232**
Cash in subsidiary acquired	**(16)**
Cash outflow on acquisition	**216**

Recognised amounts of identifiable assets acquired and liabilities assumed

	2016 Rm
Assets acquired	
Property, plant and equipment	**158**
Intangible assets	**1**
Interest in joint ventures	**15**
Inventories	**20**
Trade and other receivables	**41**
Cash and cash equivalents	**16**
Liabilities assumed	
Deferred tax liabilities	**(31)**
Trade and other payables	**(17)**
Unearned income	**(1)**
Total identifiable net assets	**202**
Total consideration	**232**
Net identifiable assets acquired	**(202)**
Goodwill	**30**

The goodwill of R30 million comprises the fair value of expected synergies arising from the acquisition.

9 GROUP COMPOSITION (continued)

9.4 Business combinations (continued)

9.4.1 Current year business combinations (continued)

9.4.1.2 Smart Village Proprietary Limited (continued)

Measurement of fair values

The valuation techniques applied in measuring the provisional fair value of material assets acquired are as follows:

Asset acquired	Valuation technique
Property, plant and equipment	Replacement cost method
Intangible assets	Multi-excess earning method
Trade receivables	Present value of expected cash flows
Inventories	Net replacement value

The net assets recognised at 31 December 2016 have been based on a provisional assessment, to be finalised during 2017.

9.4.2 Prior year business combinations

9.4.2.1 Visafone Communications Limited

On 31 December 2015, MTN Nigeria acquired 100% of the share capital of Visafone Communications Limited (Visafone) for R3 432 million. As a result, the Group obtained control of Visafone. Control over Visafone will enable the Group to improve the quality of broadband services for its subscribers. The acquisition seeks to leverage resources for service enhancement and reflects the Group's concerted efforts to deepen the growth and roll-out of broadband services across Nigeria.

Visafone contributed no revenues and net profit to the Group for the period ended 31 December 2015 as the business was acquired on the last day of the year. The consolidated pro forma revenue and profit for the year ended 31 December 2015 as though the acquisition had occurred on 1 January 2015 cannot be disclosed as the audited financial statements of Visafone for the year ended 31 December 2015 are not yet available.

The following table summarises the consideration transferred by the Group, the fair value of assets acquired and liabilities assumed at the acquisition date:

	2015 Rm
Consideration transferred	
Cash outflow on acquisition	3 040
Retention amount	392
Cash outflow	3 432

Retention amount

The retention amount represents an amount deposited into an escrow account by the Group as agreed by the parties to the acquisition, to be utilised for the satisfaction of outstanding liabilities, the shareholder debt, warranty claims and termination payments arising from the termination of supplier contracts in respect of the acquisition. The Group did not assume any liabilities, other than deferred tax, from the acquisition of Visafone. The retention amount was disclosed as restricted cash as at 31 December 2015.

9 **GROUP COMPOSITION** (continued)

9.4 **Business combinations** (continued)

9.4.2 Prior year business combinations (continued)

9.4.2.1 Visafone Communications Limited (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed

	2015 Rm
Assets acquired	
Intangible assets	3 752
Liabilities assumed	
Deferred tax liabilities	(1 062)
Total identifiable net assets	2 690
Total consideration paid	3 432
Net identifiable assets acquired	(2 690)
Goodwill	742

Measurement of fair values

The valuation techniques applied in measuring the fair value of material assets acquired are as follows:

Asset acquired	Valuation technique
Intangible assets	Market approach or comparable transaction method was used which estimates the fair value of a licence by referring to the purchase prices paid for similar licences across different markets.

The net assets recognised in the 31 December 2015 financial statements were based on a provisional assessment. The amounts were finalised during 2016, and no material changes to the previously reported results were required.

9 GROUP COMPOSITION (continued)

9.5 Joint operations

In respect of its interest in joint operations, the Group recognises in its financial statements its share of the assets jointly held, classified according to the nature of the assets, any liabilities that it has incurred, its share of any liabilities incurred jointly with the other joint operators in relation to the joint operation, any income from the sale or use of its share of the output of the joint operation, together with its share of any expenses incurred by the joint operation and any expenses that it has incurred in respect of its interest in the joint operation.

When the Group acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, identifiable assets acquired and liabilities assumed are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised in profit or loss. Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

When the Group increases its interest in a joint operation in which the activity of the joint operation constitutes a business, by acquiring an additional interest in the joint operation, the Group's previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

The Group has entered into agreements with several other companies to construct high-capacity fibre-optic submarine cable systems.

The Group has the following interests in jointly controlled operations:

	Ownership interest held	
	2016 %	2015 %
Joint operation		
Europe India Gateway Submarine Cable System	**6,89**	7,12
West Africa Cable System	**11,06**	11,06
Eassy Cable System	**16,26**	16,26
Africa Coast to Europe Cable System	**8,67**	8,67

The following table presents, on a condensed basis, the Group's share of assets and liabilities, revenue and expenses of the jointly controlled operations which are included in the consolidated statement of financial position and income statement:

	2016 Rm	2015 Rm
Revenue	**39**	35
Expenses	**(304)**	(299)
Total assets	**2 791**	3 133
Total liabilities (excluding unearned income)	**(169)**	(129)
Unearned income	**(122)**	(161)

9.6 Interest in subsidiaries

The subsidiaries in which MTN Group Limited has direct and indirect interests are set out in note 9.1.

A summary of the Group's subsidiaries with material non-controlling interests is presented below.

		Non-controlling interests	
	Principal place of business	**2016 Rm**	2015 Rm
Subsidiary			
MTN Nigeria Communications Limited	Nigeria	**725**	2 365
MTN Côte d'Ivoire SA	Côte d'Ivoire	**983**	1 284
Spacetel Benin SA	Benin	**172**	392
Mobile Telephone Networks Cameroon Limited	Cameroon	**396**	469
Other		**575**	959
		2 851	5 469

9 GROUP COMPOSITION (continued)

9.6 Interest in subsidiaries (continued)

Summarised financial information of subsidiaries with material non-controlling interests

Set out below and on the next page is the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. Unless otherwise stated, the Group's subsidiaries' countries of incorporation are also their principal places of operation. The summarised financial information presented is before intercompany eliminations.

	MTN Nigeria Communications Limited		MTN Côte d'Ivoire SA	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
% ownership interest held by non-controlling interests	**21,17**	21,17	**33,17[1]**	33,17[1]
Summarised statement of financial position				
Non-current assets	**28 704**	47 026	**8 070**	8 420
Current assets	**16 493**	30 011	**2 003**	2 126
Total assets	**45 197**	77 037	**10 073**	10 546
Non-current liabilities	**19 855**	31 871	**2 702**	871
Current liabilities	**21 916**	33 993	**4 408**	5 804
Total liabilities	**41 771**	65 864	**7 110**	6 675
Summarised income statement				
Revenue	**47 122**	51 942	**7 176**	6 424
EBITDA	**11 355**	18 180	**2 333**	2 195
(Loss)/profit before tax	**(6 592)**	7 221	**1 004**	1 283
Income tax	**(3 156)**	(4 264)	**(230)**	(313)
(Loss)/profit after tax	**(9 748)**	2 957	**774**	970
(Loss)/profit attributable to non-controlling interests	**(2 064)**	626	**257**	322
Dividends paid to non-controlling interests	**–**	1 328	**527**	373
Summarised statement of cash flows				
Net cash generated from operating activities	**13 692**	13 065	**755**	486
Net cash used in investing activities	**(11 165)**	(8 929)	**(748)**	(2 247)
Net cash (used in)/from financing activities	**(5 034)**	(4 188)	**41**	1 865
Net (decrease)/increase in cash and cash equivalents	**(2 507)**	(52)	**48**	104
Net cash and cash equivalents at beginning of the year	**15 577**	13 032	**430**	437
Exchange (loss)/gain on cash and cash equivalents	**(6 658)**	2 597	**(33)**	(111)
Net cash and cash equivalents at end of the year	**6 412**	15 577	**445**	430

[1] *The non-controlling interests hold 41,17% of the issued ordinary share capital of MTN Côte d'Ivoire SA. However, the effective ownership for accounting purposes is 33,17% due to outstanding funding provided by the Group to the non-controlling interests to acquire ordinary share capital in MTN Côte d'Ivoire.*

9 GROUP COMPOSITION (continued)

9.6 Interest in subsidiaries (continued)

Summarised financial information of subsidiaries with material non-controlling interests (continued)

	Spacetel Benin SA		Mobile Telephone Networks Cameroon Limited	
	2016	2015	**2016**	2015
% ownership interest held by non-controlling interests	**25**	25	**20**[1]	20[1]
	Rm	Rm	**Rm**	Rm
Summarised statement of financial position				
Non-current assets	**2 434**	2 470	**6 347**	6 228
Current assets	**1 721**	2 388	**2 362**	1 782
Total assets	**4 155**	4 858	**8 709**	8 010
Non-current liabilities	**563**	1 039	**1 253**	983
Current liabilities	**2 906**	2 250	**5 478**	4 682
Total liabilities	**3 469**	3 289	**6 731**	5 665
Summarised income statement				
Revenue	**4 012**	3 633	**6 189**	5 806
EBITDA	**1 038**	1 280	**2 065**	2 101
Profit before tax	**478**	791	**830**	1 212
Income tax	**1**	1	**(297)**	(635)
Profit after tax	**479**	792	**533**	577
Profit attributable to non-controlling interests	**120**	198	**107**	115
Dividends paid to non-controlling interests	**300**	263	**110**	175
Summarised statement of cash flows				
Net cash generated from operating activities	**612**	21	**900**	276
Net cash used in investing activities	**(573)**	(121)	**(2 222)**	(3 165)
Net cash (used in)/generated from financing activities	**(173)**	(30)	**1 701**	537
Net (decrease)/increase in cash and cash equivalents	**(134)**	(130)	**379**	(2 352)
Net cash and cash equivalents at beginning of the year	**970**	927	**644**	2 971
Exchange (loss)/gain on cash and cash equivalents	**(89)**	173	**(79)**	25
Net cash and cash equivalents at end of the year	**747**	970	**944**	644

[1] *The non-controlling interests hold 30% of the issued ordinary share capital of Mobile Telephone Networks Cameroon. However, the effective ownership for accounting purposes is 20% due to outstanding funding provided by the Group to the non-controlling interests to acquire ordinary share capital in Mobile Telephone Networks Cameroon during prior years.*

10 RELATED PARTIES

10.1 Related party transactions

Related party transactions constitute the transfer of resources, services or obligations between the Group and a party related to the Group, regardless of whether a price is charged. For the purposes of defining related party transactions with key management, key management has been defined as directors and the Group's executive committee and includes close members of their families and entities controlled or jointly controlled by these individuals.

	2016 Rm	2015 Rm
Key management compensation		
Salaries and other short-term employee benefits	**112**	97
Post-employment benefits	**5**	8
Other benefits	**61**	26
Bonuses	**47**	2
Compensation for loss of office	**4**	54
Total	**229**	187

Details of directors' remuneration are disclosed in note 10.2 of the financial statements.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 9.1 of the financial statements.

Changes in shareholding

There were no transactions with non-controlling shareholders or changes in shareholding in any of the Group's subsidiaries during the current or prior years (note 9.3).

Joint ventures and associates

Details of the Group's investments in and share of results and dividend income from its joint ventures and associates are disclosed in note 9.2 of the financial statements.

Details of other transactions and balances with joint ventures and associates are set out below:

	Joint ventures		Associates	
	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Balances outstanding at 31 December				
Trade and other payables owing to joint ventures/associates	**216**	246	**145**	103
Loan receivable from joint ventures/ associates	**11 884**	17 328	**5 013**	4 972
Trade and other receivables from joint ventures/associates	**696**	1 021	**242**	416
Capital call commitments payable to joint ventures/associates	**1 934**	1 106	**–**	–
Transactions for the year ended 31 December				
Dividends paid by joint ventures/associates	**3 284**	2 860	**205**	230
Interest income	**1 142**	712	**230**	180
Capital call notices paid	**1 098**	1 802	**–**	–
Repayment of loan receivable from joint venture	**6 478**	–	**–**	–

10 RELATED PARTIES (continued)

10.1 Related party transactions (continued)

Transactions between members of the Group

Scancom Limited (MTN Ghana) entered into operating lease agreements with Ghana Tower InterCo B.V. The operating lease commitments amount to R6 795 million at 31 December 2016 (2015: R8 353 million). The expense recorded amounted to R532 million for the 2016 financial year (2015: R697 million). The rental amounts escalate every year by inflation and the initial term is 10 years, followed by four times five-year renewal periods.

MTN Uganda Limited entered into operating lease agreements with Uganda Tower InterCo B.V. The operating lease commitments amount to R2 187 million (2015: R3 109 million) at 31 December 2016. The expense recorded amounted to R432 million for the 2016 financial year (2015: R660 million). The rental amounts escalate every year by inflation and the initial term is 10 years, followed by four times five-year renewal periods.

MTN Nigeria Communications Limited entered into operating lease agreements with INT Towers Limited, a wholly owned subsidiary of Nigeria Tower InterCo B.V. The operating lease commitments amount to R85 810 million at 31 December 2016 (2015: R42 616 million). The expense recorded amounted to R4 254 million for the 2016 financial year (2015: R3 333 million). The initial term is 10 years (extended to 15 years in 2016), followed by four times five-year renewal periods.

Shareholders

The principal shareholders of the Company are disclosed in Annexure 1, which is unaudited.

10.2 Emoluments, equity compensation and dealings in ordinary shares

Directors' emoluments and related payments

	Date appointed	Salaries R000	Post-employment benefits R000	Other benefits* R000	Bonuses R000	Sub-total R000	Share gains** R000	Total R000
2016								
Executive directors								
RS Dabengwa^	01/10/2001	–	–	19 564±	–	19 564	–	19 564
BD Goschen^^	22/07/2013	5 975	716	3 458	–	10 149	–	10 149
PF Nhleko^^^∞	09/11/2015	30 000	–	–	38 191	68 191	–	68 191
Total		**35 975**	**716**	**23 022**	**38 191**	**97 904**	**–**	**97 904**

* *Includes medical aid and unemployment insurance fund.*
** *Pre-tax gains on share-based payments.*
^ *Resigned 9/11/2015.*
^^ *Resigned 30/09/2016.*
^^^ *Fees paid to Captrust Investments Proprietary Limited.*
± *Represents compensation for loss of office comprising notice pay and a restraint of trade payment.*
∞ *Contractual service fees and bonus in accordance with the agreement between MTN and Captrust Investments Proprietary Limited.*

10 RELATED PARTIES (continued)

10.2 Emoluments, equity compensation and dealings in ordinary shares (continued)

Directors' emoluments and related payments (continued)

	Date appointed	Retainer# R000	Attendance# R000	Special board R000	Strategy session R000	Ad hoc work R000	Total R000
2016							
Non-executive directors							
PF Nhleko^	28/05/2013	**2 568**	**638**	**351**	**420**	**–**	**3 977**
KC Ramon@	01/06/2014	**325**	**429**	**174**	**159**	**–**	**1 087**
KP Kalyan	13/06/2006	**346**	**451**	**178**	**159**	**–**	**1 134**
AT Mikati*†	18/07/2006	**1 302**	**764**	**295**	**368**	**480**	**3 209**
MJN Njeke~	13/06/2006	**130**	**219**	**20**	**54**	**–**	**423**
JHN Strydom~	11/03/2004	**125**	**241**	**28**	**54**	**–**	**448**
AF van Biljon	01/11/2002	**213**	**267**	**178**	**159**	**120**	**937**
J van Rooyen	18/07/2006	**373**	**486**	**166**	**159**	**120**	**1 304**
MLD Marole	01/01/2010	**349**	**644**	**178**	**159**	**–**	**1 330**
NP Mageza	01/01/2010	**408**	**547**	**166**	**159**	**–**	**1 280**
A Harper*	01/01/2010	**1 304**	**696**	**291**	**368**	**763**	**3 422**
NL Sowazi&	01/08/2016	**107**	**122**	**73**	**–**	**–**	**302**
SP Miller*&	01/08/2016	**485**	**256**	**247**	**–**	**–**	**988**
PB Hanratty*&	01/08/2016	**488**	**264**	**251**	**–**	**–**	**1 003**
S Kheradpir*	08/07/2015	**1 275**	**565**	**138**	**239**	**1 166**	**3 383**
Total		**9 798**	**6 589**	**2 734**	**2 457**	**2 649**	**24 227**

^ *Fees paid to Captrust Investments Proprietary Limited.*
@ *Fees paid to Anglogold Ashanti Limited.*
* *Fees have been paid in euro.*
† *Fees are paid to M1 Limited.*
~ *Retired on 25/05/2016.*
& *Appointed on 1/08/2016.*
# *Retainer and attendance fees for board and committee representation and meetings.*

	Date appointed	Salaries R000	Post-employment benefits R000	Other benefits* R000	Compensation for loss of office± R000	Sub-total R000	Share gains** R000	Total R000
2015								
Executive directors								
RS Dabengwa^	01/10/2001	8 426	1 080	2 882	23 664	36 052	4 529	40 581
BD Goschen	22/07/2013	7 567	970	292	–	8 829	427	9 256
PF Nhleko^^	09/11/2015	5 000	–	–	–	5 000	–	5 000
Total		20 993	2 050	3 174	23 664	49 881	4 956	54 837

* *Includes medical aid and unemployment insurance fund.*
** *Pre-tax gains on share-based payments.*
^ *Resigned 9/11/2015.*
^^ *Fees paid to Captrust Investments Proprietary Limited.*
± *Compensation for loss of office comprises notice pay and a restraint of trade.*

10 RELATED PARTIES (continued)

10.2 Emoluments, equity compensation and dealings in ordinary shares (continued)

Directors' emoluments and related payments (continued)

	Date appointed	Retainer# R000	Attendance# R000	Special board R000	Strategy session R000	Ad hoc work R000	Total R000
2015							
Non-executive directors							
PF Nhleko^	28/05/2013	1 976	1 021	60	371	57	3 485
KC Ramon@	01/06/2014	322	661	52	154	96	1 285
KP Kalyan	13/06/2006	343	602	40	154	8	1 147
AT Mikati*†	18/07/2006	1 181	1 126	181	241	384	3 113
MJN Njeke	13/06/2006	331	442	56	106	20	955
JHN Strydom	11/03/2004	309	585	60	154	41	1 149
AF van Biljon	01/11/2002	212	480	60	154	73	979
J van Rooyen	18/07/2006	369	827	60	106	108	1 470
MLD Marole	01/01/2010	332	681	60	154	8	1 235
NP Mageza	01/01/2010	403	743	40	106	20	1 312
A Harper*	01/01/2010	1 215	1 358	181	241	104	3 099
F Titi±	01/07/2012	260	397	52	154	–	863
S Kheradpir^^^^*	08/07/2015	425	675	26	239	–	1 365
Total		7 678	9 598	928	2 334	919	21 457

* *Fees have been paid in euro.*
† *Fees are paid to M1 Limited.*
^^^^ *Appointed 8/07/2015.*
± *Resigned 31/12/2015.*
\# *Retainer and attendance fees include fees for board and committee representation and meetings.*
@ *Fees paid to Anglogold Ashanti Limited.*
^ *Fourth quarter fees paid to Captrust Investments Proprietary Limited.*

Prescribed officers' emoluments and related payments

	Salaries R000	Post-employment benefits# R000	Other benefits R000	Compensation for loss of office R000	Bonuses R000	Sub-total R000	Share gains R000	Total R000
2016								
Prescribed officers								
JA Desai	10 783	1 078	2 225	–	–	14 086	–	14 086
PD Norman	4 731	564	286	–	–	5 581	–	5 581
MD Fleischer[1]	6 089	710	10 454	–	–	17 253	–	17 253
M Nyati	3 855	444	3 584	–	–	7 883	–	7 883
I Jaroudi	11 083	–	1 418	–	6 353	18 854	–	18 854
K Toriola	6 017	695	4 838	–	1 969	13 519	–	13 519
F Moolman	6 700	548	2 882	–	–	10 130	–	10 130
S van Coller[2, 3]	1 846	208	13 071	–	–	15 125	–	15 125
G Engling[4]	687	64	26	–	–	777	–	777
M Ikpoki[5]	–	–	–	4 064	–	4 064	–	4 064
Total	**51 791**	**4 311**	**38 784**	**4 064**	**8 322**	**107 272**	**–**	**107 272**

[1] *Other benefits include a long-term retention amount of R10 million, of which a portion is forfeitable.*
[2] *Appointed on 1/10/2016.*
[3] *Other benefits include an amount of R13 million paid in lieu of forfeited benefits from previous employer.*
[4] *Appointed on 1/10/2016.*
[5] *Mutual separation on 31/12/2015.*
\# *Includes medical aid and unemployment insurance fund.*

10 RELATED PARTIES (continued)

10.2 Emoluments, equity compensation and dealings in ordinary shares (continued)

Prescribed officers' emoluments and related payments (continued)

	Salaries R000	Post-employment benefits R000	Other benefits R000	Compensation for loss of office R000	Bonuses R000	Sub-total R000	Share gains R000	Total R000
2015								
Prescribed officers								
JA Desai	9 490	949	2 586	–	–	13 025	295	13 320
PD Norman	4 473	573	60	–	–	5 106	1 465	6 571
A Farroukh[1]	5 444	544	555	–	–	6 543	2 208	8 751
SA Fakie[2]	331	44	1 209	–	–	1 584	755	2 339
KW Pienaar[3]	4 831	619	10 965	–	–	16 415	982	17 397
P Verkade[4]	1 021	102	21	–	–	1 144	345	1 489
Z Bulbulia[5]	3 691	473	785	13 254[@]	1 475	19 678	621	20 299
M Ikpoki[5]	6 603	754	2 274	17 260[#]	–	26 891	–	26 891
MD Fleischer	5 044	647	123	–	–	5 814	–	5 814
M Nyathi	3 644	467	3 326	–	634	8 071	–	8 071
H Singh[6]	508	65	129	–	–	702	–	702
S Sooklal[7]	4 006	514	88	–	–	4 608	–	4 608
A Fenandez[8]	5 503	550	88	–	–	6 141	–	6 141
Total	54 589	6 301	22 209	30 514	2 109	115 722	6 671	122 393

[1] *Resigned on 31/07/2015.*
[2] *Retired on 16/02/2015.*
[3] *Retired on 31/12/2015.*
[4] *Contract ended on 31/03/2015.*
[5] *Mutual separation on 31/12/2015.*
[6] *Appointed on 01/11/2015.*
[7] *Appointed on 01/02/2015.*
[8] *Appointed on 01/04/2015.*
[@] *Compensation for loss of office comprises severance, restraint of trade and gratuity pay.*
[#] *Severance, leave and lifestyle benefits.*

10 RELATED PARTIES (continued)

10.2 Emoluments, equity compensation and dealings in ordinary shares (continued)

Directors, prescribed officers, company secretary of the MTN Group and directors and company secretaries of major subsidiaries' shareholding and dealings in ordinary shares

	December 2016	December 2015	Beneficial
RS Dabengwa^	–	1 473 552	Direct
NP Mageza	400	400	Indirect
PD Norman#*	300 970	300 970	Direct
MJN Njeke	10	10	Direct
BD Goschen#@	44 393	44 393	Direct
KW Pienaar# ^^	–	455 261	Direct
S Ntsele#	6 000	4 000	Direct
KC Ramon	3 244	3 244	Direct
KC Ramon	9 901	9 901	Indirect
KP Kalyan	1 373	1 373	Direct
SB Mtshali	3 199	–	Direct
Total	**369 490**	2 293 104	

^ *Resigned 9/11/2015.*
* *Prescribed officer.*
# *Major subsidiary director.*
@ *Resigned 30/09/2016.*
^^ *Retired 31/12/2015.*

Subsequent to year end there were no changes in the directors' beneficial interest in MTN Group.

Directors, prescribed officers, company secretary of the MTN Group and directors and company secretaries of major subsidiaries' shareholding relating to MTN Zakhele Futhi

The following persons, being directors of MTN Group Limited and its major subsidiaries and the company secretary were allocated the following number of MTN Zakhele Futhi shares which has a shareholding in MTN Group Limited shares:

Beneficiary	Nature of interest	Shares
KP Kalyan	Direct beneficial	83 967
NP Mageza	Indirect beneficial	155 870
SB Mtshali	Indirect beneficial	39 703
J van Rooyen	Indirect beneficial	500
KC Ramon	Direct beneficial	23 500
LWC Phalatse	Direct beneficial	5 000
LWC Phalatse	Indirect beneficial	5 000
SA Fakie	Direct beneficial	1 000
SA Fakie	Indirect beneficial	2 000
Total		**316 540**

Subsequent to year end there were no changes in the directors' beneficial interest in MTN Zakhele Futhi.

10 RELATED PARTIES (continued)

10.2 Emoluments, equity compensation and dealings in ordinary shares (continued)

Equity compensation benefits for executive directors and directors of major subsidiaries in respect of the share appreciation rights and share rights schemes

Offer date	Strike price R	Vesting date	Number outstanding as at 31 December 2015	**Exercised 2016**	Forfeited	Exercise date	Exercise price R	**Number outstanding as at 31 December 2016**
BD Goschen^								–
19/03/2008	126,99	19/03/2010	12 260	**(12 260)**	–	28/06/2016	140,53	**–**
19/03/2008	126,99	19/03/2011	12 260	**(12 260)**	–	28/06/2016	138,55	**–**
19/03/2008	126,99	19/03/2012	18 390	**(18 390)**	–	28/06/2016	140,53	**–**
19/03/2008	126,99	19/03/2013	18 390	**(18 390)**	–	28/06/2016	138,55	**–**
Total			61 300	**(61 300)**	–			**–**
F Moolman								
19/03/2008	126,99	19/03/2010	10 200	**–**	–	–	–	**10 200**
19/03/2008	126,99	19/03/2011	10 200	**–**	–	–	–	**10 200**
19/03/2008	126,99	19/03/2012	15 300	**–**	–	–	–	**15 300**
19/03/2008	126,99	19/03/2013	15 300	**–**	–	–	–	**15 300**
Total			51 000	**–**	–	–	–	**51 000**
RS Dabengwa*								
31/05/2006	56,83	30/11/2008	13 920	**–**	(13 920)	–	–	**–**
31/05/2006	56,83	30/11/2009	26 440	**–**	(26 440)	–	–	**–**
31/05/2006	56,83	30/11/2010	40 440	**–**	(40 440)	–	–	**–**
21/11/2006	71,00	21/11/2008	8 680	**–**	(8 680)	–	–	**–**
21/11/2006	71,00	21/11/2009	8 680	**–**	(8 680)	–	–	**–**
21/11/2006	71,00	21/11/2010	13 020	**–**	(13 020)	–	–	**–**
21/11/2006	71,00	21/11/2011	13 020	**–**	(13 020)	–	–	**–**
19/03/2008	126,99	19/03/2010	14 440	**–**	(14 440)	–	–	**–**
19/03/2008	126,99	19/03/2011	14 440	**–**	(14 440)	–	–	**–**
19/03/2008	126,99	19/03/2012	21 660	**–**	(21 660)	–	–	**–**
19/03/2008	126,99	19/03/2013	21 660	**–**	(21 660)	–	–	**–**
Total			196 400	**–**	(196 400)			**–**

^ Resigned 30/09/2016.
** These options were forfeited during the year and a payment of R10,6 million was made (outside of the scheme) in return; he resigned 9/11/2015.*

10 RELATED PARTIES (continued)

10.2 Emoluments, equity compensation and dealings in ordinary shares (continued)

Equity compensation benefits for executive directors, prescribed officers, Company secretary of the MTN Group and directors of major subsidiaries in respect of the performance share plan

Offer date	Vesting date	Number outstanding at 31 December 2015	Offered	Exercised	Forfeited	Exercise date	Exercise price R	**Number outstanding as at 31 December 2016**
BD Goschen*								
28/12/2012	28/12/2015	26 500	–	–	(26 500)	–	–	**–**
20/12/2013	19/12/2016	43 700	–	–	(43 700)	–	–	**–**
19/12/2014	18/12/2017	54 700	–	–	(54 700)	–	–	**–**
29/06/2016	29/12/2018	–	93 400	–	(93 400)	–	–	**–**
Total		124 900	93 400	–	(218 300)			**–**
PD Norman								
28/12/2012	28/12/2015	30 600	–	–	(30 600)	–	–	**–**
20/12/2013	19/12/2016	28 400	–	–	–	–	–	**28 400**
19/12/2014	18/12/2017	27 000	–	–	–	–	–	**27 000**
29/06/2016	29/12/2018	–	46 100	–	–	–	–	**46 100**
28/12/2016	28/12/2019	–	56 300	–	–	–	–	**56 300**
Total		86 000	102 400	–	(30 600)			**157 800**
Z Bulbulia^								
28/12/2012	28/12/2015	15 500	–	–	(15 500)	–	–	**–**
20/12/2013	19/12/2016	16 586	–	–	–	–	–	**16 586**
19/12/2014	18/12/2017	7 656	–	–	–	–	–	**7 656**
Total		39 742	–	–	(15 500)			**24 242**
KW Pienaar#								
28/12/2012	28/12/2015	33 000	–	–	(33 000)	–	–	**–**
20/12/2013	19/12/2016	20 716	–	–	–	–	–	**20 716**
19/12/2014	18/12/2017	10 036	–	–	–	–	–	**10 036**
Total		63 752	–	–	(33 000)			**30 752**
M Nyati								
19/12/2014	18/12/2017	21 900	–	–	–	–	–	**21 900**
29/06/2016	29/12/2018	–	37 500	–	–	–	–	**37 500**
28/12/2016	28/12/2019	–	45 800	–	–	–	–	**45 800**
Total		21 900	83 300	–	–			**105 200**

* *Resigned 30/09/2016.*
^ *Mutual separation 31/12/2015.*
# *Retired 31/12/2015.*

10 RELATED PARTIES (continued)

10.2 Emoluments, equity compensation and dealings in ordinary shares (continued)

Equity compensation benefits for executive directors, prescribed officers, Company secretary of the MTN Group and directors of major subsidiaries in respect of the performance share plan (continued)

Offer date	Vesting date	Number outstanding at 31 December 2015	Offered	Exercised	Forfeited	Exercise date	Exercise price R	**Number outstanding as at 31 December 2016**
JA Desai								
28/12/2012	28/12/2015	41 400	–	–	(41 400)	–	–	**–**
20/12/2013	19/12/2016	44 400	–	–	–	–	–	**44 400**
19/12/2014	18/12/2017	44 500	–	–	–	–	–	**44 500**
29/06/2016	29/12/2018	–	90 400	–	–	–	–	**90 400**
28/12/2016	28/12/2019	–	107 300	–	–	–	–	**107 300**
Total		130 300	197 700	–	(41 400)	–	–	**286 600**
M Fleischer								
19/12/2014	18/12/2017	30 400	–	–	–	–	–	**30 400**
29/06/2016	29/12/2018	–	51 900	–	–	–	–	**51 900**
28/12/2016	28/12/2019	–	75 200	–	–	–	–	**75 200**
Total		30 400	127 100	–	–			**157 500**
M Ikpoki#								
20/12/2013	19/12/2016	22 281	–	–	–	–	–	**22 281**
19/12/2014	18/12/2017	12 898	–	–	–	–	–	**12 898**
Total		35 179	–	–	–	–	–	**35 179**
F Moolman								
28/12/2012	28/12/2015	14 600	–	–	(14 600)	–	–	**–**
20/12/2013	19/12/2016	15 700	–	–	–	–	–	**15 700**
19/12/2014	18/12/2017	15 700	–	–	–	–	–	**15 700**
29/06/2016	29/12/2018	–	44 700	–	–	–	–	**44 700**
28/12/2016	28/12/2019	–	66 600	–	–	–	–	**66 600**
Total		46 000	111 300	–	(14 600)			**142 700**
SB Mtshali								
28/12/2012	28/12/2015	6 400	–	(1 600)	(4 800)	21/06/2016	147,27	**–**
20/12/2013	19/12/2016	6 000	–	–	–	–	–	**6 000**
19/12/2014	18/12/2017	5 800	–	–	–	–	–	**5 800**
29/06/2016	29/12/2018	–	10 100	–	–	–	–	**10 100**
28/12/2016	28/12/2019	–	12 800	–	–	–	–	**12 800**
Total		18 200	22 900	(1 600)	(4 800)			**34 700**
S Ntsele								
28/12/2012	28/12/2015	4 500	–	(1 125)	(3 375)	21/06/2016	147,27	**–**
20/12/2013	19/12/2016	5 300	–	–	–	–	–	**5 300**
19/12/2014	18/12/2017	5 000	–	–	–	–	–	**5 000**
29/06/2016	29/12/2018	–	25 500	–	–	–	–	**25 500**
28/12/2016	28/12/2019	–	31 400	–	–	–	–	**31 400**
Total		14 800	56 900	(1 125)	(3 375)	–	–	**67 200**

Mutual separation 31/12/2015.

10 RELATED PARTIES (continued)

10.2 Emoluments, equity compensation and dealings in ordinary shares (continued)

Equity compensation benefits for executive directors, prescribed officers, Company secretary of the MTN Group and directors of major subsidiaries in respect of the performance share plan (continued)

Offer date	Vesting date	Number outstanding at 31 December 2015	Offered	Exercised	Forfeited	Exercise date	Exercise price R	Number outstanding as at 31 December 2016
K Toriola								
28/12/2012	28/12/2015	14 400	–	–	(14 400)	–	–	**–**
20/12/2013	19/12/2016	15 500	–	–	–	–	–	**15 500**
19/12/2014	18/12/2017	22 300	–	–	–	–	–	**22 300**
29/06/2016	29/12/2018	–	54 700	–	–	–	–	**54 700**
28/12/2016	28/12/2019	–	55 900	–	–	–	–	**55 900**
Total		52 200	110 600	–	(14 400)	–	–	**148 400**
S van Coller								
28/12/2016	28/12/2019	–	100 800	–	–	–	–	**100 800**
Total		–	100 800	–	–	–	–	**100 800**
G Engling								
28/12/2012	28/12/2015	10 500	–	–	(10 500)	–	–	**–**
20/12/2013	19/12/2016	10 700	–	–	–	–	–	**10 700**
19/12/2014	18/12/2017	2 000	–	–	–	–	–	**2 000**
19/12/2014	18/12/2017	8 000	–	–	–	–	–	**8 000**
29/06/2016	29/12/2018	–	28 800	–	–	–	–	**28 800**
28/12/2016	28/12/2019	–	21 400	–	–	–	–	**21 400**
Total		31 200	50 200	–	(10 500)	–	–	**70 900**
I Jaroudi								
28/12/2012	28/12/2015	15 600	–	–	(15 600)	–	–	**–**
20/12/2013	19/12/2016	19 600	–	–	–	–	–	**19 600**
19/12/2014	18/12/2017	24 600	–	–	–	–	–	**24 600**
29/06/2016	29/12/2018	–	60 000	–	–	–	–	**60 000**
28/12/2016	28/12/2019	–	89 000	–	–	–	–	**89 000**
Total		59 800	149 000	–	(15 600)	–	–	**193 200**

Company statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 Rm	2015 Rm
Dividend income	1	**20 200**	23 700
Management fees received	1	**163**	96
Finance income	2	**531**	140
Finance costs	2	**–**	(285)
Other income		**–**	7
Operating expenses	3	**(394)**	(159)
Profit before tax		**20 500**	23 499
Income tax expense	4	**(1)**	(12)
Profit and total comprehensive income for the year		**20 499**	23 487

Company statement of financial position

at 31 December 2016

	Note	2016 Rm	2015 Rm
ASSETS			
Non-current assets		**23 325**	19 410
Investment in subsidiaries	5	**23 325**	19 410
Current assets		**1 609**	445
Trade and other receivables	6	**242**	304
Cash and cash equivalents	7	**1 367**	141
Total assets		**24 934**	19 855
SHAREHOLDERS' EQUITY			
Ordinary share capital and share premium	8	**37 040**	40 502
Accumulated loss		**(23 058)**	(23 633)
Other reserves		**6 698**	1 662
Total equity		**20 680**	18 531
LIABILITIES			
Current liabilities		**4 254**	1 324
Taxation liability	11	**5**	52
Trade and other payables	9	**750**	167
Financial guarantee contracts	13	**3 499**	1 105
Total liabilities		**4 254**	1 324
Total equity and liabilities		**24 934**	19 855

Company statement of changes in equity
for the year ended 31 December 2016

	Share capital Rm	Share premium Rm	Accumulated losses Rm	Other reserves[1] Rm	Total Rm
Balance at 1 January 2015	*	40 502	(23 482)	1 662	18 682
Profit and total comprehensive income	–	–	23 487	–	23 487
Transactions with shareholders					
Shares cancelled	(*)	–	–	–	(*)
Share buy-back	(*)	–	–	–	(*)
Dividends declared#	–	–	(23 638)	–	(23 638)
Balance at 31 December 2015	*	40 502	(23 633)	1 662	18 531
Balance at 1 January 2016	*****	**40 502**	**(23 633)**	**1 662**	**18 531**
Profit and total comprehensive income	**–**	**–**	**20 499**	**–**	**20 499**
Transactions with shareholders					
Shares cancelled	**(*)**	**–**	**–**	**–**	**(*)**
Share buy-back from MTN Zakhele (note 8)	**(*)**	**(3 462)**	**–**	**–**	**(3 462)**
Share based-payment transaction – MTN Zakhele Futhi transaction (note 8)	**–**	**–**	**–**	**5 034**	**5 034**
Dividends declared#	**–**	**–**	**(19 928)**	**–**	**(19 928)**
Other movements	**–**	**–**	**4**	**2**	**6**
Balance at 31 December 2016	*****	**37 040**	**(23 058)**	**6 698**	**20 680**
Note	8	8			

[1] *Share-based payment reserve.*
* *Amounts less than R1 million.*
\# *Refer to note 8.3 of the Group financial statements for the dividends per share declared during the current and prior year.*

Company statement of cash flows
for the year ended 31 December 2016

	Note	2016 Rm	2015 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(utilised in) operations	10	**399**	(319)
Finance income received		**16**	28
Income tax paid	11	**(49)**	(8)
Dividends paid		**(19 904)**	(23 627)
Dividends received		**20 200**	23 700
Net cash generated from/(utilised in) operating activities		**662**	(226)
CASH FLOWS FROM FINANCING ACTIVITIES			
Buy-back of shares from MTN Zakhele		**(2 645)**	–
Premium received on option issued to MTN Zakhele Futhi		**3 209**	–
Net cash generated from financing activities		**564**	–
Net increase/(decrease) in cash and cash equivalents		**1 226**	(226)
Cash and cash equivalents at beginning of the year		**141**	367
Cash and cash equivalents at end of the year	7	**1 367**	141

Notes to the Company financial statements
for the year ended 31 December 2016

1 REVENUE

Revenue comprises dividend income and management fees received. Dividend income is recognised when the right to receive payment is established. Management fees received are recognised as and when the services are rendered.

	2016 Rm	2015 Rm
Dividend income	**20 200**	23 700
Management fees received	**163**	96
	20 363	23 796

2 FINANCE INCOME AND FINANCE COSTS

Finance income
Finance income mainly comprises amortisation of the financial guarantee contracts and the related net foreign exchange gains.

Finance costs
Finance costs comprise interest expense and net foreign exchange losses related to the financial guarantee contracts.

	2016 Rm	2015 Rm
Interest income	**319**	140
Net foreign exchange gains	**212**	–
Finance income	**531**	140
Net foreign exchange losses	**–**	(273)
Interest paid – other	**–**	(12)
Finance costs	**–**	(285)

3 OPERATING EXPENSES

The following disclosable items have been included in arriving at profit before tax:

	2016 Rm	2015 Rm
Directors' emoluments	**(24)**	(22)
Fees paid for services	**(323)**	(106)
– Professional fees	**(175)**	(19)
– Management fees paid (note 12)	**(148)**	(87)
Auditors' remuneration	**(9)**	(8)
– Audit fees	**(9)**	(8)

4 INCOME TAX EXPENSE

Refer to note 3.1 of the Group financial statements for the applicable accounting policy.

	2016 Rm	2015 Rm
Normal tax – current year	**(1)**	(10)
Deferred tax – current year	**–**	(2)
	(1)	(12)

South African normal taxation is calculated at 28% (2015: 28%) of the estimated taxable income for the year.

	2016 %	2015 %
Tax rate reconciliation		
The charge for the year can be reconciled to the effective rate of taxation in South Africa as follows:		
Tax at statutory tax rate	**28**	28
Income not subject to tax	**(28,8)**	(28,2)
Expenses not allowed	**0,8**	0,3
Effective tax rate	*****	0,1

** Percentage less than 0,1%.*

5 INVESTMENT IN SUBSIDIARIES

The Company accounts for investment in subsidiaries at cost, less accumulated impairment losses. Interest-free loans owing to the Company by its subsidiaries, with no repayment terms are included in the cost of the investment.

Refer to note 1.3.1 of the Group financial statements for the applicable accounting policy regarding interests in subsidiaries.

The Group structure and Company's subsidiaries are disclosed in note 9.1 of the Group financial statements.

	2016 Rm	2015 Rm
Total interest in Mobile Telephone Networks Holdings Limited[1]	**22 260**	19 353
Total interest in MTN Group Management Services Proprietary Limited	**57**	57
Total interest in Mobile Telephone Networks Proprietary Limited[2]	**1 008**	–
Total interest in subsidiary companies	**23 325**	19 410

[1] During the year, the Company provided guarantees to Mobile Telephone Networks Holdings Limited for no compensation and the fair values thereof have been recognised as part of the cost of the investment.
[2] The investment in Mobile Telephone Networks Proprietary Limited arose from the share-based payment transaction undertaken by the Group with MTN Zakhele Futhi.

6 TRADE AND OTHER RECEIVABLES

Refer to note 4.2 of the Group financial statements for the applicable accounting policy.

	2016 Rm	2015 Rm
Trade receivables due from related parties	**223**	292
Prepayments and other receivables	**4**	3
Sundry debtors and advances	**15**	9
	242	304

7 CASH AND CASH EQUIVALENTS

Refer to note 4.4 of the Group financial statements for the applicable accounting policy.

	2016 Rm	2015 Rm
Cash at bank	**1 367**	141

8 ORDINARY SHARE CAPITAL AND SHARE PREMIUM

Refer to note 8.1 of the Group financial statements for the applicable accounting policy.

	2016 Number of shares	2015 Number of shares
Ordinary share capital (par value of 0,01 cents)		
Authorised	**2 500 000 000**	2 500 000 000
Issued *(fully paid up)*	**1 884 269 758**	1 845 493 245
In issue at beginning of the year	**1 845 493 245**	1 848 355 889
MTN Zakhele shares cancelled and delisted[5]	**(38 058 865)**	(2 862 644)
Shares issued to MTN Zakhele Futhi	**76 835 378**	–
In issue at end of the year	**1 884 269 758**	1 845 493 245
Options held by MTN Zakhele[1]	**–**	(11 131 098)
Treasury shares[2,3]	**–**	(1 444 172)
Options held by MTN Zakhele Futhi[4]	**(76 835 378)**	–
In issue at end of the year – excluding MTN Zakhele/ MTN Zakhele Futhi transaction[2]	**1 807 434 380**	1 832 917 975

[1] Due to the call option over the notional vendor finance shares, these shares, although legally issued to MTN Zakhele, are not deemed to be issued in terms of IFRS and are shown as such in the share capital reconciliation. During the year, the MTN Zakhele transaction was unwound.
[2] Treasury shares held by the Company which were delivered to the Company by MTN Zakhele and not delisted as at year end.
[3] Additional treasury shares held by MTN Holdings Limited, a subsidiary of the Group, are excluded from this reconciliation. Refer to note 8.1 of the Group financial statements.
[4] These shares, although legally issued to MTN Zakhele Futhi, are not deemed to be issued in terms of IFRS and are shown as such in the share capital reconciliation.
[5] Included in the shares cancelled are 1 444 172 shares acquired in 2015 and delisted in the current year.

8 ORDINARY SHARE CAPITAL AND SHARE PREMIUM (continued)

	2016 Rm	2015 Rm
Share capital		
Balance at beginning of the year	*	*
Options exercised	–	–
Shares cancelled	(*)	(*)
Share buy-back	(*)	(*)
Balance at end of the year	*	*
Share premium		
Balance at beginning of the year	40 502	40 502
Options exercised	–	–
Share buy-back	(3 462)	–
Balance at end of the year	37 040	40 502

**Amounts less than R1 million.*

Share-based payment transaction

The Group unwound its broad-based black economic empowerment (BBBEE) transaction "MTN Zakhele" during November 2016. As a consequence of the unwind of MTN Zakhele, the Group concluded a new BBBEE transaction. The new BBBEE transaction was structured through a separate legal entity, MTN Zakhele Futhi (RF) Limited (hereafter referred to as MTN Zakhele Futhi). The transaction is designed to provide long-term, sustainable benefits to all BBBEE participants and will run for a period of eight years.

MTN Zakhele Futhi acquired 76 835 378 of the Company's shares at a price of R128,50 per share. The acquisition of 35 747 139 shares (and transaction costs of R36 million incurred by MTN Zakhele Futhi) was funded using equity raised from the allotment of MTN Zakhele Futhi shares totalling R1 651 million (including R557 million obtained from the Group for the purchase of MTN Zakhele Futhi shares in terms of its underwrite option), re-investment of R817 million from the existing MTN Zakhele shareholders and third-party preference share funding of R2 161 million. The acquisition of 15 367 075 shares was funded through a donation of R1 975 million received from the Group. The Company also issued 25 721 164 notional vendor finance shares (NVF shares) at par value to MTN Zakhele Futhi amounting to approximately R3 305 million.

The BBBEE transaction with MTN Zakhele Futhi has the substance of an option for accounting purposes. MTN Zakhele Futhi must repay the preference shares and NVF before the Company's shares held by it become unencumbered, while the Company's shares are the only security offered by MTN Zakhele Futhi for the debt funding obtained. Until the Company's shares held by MTN Zakhele Futhi become unencumbered, the ordinary shareholders of MTN Zakhele Futhi are exposed to the gains on the Company's shares, while their exposure to downside risk or risk of loss is limited to their equity contributions (ie the purchase price paid by them for the MTN Zakhele Futhi shares). Consequently, the Company does not recognise its shares issued to MTN Zakhele Futhi and does not recognise the NVF as outstanding. Equity contributions from external parties comprising cash received from new investors (including amounts funded from the preference shares) and the re-investment by existing MTN Zakhele shareholders, are in substance a premium paid for the option to acquire the Company's shares in future. The resultant premium recognised by the Company in the share-based payment reserve is R4 036 million. Securities transfer tax of R10 million was paid by MTN on the acquisition of shares from MTN Zakhele, which was recognised in the share-based payment reserve.

The transaction with MTN Zakhele Futhi's shareholders is an equity-settled share-based payment transaction among Group entities in terms of which the Company will issue shares in future to MTN Zakhele Futhi's shareholders in exchange for BBBEE benefits received by the MTN RSA Group (note 5).

9 TRADE AND OTHER PAYABLES

Refer to note 4.5 of the Group financial statements for the applicable accounting policy.

	2016 Rm	2015 Rm
Payables due to related parties	**560**	22
Accrued expenses and other payables	**190**	145
	750	167

10 CASH GENERATED FROM OPERATIONS

	2016 Rm	2015 Rm
Profit before tax	**20 500**	23 499
Adjusted for:		
Dividend income (note 1)	**(20 200)**	(23 700)
Finance income (note 2)	**(531)**	(140)
Finance costs (note 2)	**–**	285
Other	**–**	(1)
	(231)	(57)
Changes in working capital	**630**	(262)
Decrease/(increase) in trade and other receivables	**70**	(281)
Increase in trade and other payables	**560**	19
	399	(319)

11 INCOME TAX PAID

	2016 Rm	2015 Rm
Balance at beginning of the year	**(52)**	(50)
Amounts recognised in profit or loss (note 4)	**(1)**	(12)
Deferred tax	**–**	2
Other	**(1)**	–
Balance at end of the year	**5**	52
Total tax paid	**(49)**	(8)

12 RELATED PARTY TRANSACTIONS

Refer to note 10.1 of the Group financial statements for the applicable accounting policy.

Various transactions were entered into by the Company during the period with related parties.

The following is a summary of significant transactions with subsidiaries during the period and significant balances at the reporting date:

	2016 Rm	2015 Rm
Dividends paid		
– Mobile Telephone Networks Holdings Limited	**(112)**	(132)
Dividends received		
– Mobile Telephone Networks Holdings Limited	**20 200**	23 700
Management fees paid		
– MTN Group Management Services Proprietary Limited	**(148)**	(87)
Management fees received		
– MTN International Proprietary Limited	**163**	96
Professional fees paid		
– MTN Group Management Services Proprietary Limited	**(2)**	(3)
Receivables		
– Mobile Telephone Networks Holdings Limited	**111**	216
– MTN Group Management Services Proprietary Limited	**6**	12
– Mobile Telephone Networks Proprietary Limited	**3**	10
– MTN (Dubai) Limited[1]	**33**	33
– MTN International Proprietary Limited	**55**	21
– MTN Zakhele Futhi (RF) Limited[2]	**13**	–
– MTN (Mauritius) Investment Limited[3]	**2**	–
Payables		
– MTN Group Management Services Proprietary Limited	**(14)**	(17)
– MTN (Dubai) Limited[1]	**(8)**	(5)
– Mobile Telephone Networks Holdings Limited	**(538)**	–

[1] *The balances result from transactions whereby MTN Dubai Limited and the Company extinguished liabilities on behalf of each other.*
[2] *The balance arose from the Zakhele Futhi transaction (note 8).*
[3] *The balance results from transactions whereby the Company extinguished liabilities on behalf of MTN (Mauritius) Investment Limited.*

Financial guarantee contracts

Details of financial guarantee contracts are disclosed in note 13 of the Company financial statements.

Directors

Details of directors' remuneration are disclosed in note 3 of the Company financial statements and note 10.2 of the Group financial statements.

Shareholders

The principal shareholders of the Company are disclosed in Annexure 1 which is unaudited.

13 FINANCIAL GUARANTEE CONTRACTS

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Company are initially measured at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18.

Where guarantees in relation to loans to related parties are provided for no compensation, the fair values are accounted for as capital contributions and recognised as part of the cost of the investment.

The Company along with other subsidiaries has guaranteed the bonds, revolving credit facilities and general banking facilities of Mobile Telephone Networks Holdings Limited under the terms of the guarantee. The Company will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due.

	Face value		Drawn down balance[2]	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Bond guarantees				
Bonds[1] and commercial paper	**20 000**	10 000	**3 259**	1 309
Syndicated and other loan facilities				
ZAR long-term loan	**23 800**	12 500	**18 615**	11 875
US$ long-term loan	**27 445**	15 469	**11 676**	10 364
General banking facilities				
ZAR facilities	**3 000**	1 750	**778**	850
	74 245	39 719	**34 328**	24 398

[1] *These bonds are listed on the Bond Exchange of South Africa.*
[2] *Includes interest accrued.*

In addition, the Company has provided unrestricted suretyship with regard to the cash management facility of Mobile Telephone Networks Holdings Limited and suretyship to the amount of R5 850 million (2015: R5 850 million) with regard to the banking facilities of Mobile Telephone Networks Proprietary Limited, MTN International (Mauritius) Limited, MTN International Proprietary Limited, Mobile Telephone Networks Holdings Proprietary Limited and MTN Service Provider Proprietary Limited.

The Company together with other subsidiaries in the MTN Group guaranteed senior unsecured notes issued by MTN (Mauritius) Investment Limited on the Irish Stock Exchange amounting to US$1 750 million (2015: US$750 million). A financial liability was recognised at the fair value of the guarantees issued. A fee was not charged by the Company providing the guarantee and therefore the benefit provided by the Company to its subsidiaries was recognised as a capital contribution.

The Company, together with other subsidiaries in the Group, guaranteed US$ syndicated loan facilities with Citibank amounting to US$1 billion (2015: US$1 billion) during the year. An amount of US$450 million (2015: US$670 million in three tranches) was drawn down by MTN International (Mauritius) Limited during the year. A financial liability was initially recognised at the fair value of the guarantee issued. A fee was not charged by the Company providing the guarantee and therefore the benefit provided by the Company to its subsidiaries was recognised as a capital contribution.

The Company's financial liability relating to financial guarantee contracts amounts to R3 499 million (2015: R1 105 million) as at 31 December 2016 and R296 million (2015: R84 million) was amortised to profit or loss for the year.

14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Refer to note 7.1 of the Group financial statements for the applicable accounting policy.

14.1 Categories of financial instruments

	Loans and receivables Rm	Amortised cost Rm	Total carrying amount Rm	Fair value Rm
2016				
Trade and other receivables	**238**	**–**	**238**	**#**
Cash and cash equivalents	**1 367**	**–**	**1 367**	**#**
	1 605	**–**	**1 605**	**#**
Trade and other payables	**–**	**750**	**750**	**#**
Financial guarantee contracts	**–**	**3 499**	**3 499**	**3 194**
	–	**4 249**	**4 249**	**3 194**
2015				
Trade and other receivables	301	–	301	#
Cash and cash equivalents	141	–	141	#
	442	–	442	#
Trade and other payables	–	167	167	#
Financial guarantee contracts	–	1 105	1 105	1 660
	–	1 272	1 272	1 660

 # The carrying amount of the financial instrument approximates its fair value.

14.1.1 Fair value estimation

Refer to note 7.1.3 of the Group financial statements for the applicable accounting policy.

The following table presents the fair value measurement hierarchy of the Company's liabilities that are materially different from the carrying amount:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2016				
Current financial liabilities				
Financial guarantee contracts	**–**	**–**	**3 194**	**3 194**
2015				
Current financial liabilities				
Financial guarantee contracts	–	–	1 660	1 660

14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

14.1 Categories of financial instruments (continued)

14.1.1 Fair value estimation (continued)

Valuation methods and assumptions

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

Citibank 1

The fair value of the financial guarantee contracts are determined using the discounted cash flow method. The valuation requires management to make certain assumptions about the model inputs, which include the probability of default.

Citibank 2

The fair value of the financial guarantee contracts are determined using the fixed exposure method. The valuation requires management to make certain assumptions about the model inputs, which include the probability of default, the maximum recovery and interest rate curve.

Eurobonds

The fair value of the financial guarantee contracts are determined using the relative valuation method. The valuation requires management to make certain assumptions about the model inputs, which include the probability of default, the maximum recovery and interest rate curve.

14.2 Credit risk

Refer to note 7.1 of the Group financial statements for an explanation on credit risk and how it is managed.

The Company considers its maximum exposure per class, without taking into account any collateral and financial guarantees, to be as follows:

	2016 Rm	2015 Rm
Cash and cash equivalents	**1 367**	141
Trade and other receivables	**238**	301
Financial guarantee contracts	**34 328**	24 398
	35 933	24 840

Credit risk is mitigated to the extent that the majority of trade receivables consist of related party receivables of R223 million (2015: R292 million).

The Company holds its cash balances in financial institutions with a rating of AA-. Given this rating, management does not expect the counterparty to fail to meet its obligations.

14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

14.2 **Credit risk** (continued)

Trade and other receivables

Ageing and impairment analysis

	2016 Rm Gross	2016 Rm Impaired	2016 Rm Net	2015 Rm Gross	2015 Rm Impaired	2015 Rm Net
Fully performing other receivables	**65**	**–**	**65**	301	–	301
Sundry debtors	**–**	**–**	**–**	9	–	9
Other receivables	**65**	**–**	**65**	292	–	292
Past due other receivables	**173**	**–**	**173**	–	–	–
Sundry debtors	**15**	**–**	**15**	–	–	–
0 to 3 months	**8**	**–**	**8**	–	–	–
3 to 6 months	**–**	**–**	**–**	–	–	–
6 to 9 months	**–**	**–**	**–**	–	–	–
9 to 12 months	**7**	**–**	**7**	–	–	–
Other receivables	**158**	**–**	**158**			
0 to 3 months	**1**	**–**	**1**	–	–	–
3 to 6 months	**13**	**–**	**13**	–	–	–
6 to 9 months	**40**	**–**	**40**	–	–	–
9 to 12 months	**104**	**–**	**104**	–	–	–
	238	**–**	**238**	301	–	301

14.3 **Liquidity risk**

Refer to note 7.1 of the Group financial statements for an explanation on liquidity risk and how it is managed.

The following liquid resources are available:

	2016 Rm	2015 Rm
Cash and cash equivalents	**1 367**	141
Trade and other receivables	**238**	301
	1 605	442

The Company and other subsidiaries in the Group have undrawn borrowing facilities of R16 100 million (2015: R6 755 million) available for use.

14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

14.3 Liquidity risk (continued)

The following are the contractual maturities of financial liabilities:

	Carrying amount Rm	Total Rm	Payable within 1 month or on demand Rm	More than 1 month but not exceeding 3 months Rm	More than 3 months but not exceeding 1 year Rm
2016					
Trade and other payables	**750**	**750**	**750**	**–**	**–**
Financial guarantee contracts	**34 328**	**34 328**	**34 328**	**–**	**–**
	35 078	**35 078**	**35 078**	**–**	**–**
2015					
Trade and other payables	167	167	167	–	–
Financial guarantee contracts	24 398	24 398	24 398	–	–
	24 565	24 565	24 565	–	–

Further details of financial guarantee contracts are provided in note 13.

14.4 Market risk

14.4.1 Interest rate risk

Refer to note 7.1 of the Group financial statements for an explanation on interest rate risk and how it is managed.

At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments was:

	Variable rate instruments Rm
2016	
Financial assets	
Cash and cash equivalents	**1 367**
Trade and other receivables	**223**
	1 590
Financial liabilities	
Trade and other payables	**560**
2015	
Financial assets	
Cash and cash equivalents	141
Trade and other receivables	292
	433
Financial liabilities	
Trade and other payables	22

14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

14.4 Market risk (continued)

14.4.1 Interest rate risk (continued)

Sensitivity analysis

The Company 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 Company is mainly exposed to fluctuations in the following market interest rates: JIBAR and prime rates. Changes in market interest rates affect the interest income or expense of floating rate financial instruments. Changes in market interest rates only affect profit or loss in relation to financial instruments with fixed interest rates if these financial instruments are subsequently measured at their fair value.

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 exchange rates, remain constant. The analysis is performed on the same basis as was used for 2015.

	2016 Increase/(decrease) in profit before tax			2015 Increase/(decrease) 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 – JIBOR	**1**	**(3,6)**	**3,6**	1	2,7	(2,7)
Prime	**1**	**13,6**	**(13,6)**	1	1,4	(1,4)

14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

14.4 Market risk (continued)

14.4.2 Currency risk

Refer to note 7.1 of the Group financial statements for an explanation on currency risk and how it is managed.

Included in the Company statement of financial position are the following amounts denominated in currencies other than the functional currency of the Company.

	2016 Rm	2015 Rm
Current assets		
United States dollar	**33**	33
Current liabilities		
United States dollar	**3 507**	1 111

Sensitivity analysis

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

Denominated:functional currency	**Change in exchange rate %**	**Weakening in functional currency Rm**	**Strengthening in functional currency Rm**
2016			
US$:ZAR	**10**	**(347)**	**347**
2015			
US$:ZAR	10	(108)	108

Financial definitions

The following financial terms are used in the annual financial statements with the meanings specified:

Asset exchange transactions	Transactions where one or more items of property, plant and equipment are acquired in exchange for non-monetary assets, or a combination of monetary and non-monetary assets.
Associates	All entities over which the Group has significant influence, but not control, over the financial and operational policies.
Available-for-sale	Non-derivative financial assets either designated as available-for-sale or not classified in any of the three categories of financial instruments.
Cash-generating unit	The smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets.
Carrying amount	Is the amount at which the asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.
Commercial substance	A transaction has commercial substance if the difference in either of the points below is significant relative to the fair value of the assets exchanged: • the configuration of the cash flows of the asset received differs from the configuration of the cash flows of the asset given up; or • the entity-specific value of the part of the operations affected by the transaction changes as a result of the exchange.
Contingent liabilities	Represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group. Contingent liabilities also represent present obligations that arise from past events but are not recognised because an outflow of resources is not probable or a reliable estimate cannot be made.
Control	When the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when it has existing rights that gives it the current ability to direct the relevant activities that significantly affect the entity's returns.
Defined contribution plan	A post-employment benefit plan (such as a pension plan) under which the Group pays a fixed percentage of employees' remuneration as contributions into a separate entity (a fund), and will have no further legal or constructive obligations to pay additional contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Financial assets at fair value through profit or loss	A financial asset that is held for trading (acquired principally for the purpose of selling the item in the short term) or designated upon initial recognition as at fair value through profit or loss.
Finance leases	Leases over property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.
Functional currency	The currency that best reflects the primary economic environment in which the entity operates.
Gain or loss on disposal of an asset	The difference between the proceeds from the disposal and the carrying amount of the asset.
Goodwill	The excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.
Held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than those that the Group upon initial recognition designates as at fair value through profit or loss and those that are loans and receivables.

Interconnect revenue	Revenue derived from other operators for local and international incoming voice minutes, short messaging service (SMS) and multimedia service (MMS).
Joint arrangement	A contractual arrangement whereby the Company and other parties undertake an economic activity which is subject to joint control.
Joint operation	Joint arrangements whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.
Joint ventures	Joint arrangements whereby the parties that have joint control of the arrangement by unanimous consent have rights to the net asset of the arrangement.
Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
Measurement period adjustments	Adjustments that arise from additional information obtained during the "measurement period" about facts and circumstances that existed at the acquisition date. The measurement period constitutes the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. This period shall not exceed one year from the acquisition date.
Multiple element arrangements	Postpaid and prepaid products with multiple deliverables.
Non-controlling interests	The amount of those interests at the date of the business combination and the non-controlling interests' share of changes in equity since the acquisition date.
Postpaid product	The sale of a handset and a service contract.
Prepaid product	The sale of a subscriber identification module (SIM) card and airtime.
Presentation currency	The currency in which the financial statements are presented.
Qualifying asset	An asset which takes more than 12 months to acquire, construct or produce.
Recoverable amount	The greater of an asset's value in use and its fair value less costs to sell.
Relative fair value method	The allocation of the consideration received /receivable in a transaction to each element of a multiple element (or bundled) arrangement according to their standalone selling prices.
Revenue	The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.
Roaming revenue	Revenue generated from subscribers making calls when using other networks, including MTN networks outside the country of operation.
Significant influence	The power to participate in the financial and operating policy decisions of an entity. It is presumed to exist when the Group holds between 20% and 50% of the voting power of an entity.
Structured entities (SEs)	Entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.
Subsidiaries	Subsidiaries are all entities (including structured entities) over which the group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.
Termination benefits	Benefits that may be payable when an employee's employment is terminated before the normal retirement date due to death or retrenchment or whenever an employee accepts voluntary redundancy in exchange for these benefits.
Value in use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Annexure 1 – Shareholders' information

SHAREHOLDER SPREAD

	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	118 143	88,19	26 182 762	1,39
1 001 – 10 000 shares	13 491	10,07	35 327 048	1,87
10 001 – 100 000 shares	1 569	1,17	49 566 222	2,63
100 001 – 1 000 000 shares	593	0,44	181 646 999	9,64
1 000 001 shares and over	167	0,13	1 591 546 727	84,47
Total	133 963	100,00	1 884 269 758	100,00

NOMINEES HOLDING SHARES IN EXCESS OF 5% OF THE ISSUED ORDINARY CAPITAL OF THE COMPANY

	2016		2015	
	Number of shares	**% of issued share capital**	Number of shares	% of issued share capital
Standard Bank Nominees (Tvl) Proprietary Limited	**772 384 542**	**40,99**	854 791 337	46,32
Nedcor Bank Nominees Limited	**136 004 278**	**7,22**	–	–
First National Nominees Proprietary Limited	**323 267 810**	**17,16**	290 119 326	15,72
Goudstad Nominees	**95 369 655**	**5,06**	94 499 797	5,12

SPREAD OF ORDINARY SHAREHOLDERS

	2016			2015	
	Number of shareholdings	**Number of shares**	**% of issued share capital**	Number of shares	% of issued share capital
Public	**133 934**	**1 330 035 300**	**70,59**	1 279 560 178	69,33
Non-public	**29**	**554 234 458**	**29,41**	565 933 067	30,67
Directors and associates of the Company holdings	**6**	**325 087**	**0,02**	1 917 800	0,10
MTN Zakhele Futhi (RF) Limited	**1**	**76 835 378**	**4,08**	76 807 310	4,16
Lombard Odier Darier Hentsch & Cie (M1 Limited)	**7**	**185 657 322**	**9,85**	183 152 564	9,92
Government Employees Pension Fund	**14**	**281 210 416**	**14,92**	293 655 332	15,91
Mobile Telephone Networks Holdings	**1**	**10 206 255**	**0,54**	10 400 061	0,58
Total	**133 963**	**1 884 269 758**	**100,00**	1 845 493 245	100,00

BENEFICIAL SHAREHOLDERS HOLDING 5% OR MORE

	2016		2015	
	Number of shares	**% of issued share capital**	Number of shares	% of issued share capital
Government Employees Pension Fund	**281 210 416**	**14,92**	293 655 332	15,91
Lombard Odier Darier Hentsch & Cie (M1 Limited)	**185 657 322**	**9,85**	183 152 564	9,92
Coronation Fund Managers	**–**	**–**	95 051 237	5,15

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