Foreign currency translation reserves (FCTR) recycled to profit or loss

Briefing for sell-side analysts
13 August 2020

Hosted by Ralph Mupita, Group CFO

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Agenda

Time	Presentation	Key speakers
14:00pm -14:05pm	Welcome and introduction	Thato Motlanthe
14:05pm -14:10pm	Context setting	Ralph Mupita
14:10pm -14:40pm	**Presentation** FCTR general principles FCTR creation examples FCTR release example Non-core investments impacted in H1 2020 and looking forward	Ben Samwell
14:40pm	Q&A	Thato Motlanthe

Presenters

Ralph Mupita
MTN Group CFO

BSc Engineering Hons (University of Cape Town), MBA (University of Cape Town), GMP (Harvard Business School)

Ralph is the Chief Financial Officer and an executive director of MTN Group. He is also a member of the Board of Directors for MTN Nigeria, MTN Ghana and MTN Irancell. Prior to joining MTN Group, he held leadership roles at Old Mutual over 17 years, ending up as Chief Executive of the the emerging markets business operating across 19 countries across Africa, Latin America and Asia

Thato Motlanthe
Executive
Group Investor Relations

BCom Finance Hons, BBusSc Finance & Economics Hons (University of Cape Town)

Thato is Executive: Group Investor Relations; he also sits as a non-executive director on the boards of MTN Benin and MTN Guinea-Conakry. Prior to joining MTN, Thato worked at Absa Asset Management, where he held the role Portfolio Manager, co-managing the flagship funds within the Equities franchise. Before that, he has held senior positions at STANLIB Asset Management, Citigroup Global Markets and UBS Investment Banks covering a number of sectors and industries

Ben Samwell
Acting Executive
Group Finance Operations

BCom Accounting Hons, MCom Enterprise Management (University of Johannesburg), CA (SA)

Ben is the acting executive:
Group Finance Operations; he is also a non-executive director of MTN GlobalConnect Solutions and serves as a trustee of the MTN Retirement Fund. Ben has extensive experience in leading finance teams, accounting for significant and complex corporate transactions and the application of International Financial Reporting Standards in emerging markets. He is a member of SAICA's Accounting Practices Committee as well as the JSE's Financial Reporting Investigation Panel.
Prior to joining MTN in 2011, Ben was the head of external financial reporting at Standard Bank Group.

Foreign currency translation reserve (FCTR)

*General principles in terms of IAS 21**

What is FCTR and what does it represent

- Accumulated foreign exchange gains or losses arising from translating foreign operations financial statements into the group's presentation currency
- The value of the depreciation (or appreciation) of the net assets and goodwill of the foreign entity over time when converting to the presentation currency of its parent on consolidation

How does FCTR arise

- Exchange differences arise from:
  - Translating assets (including goodwill) and liabilities at the closing rate
  - Recognising income and expenses at the exchange rates at the transaction dates (average exchange rates)
  - Recognising the previous period's net assets at a new closing rate
- The resulting difference is recognised in other comprehensive income (OCI) and presented in equity as a FCTR

Net investment loans

- Intercompany loan balances for which repayment is neither planned nor likely to occur in the foreseeable future are considered to be part of the net investment in the entity and treated as equity
- Forex gains or losses on these loans are not included in the group's profit or loss but recognised as FCTR in other comprehensive income

** IAS 21: The Effects of Changes in Foreign Exchange Rates*

Foreign currency translation reserve (FCTR)

General principles in terms of IAS 21 (continued)

When is FCTR released

- **Loss of control of Opco – release the full FCTR to the income statement** as part of the gain or loss of the subsidiary, **no overall impact on equity** as the FCTR is released to retained income through the income statement
- **Partial disposal of Opco but retain control** – allocate **proportional reserves to non-controlling interest** – transfer within equity
- **If equity-accounted** – any **reduction in shareholding** percentage triggers a partial **release to the income statement**

Does the release of FCTR have a headline earnings impact? No
Does the release of FCTR have a cash flow impact? No

Release approaches

Two accepted methods exist for recycling FCTR where the investments are held by an intermediate parent with a different functional currency than the ultimate parent. These methods that are referred to as part of the basis for conclusions (BC 35 – BC 39) in IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* are as follows:

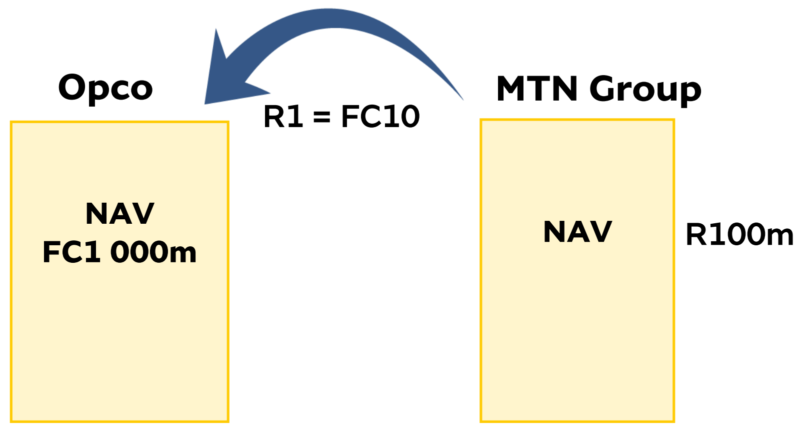
- **Step-by-step method** – FCTR is recycled based on the appreciation or devaluation in the functional currency of the investment disposed of against the functional currency of the **intermediate parent** and then translated into the functional currency of the ultimate parent.
- **Direct method** – FCTR is recycled based on the appreciation or devaluation in the functional currency of the investment disposed against the functional currency of the **ultimate reporting entity**.

Review of the most appropriate approach

In the first quarter of 2019, the group announced that it will be optimising its portfolio through an asset realisation programme aimed at simplifying the group, reducing risk and improving shareholder returns and in March 2020 the group announced that this programme has been further expanded.
The strategic intent to dispose of certain investments in subsidiaries, joint ventures and associates over the medium term has resulted in a review of the most appropriate approach in releasing FCTR on these disposals.

FCTR creation example

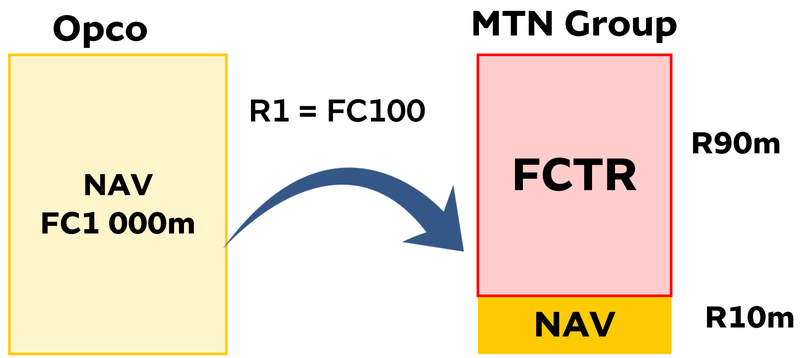
2010: Purchase a foreign Opco at R100m



Initial investment

- MTN invests R100m in 2010 in an entity when the exchange rate is R1 = FC10
- The foreign currency net asset value, including goodwill, of the entity is FC1 000m

2020: Foreign currency NAV unchanged, currency devalued

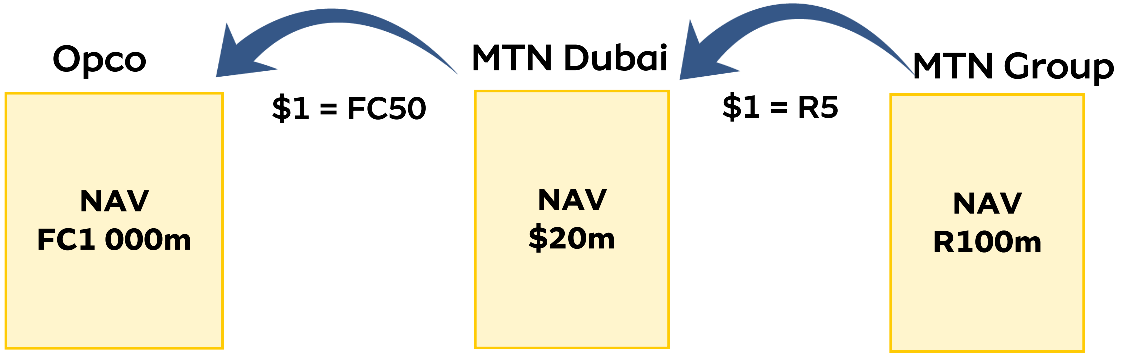


Subsequent devaluation in the foreign currency

- In 2020, 10 years later, the Opco NAV is assumed to have remained the same in foreign currency
- The foreign currency has however devalued significantly to R1 = FC100
- The net assets are translated at the closing rate in 2020
- The value of FC1 000m now only translates to R10m
- The resulting devaluation in the net assets in ZAR terms of R90m on consolidation in the group results is recognised in the statement of comprehensive income over time and is accumulated as a negative FCTR (debit) in equity on the statement of financial position

FCTR creation example with intermediary entity

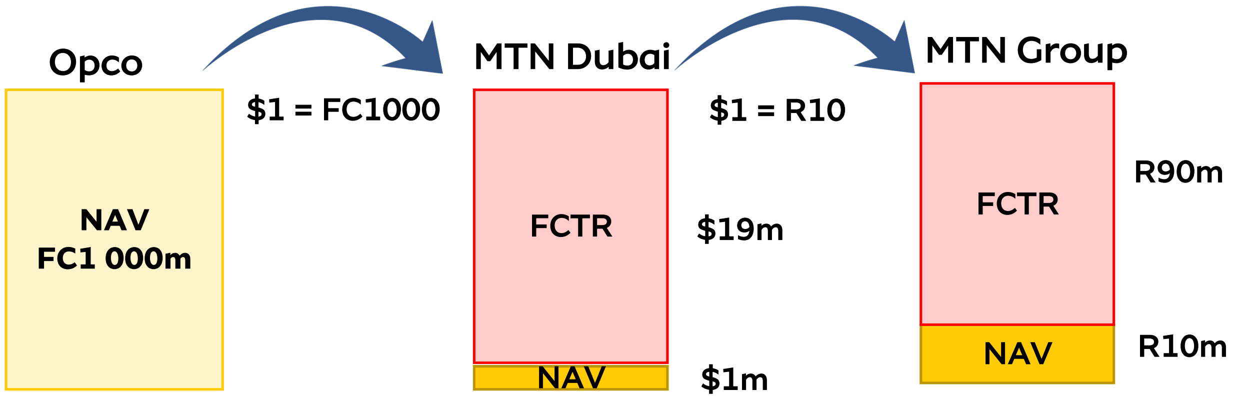
2010: Purchase a foreign Opco at R100m



Initial investment through an intermediate company with a different functional currency

- MTN invests R100m in a dollar functional currency entity (MTN Dubai) in 2010 at an exchange rate of $1 = R5
- At the same time MTN Dubai invests the $20m in the net assets of a foreign entity amounting to FC1 000m at an exchange rate of 1$ = FC50

2020: Foreign currency NAV unchanged, currency devalued



Subsequent devaluation in the foreign currency

- 10 years later, the Opco NAV is assumed to have remained the same
- The foreign currency has devalued significantly to $1 = FC1000
- The net assets are translated at the closing rate in 2020
- The value of FC1 000m now only translates to $1m net assets, with $19m FCTR loss in MTN Dubai
- The $1m now translates to R10m in MTN Group, with R90m FCTR loss

The FCTR is different in the intermediate parent compared to the ultimate parent due to the combined impact of movements in two exchange rates. However, the introduction of the intermediary subsidiary does not change the FCTR created in MTN Group, the ultimate parent (cross rate in 2020 is R1 = FC100)

FCTR recycled as part of the profit on disposal

IAS 21.48: “On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised.”

Disposal group held for sale, carried at lower of carrying value and fair value less costs of sale

Consideration

less

Carrying value

+ / −

FCTR

=

Profit/ loss

NAV — Net asset value of the company including all hyperinflation adjustments

+

Goodwill — Goodwill net of impairments

+

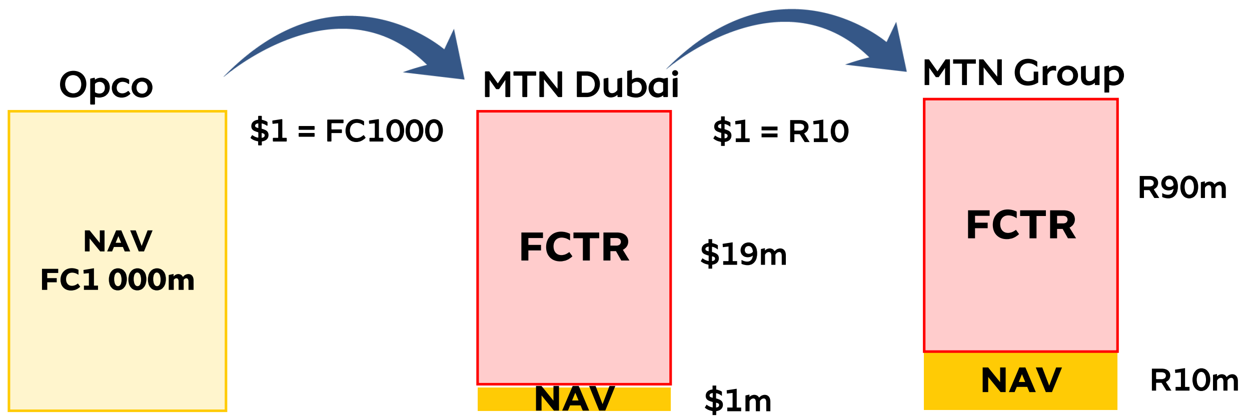
Interco loans — Intercompany loans not part of net assets disposed

FCTR recognised in Other Comprehensive Income (Equity) is transferred to P&L

Profit or loss is included in earnings but excluded from headline earnings

FCTR recycled example

FCTR existing before disposal

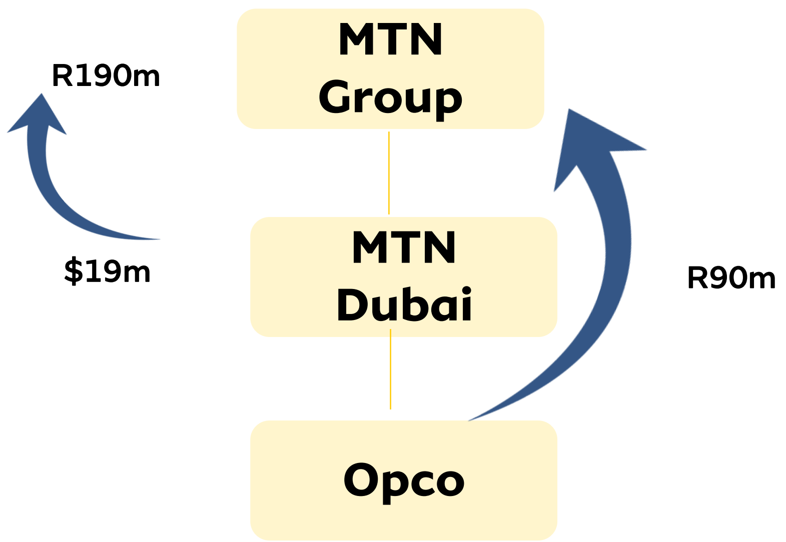


Step-by-step approach

FCTR recognised in MTN Dubai is translated at the exchange rate existing on the disposal date to ZAR.

FCTR on disposal is calculated by MTN Dubai Group as the movement between the FC and USD exchange rate over time.

FCTR release approaches



Direct approach

FCTR reversal at MTN Group based on the movement between the FC and ZAR exchange rate over time.

Difference in treatment results in a different split between FCTR and retained income, with no impact on overall equity.
FCTR difference between two approaches will realise on disposal of MTN Dubai.

Extract from group structure – non-core operations impacted

MTN Group Limited

MTN International Pty Ltd
100%

MTN International Pty Ltd
100%

MTN (International (Mauritius) Limited
100%

MTN (Dubai) Limited
Dubai
100%

Jumia Technologies AG [3]
18.9%

Not impacted

Irancell Telecommunications Company Services (PJSC) [1]
49%

Not impacted

Impacted by the policy change

TELECOMMUNICATIONS

MTN Syria (JSC)
Syria
75%

MTN Afghanistan Limited
Afghanistan
100%

MTN Yemen
Yemen
82.8%

MTN (Netherlands) Co-Op UA
Netherlands
100%

INFRASTRUCTURE

Belgacom International Carrier Services SA [2]
20%

ELECTRONIC SERVICES

International Digital Services Middle East Limited [2]
29,5%

Middle East Internet Holding S.A.R.L [1]
Luxembourg
50%

MTN (Netherlands) BV
Netherlands
100%

INFRASTRUCTURE

Ghana Tower InterCo B.V. [2]
49%
sold

Uganda Tower InterCo B.V. [2]
49%
sold

IHS [3]
29%
Not impacted

Rand functional currency

Dollar functional currency

Local functional currency

[1] Joint venture
[2] Associate
[3] Investment at fair value through other comprehensive income

June 2020 impact of the change in accounting policy*

Restatement recognised

The group applied the change in accounting policy retrospectively.

The group reviewed historic transactions and identified a couple of transactions impacted by the change in accounting policy dating back to 2007, the most significant of which related to the disposals of INT and MTN Cyprus.

The impact of the change in accounting policy on the financial results for the six months ended 30 June 2020 was:

- June 2020: an increase of R831 million or 47 cents per share on EPS;
- June 2019: an increase of R137m or 7 cents) on EPS;
- 2019 opening reserves: R2 148m reduction in FCTR and increase in retained earnings.

Total equity attributable to ordinary shareholders was not impacted and there was no impact on HEPS or cash flows.

	June 2020 Rm	2019 Rm	1 Jan 2019 Rm
Income statement			
Gain on disposal of Ghana and Uganda tower companies (2019: Amadeus)	831	137	
Group statement of comprehensive income	-	-	
Total comprehensive income for the year			
Statement of financial position			
Retained earnings	3 116	2 285	2 148
Other reserves	(3 116)	(2 285)	(2 148)
Equity attributable to equity holders of the company	-	-	-
Total equity	-	-	-

** As extracted from the MTN Group interim financial results for the six months ended 30 June 2020, released on 6 August 2020*

Financial impact of FCTR release on profit or loss - December 2020

- Should the transactions announced during the June 2020 results announcement be concluded by December 2020, the group will release a R5,1bn accumulated foreign currency translation loss to profit or loss (reduction of 284 cents per share), as part of the gain or loss on disposal of the individual investments. This is based on exchange rates existing at 30 June 2020 .
- The FCTR release has no cash flow impact and is excluded from headline earnings as part of the gain or loss on disposal.
- The release has no impact on total equity as it only represents a transfer from FCTR in equity to retained income in equity

Major potential transactions 2020	**FCTR release Rm**
Ghana and Uganda Interco*	(1 667)
MTN Syria **	(4 821)
BICS	1 387
Total	**(5 101)**
Impact on EPS (cents)	**(284)**

() indicates accumulated FCTR losses
** Transactions concluded in H1 2020*

*** FCTR resulting from*	*Rm*
Net assets including goodwill	*(1 276)*
Net investment loans (accumulated unpaid dividends, management fees and expenses) since 2013	*(3 545)*
Total	*(4 821)*

Given the significant distortion caused by intermediate dollar denominated entities on the FCTR recycled on disposal in ZAR terms, the direct approach will provide more relevant and reliable information of the group's FCTR gains and losses in its ZAR functional currency

Q&A

Thank you