

Notes to the group financial statements continued

for the year ended 31 December 2017

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 the customer to access network services; and
- Digital: revenue is recognised on the usage basis, and includes services such as value-added services, content, mobile money, etc.

The terms and conditions of postpaid bundled airtime products may allow for the carry over 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.

Devices

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

Notes to the group financial statements continued

for the year ended 31 December 2017

2 RESULTS OF OPERATIONS (continued)

2.2 Revenue (continued)

	2017 Rm	2016 ¹ Rm
Airtime and subscription	64 633	79 300
Interconnect and roaming	12 396	15 476
Data	28 212	23 627
Digital	13 048	14 022
SMS	2 701	3 264
Devices	8 406	8 490
Other	3 419	3 741
	132 815	147 920

¹ In 2017, the group changed the categories of revenue that are presented to align with the way the group manages and reports data, digital and devices revenue internally. The comparatives have been updated accordingly.

The group's unearned income at the end of the year amounts to R5 775 million (2016: R6 449 million).

2.3 Other income

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

	2017 Rm	2016 Rm
Realisation of deferred gain on Ghana tower sale ¹	27	31
Gain on dilution of investment in joint venture (note 9.2)	28	277
Profit on exercise of exchange right of IHS	6 017	–
Gain on modification of financial liabilities ²	323	–
Other	196	27
	6 591	335

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.

² In December 2017, MTN (Dubai) Limited (MTN Dubai) entered into individual agreements with various vendors of Areeba Guinea S.A. (MTN Guinea-Conakry) and Lonestar Communications Corporation LLC (MTN Liberia), in terms of which MTN Dubai purchased receivables (owing from MTN Guinea-Conakry and MTN Liberia to the respective vendors), at a discounted price. The group has accounted for this transaction as a modification of a financial liability, as the group has contractually agreed to modify the payment terms of the vendor liabilities. The group has recognised the difference between the fair value of the modified financial liabilities and the carrying amount of the original financial liabilities as a gain in profit or loss.

Profit on exercise of exchange right of 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) (the transaction). The transaction, which closed on 23 February 2017, has been 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 R6 017 million, which was 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 the applicable amount included in the foreign currency translation reserve (FCTR) (note 8.2) to the income statement. This resulted in a decrease of R4 452 million in investments in associates (note 9.2) and an increase of R13 767 million in available-for-sale investments (note 7.2).

The transaction had no tax impact.