

Notes to the group financial statements continued

for the year ended 31 December 2017

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, fair value movements, 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 or qualifying assets, in which case the directly attributable borrowing costs are capitalised.

	2017 Rm	2016 Rm
Interest income on loans and receivables	2 109	2 462
Interest income on bank deposits	1 379	1 962
Finance income	3 488	4 424
Interest expense on financial liabilities measured at amortised cost ¹	(8 400)	(9 020)
Net foreign exchange losses	(4 355)	(5 899)
Finance costs	(12 755)	(14 919)
Net finance costs recognised in profit or loss	(9 267)	(10 495)

¹ R1,0 billion (2016: R1,0 billion) relates to the discount unwind on the MTN Nigeria regulatory fine liability.

2.6 Loss on derecognition of long-term loan receivable

With effect from 27 December 2017 MTN Nigeria Towers SPV B.V. assigned its shareholder loan of R2 840 million to IHS Group. The shareholder loan arose as part of MTN Nigeria's tower transactions whereby MTN Nigeria sold a portfolio of towers to INT Towers (Nigeria) (INT) in 2014 and 2015 which, through Nigeria Tower Interco B.V., was 51% owned by MTN Nigeria Towers SPV B.V. and 49% by IHS Group. When forming INT, MTN Group (through MTN Nigeria Towers SPV B.V.) as well as IHS, provided proportionate shareholder loans to INT. These loans were subordinated and due for repayment in 2024 and 2025 with interest capitalised until two years prior to repayment. In return for the assignment of the loan, IHS has facilitated certain network volume commitments and provided more attractive terms for MTN Nigeria's future network rollout, applicable from 2018 onwards.

The cash flow benefits to be realised from the improved commercial terms of the future rollout have not been capitalised as a prepayment and will be accounted for as and when they are realised. This is due to MTN contractually not controlling the realisation of the future economic benefits referred to above. However, the group believes it will obtain economic benefits through IHS being incentivised economically to transact with MTN under the current master services agreement.