

# Notes to the group financial statements continued

for the year ended 31 December 2017

## 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.

|                                                    | 2017<br>Rm     | 2016<br>Rm     |
|----------------------------------------------------|----------------|----------------|
| <b>Analysis of income tax expense for the year</b> |                |                |
| Normal tax                                         | (4 990)        | (8 427)        |
| Current year                                       | (4 845)        | (8 648)        |
| Adjustments in respect of the prior year           | (145)          | 221            |
| Deferred tax (note 3.2)                            | 845            | 1 115          |
| Current year                                       | 719            | 806            |
| Adjustments in respect of the prior year           | 126            | 309            |
| Foreign income and withholding taxes               | (869)          | (1 034)        |
|                                                    | <b>(5 014)</b> | <b>(8 346)</b> |

# Notes to the group financial statements continued

for the year ended 31 December 2017

## 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:

|                                                           | 2017<br>%      | 2016<br>%     |
|-----------------------------------------------------------|----------------|---------------|
| <b>Tax rate reconciliation</b>                            |                |               |
| Tax at statutory tax rate                                 | 28             | 28            |
| <b>Expenses not allowed</b>                               | <b>50,75</b>   | <b>129,81</b> |
| Nigeria regulatory fine and related expenses <sup>1</sup> | 4,53           | 63,47         |
| Sudan non-deductible expenses                             | 10,98          | 22,21         |
| MTN Zakhele Futhi share-based payment expense             | 1,27           | 5,38          |
| Assessed loss on which deferred tax was not recognised    | 2,78           | 12,07         |
| Disallowed interest expenses                              | 2,56           | 5,87          |
| Goodwill impairment                                       | 7,71           | 4,66          |
| Controlled foreign company legislation imputation         | 1,90           | 4,88          |
| Loss on derecognition of long-term loan receivable        | 8,32           | –             |
| Other                                                     | 10,70          | 11,27         |
| <b>Effect of different tax rates in other countries</b>   | <b>(7,23)</b>  | <b>(9,39)</b> |
| <b>Income not subject to tax</b>                          | <b>(19,27)</b> | <b>(5,14)</b> |
| Exempt income                                             | (1,13)         | (5,40)        |
| Tower sales income – non-taxable                          | –              | 0,34          |
| Gain on exchange right exercised                          | (18,14)        | –             |
| Profit on sale of shares/towers/assets                    | –              | (0,08)        |
| <b>Share of results of associates and joint ventures</b>  | <b>(2,46)</b>  | <b>0,68</b>   |
| <b>Foreign income and withholding taxes</b>               | <b>9,09</b>    | <b>19,73</b>  |
| <b>Other</b>                                              | <b>(6,40)</b>  | <b>(4,50)</b> |
| <b>Effective tax rate</b>                                 | <b>52,48</b>   | <b>159,19</b> |

<sup>1</sup> This line item includes unwinding interest on the Nigeria fine liability and the amortisation of fees related to the listing of MTN Nigeria (note 1.5.8 and note 2.4).

# Notes to the group financial statements continued

for the year ended 31 December 2017

## 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:

| Country            | Corporate tax rate |           |
|--------------------|--------------------|-----------|
|                    | 2017<br>%          | 2016<br>% |
| Afghanistan        | 20                 | 20        |
| Benin <sup>1</sup> | 30                 | 30        |
| Cameroon           | 33                 | 33        |
| Congo <sup>2</sup> | 15                 | 30        |
| Ivory Coast        | 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        |
| Namibia            | 32                 | 32        |
| Netherlands        | 25                 | 25        |
| Nigeria            | 30                 | 30        |
| Rwanda             | 30                 | 30        |
| South Africa       | 28                 | 28        |
| South Sudan        | 20                 | 20        |
| Sudan              | 5                  | 5         |
| Syria              | 14                 | 14        |
| Uganda             | 30                 | 30        |
| Yemen              | 50                 | 50        |
| Zambia             | 40                 | 40        |

<sup>1</sup> The entity was granted a tax holiday until 31 December 2016.

<sup>2</sup> The entity was granted a tax holiday until April 2016. From April 2016 the entity was granted a 50% reduction on its corporate tax rate as a result of its investment agreement with the government. In terms of this agreement, the reduction in the corporate tax rate is valid for five years.