

Notes to the group financial statements continued

for the year ended 31 December 2017

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.

	2017 Number of shares	2016 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	1 884 269 758
In issue at the beginning of the year	1 884 269 758	1 845 493 245
MTN Zakhele shares cancelled and delisted ⁴	–	(38 058 865)
Shares issued to MTN Zakhele Futhi ¹	–	76 835 378
In issue at the end of the year	1 884 269 758	1 884 269 758
Treasury shares ²	(9 983 286)	(10 206 255)
Options held by MTN Zakhele Futhi ¹	(76 835 378)	(76 835 378)
In issue at the end of the year – excluding MTN Zakhele Futhi transactions and treasury shares³	1 797 451 094	1 797 228 125

¹ 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.

² Treasury shares held by MTN Holdings Limited.

³ There are no restrictions, rights or preferences including restrictions on dividend distributions attached to these shares.

⁴ Included in shares cancelled and delisted are 1 444 172 shares acquired in 2015 and delisted in 2016.

	2017 Rm	2016 Rm
Share capital		
Balance at the beginning of the year	*	*
Treasury shares	*	*
Shares cancelled	–	(*)
Share buy-back	–	(*)
Balance at the end of the year	*	*
Share premium		
Balance at the beginning of the year	36 786	40 248
Shares repurchased from MTN Zakhele	–	(3 462)
Balance at the end of the year	36 786	36 786

* Amounts less than R1 million.

Notes to the group financial statements continued

for the year ended 31 December 2017

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.

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. As these activities are considered to be the relevant activities of MTN Zakhele Futhi, it is consolidated by the group.

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 (i.e. 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 2017 year, an additional 24 388 294 MTN Zakhele Futhi shares were sold to external parties, that were previously acquired by the company in terms of the underwrite option during the allotment of MTN Zakhele Futhi shares in 2016. The shares were sold in four tranches on different grant dates for a total consideration of R487 million. The total increase in equity resulting from these share-based payment transactions amounted to R921 million of which R434 million (2016: R1 008 million) relates to the share-based payment expense, included in other operating expenses, and R487 million relates to the option premium on the shares sold during the year.

Notes to the group financial statements continued

for the year ended 31 December 2017

8 EQUITY STRUCTURE (continued)

8.1 Ordinary share capital and share premium (continued)

Share-based payment expense in respect of MTN Zakhele Futhi

The current year sale of the different tranches occurred on multiple grant dates (2016: 23 November). The fair value of the share-based payment at grant date was determined using a Monte Carlo valuation model.

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

	2017 ²	2016
Price per share (R)	113,00 – 135,24	114,1
NVF balance (Rm)	3 473 – 3 619	3 305
Preference share liability balance (Rm)	1 770 – 1 914	2 161
Shares issued to MTN Zakhele Futhi (number)	–	76 835 378
Volatility (%)	31,03 – 31,26	33,05
Dividend yield ¹ (%)	4,66	6,04
Expected option life (years)	7	8
Annual risk-free rate (%)	7,59 – 7,72	8,42
Contribution from equity participants and MTN underwrite (Rm)	2 468	2 468

¹ Calculated based on a risk adjusted MTN share price of R113,00 to R135,24 (2016: R114,10) at the date of valuation. The term structure dividend yield is based on dividend market forecasts obtained from Bloomberg. A fixed dividend forecast of 700 cents per share was applied in the 2016 valuation.

² A range of significant inputs for the various tranches has been provided.

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:

	2017 Rm	2016 Rm
<i>Class A cumulative redeemable non-participating preference shares</i>		
Balance at the beginning of the year	2 179	–
Preference shares issued	–	2 161
Interest accrued at the effective interest rate	140	18
Accrued interest paid	(135)	–
Redemption of preference shares during the year	(399)	–
Balance at the end of the year	1 785	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.