

Notes to the group financial statements continued

for the year ended 31 December 2017

8 EQUITY STRUCTURE (continued)

8.3 Dividends

Dividends declared to the company's shareholders are recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's directors.

Dividends declared during the year	2017		2016	
	Cents per share	Rm	Cents per share	Rm
Final dividend paid in respect of the prior year	450	8 078 ²	830	15 231 ²
Interim dividend paid in respect of the current year	250	4 494 ²	250	4 585 ²
		12 572		19 816
Dividends declared after year-end				
Approved after the reporting date and not recognised as a liability	450 ¹	8 089 ²	450	8 088 ²

¹ Declared at the board meeting on 7 March 2018.

² Excluding 9 983 286 (2016: 10 206 255) treasury shares held by MTN Holdings and 76 835 378 (2016: 76 835 378) shares held by MTN Zakhele Futhi.

8.4 Share-based payments

Equity-settled share-based payments

The schemes described on the following page are accounted for as equity-settled share-based payments to employees. Equity-settled share-based payments are measured at fair value (excluding the effect of service or non-market-based vesting conditions) at the grant date. The fair value is measured using a stochastic model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations, where applicable. The fair value determined at the grant date of the equity-settled share-based options or rights is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity, based on the group's estimate of the shares that will eventually vest. The expense is adjusted to reflect the actual number of options and share rights for which the related service and non-market-based vesting conditions are met.

Where employees exercise options or share rights in terms of the rules and regulations of the schemes, new shares are issued to participants as beneficial owners. The directors procure a listing of these shares on the JSE Limited, the securities exchange on which the company's shares are listed. In terms of the Share Option Scheme, participants entitled to share options pay a consideration equal to the option price when the options are exercised. The nominal value of shares issued is credited to share capital and the difference between the nominal value and the option price is credited to share premium. Settlement of the performance share plan (PSP) awards are done through the acquisition of shares in the open market and the subsequent delivery to participants.

Cash-settled share-based payments

The fair value of the amount payable to employees in respect of cash-settled share-based payments is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured to fair value at each reporting date and at settlement date. Any changes in the liability are recognised in profit or loss.

Notes to the group financial statements continued

for the year ended 31 December 2017

8 EQUITY STRUCTURE (continued)

8.4 Share-based payments (continued)

The MTN Group Share Options, Share Appreciation Rights and Share Rights Schemes and Performance Share Plan

The group operates a number of equity-settled share-based payment schemes for the benefit of eligible employees, including executive directors, in accordance with the schemes' rules. The schemes are designed to retain and recognise the contributions of executive directors and eligible employees and to provide additional incentives to contribute to the group's continued growth.

The performance share plan is the active scheme which superseded the Share Option Scheme, the Share Appreciation Rights and the Share Rights Scheme. The superseded schemes will be wound up once all unvested and/or unexercised awards previously made have run their remaining course.

The vesting periods under the Share Rights Scheme, Share Option Scheme and Share Appreciation Rights Scheme are as follows: 20%, 20%, 30% and 30% on the anniversary of the second, third, fourth and fifth years, respectively, after the grant date. The strike price for these schemes is determined as the closing market price for the MTN Group Limited shares on the day prior to the date of allocation. Unexercised options and rights lapse 10 years from the date of grant and are forfeited if the employee leaves the group before they vest.

The vesting period for the Performance Share Plan is three years and the awards vest in full based on set performance targets. Employees are not entitled to receive dividends on the shares during the vesting period.

The total number of shares which may be allocated for the purposes of the schemes shall not exceed 5% of the total issued ordinary share capital of the company, being 94 213 488 shares as approved by shareholders in 2001.

MTN Group Share Appreciation Rights Scheme and Share Rights Scheme (the rights schemes)

The Share Appreciation Rights Scheme was implemented on 31 May 2006.

On 26 August 2008, the board approved the Share Rights Scheme, which superseded the Share Appreciation Rights Scheme. Both the rights schemes operate under the same provisions with the exception that the Share Rights Scheme was extended to allow participation by junior managers.

Share rights under the rights schemes are granted to eligible employees by the relevant employer subsidiary company.

Exercised rights are equity settled whereby the relevant subsidiary purchases the required MTN shares in the open market.

Details of the outstanding Share Appreciation Rights are as follows:

	Strike price R	Number outstanding at 31 December 2016	Forfeited during 2017	Exercised during 2017	Number outstanding at 31 December 2017
Offer date					
22 June 2007	96,00	12 240	–	(12 240)	–
19 March 2008	126,99	52 400	–	–	52 400
Total		64 640	–	(12 240)	52 400

Notes to the group financial statements continued

for the year ended 31 December 2017

8 EQUITY STRUCTURE (continued)

8.4 Share-based payments (continued)

Details of the outstanding share rights are as follows:

Offer date	Strike price R	Number outstanding at 31 December 2016	Forfeited during 2017	Exercised during 2017	Number outstanding at 31 December 2017
1 September 2008	118,64	102 090	(4 300)	(10 980)	86 810
28 June 2010	107,49	284 110	(1 000)	(63 060)	220 050
Total		386 200	(5 300)	(74 040)	306 860

The share rights and share appreciation rights outstanding at the end of the year have a weighted average remaining contractual life of two years (2016: two years).

There were no new grants during the current and prior years.

MTN performance share plan (PSP)

During prior financial years the group granted eligible employees share rights under the PSP, established in 2010. The rights were granted to employees on levels 3, 4, 5 and 6. The PSP was established in order to attract, retain and reward selected employees who are able to contribute to the business of the employer companies and to stimulate their personal involvement thereby encouraging their continued service and encouraging them to advance the interests of the relevant employer company and the group in general.

The share rights generally vest after three years from date of grant. For the grants made between 2014 and 2016, the following performance conditions must be fulfilled to qualify for the percentage of the shares granted as stated in the table below:

	Proportion of grant	
	Employee level 3 – 4 %	Employee level 5 – 6 %
Vesting conditions for shares granted		
Total shareholder return	37,5	50,0
Adjusted free cash flow growth	37,5	50,0
Individual retention (guaranteed, subject to remaining on the PSP for the duration of the award fulfilment period)	25,0	–

For the total shareholder return vesting condition, vesting is based on a sliding scale that ranges from 25% vesting at the median to 100% vesting at the 75th percentile of the performance of a comparable group of companies listed on the JSE. For the adjusted free cash flow vesting condition, vesting is based on a sliding scale between 6% and 10% compound annual growth in the adjusted free cash flow for the three years before the grant date compared to the three years after the grant date, for all grants made in 2014 and thereafter. The individual return retention condition is guaranteed subject to the employee remaining employed by the group for the duration of the vesting period.

Notes to the group financial statements continued

for the year ended 31 December 2017

8 EQUITY STRUCTURE (continued)

8.4 Share-based payments (continued)

The performance conditions were revised during the year and apply to new grants on and after 29 September 2017. The following performance conditions must be fulfilled to qualify for the percentage of the shares granted as stated in the table below:

	Proportion of grant	
	Employee level 3 – 4 %	Employee level 5 – 6 %
Vesting conditions for shares granted		
Total shareholder return	25,0	25,0
Cumulative operating free cash flow	25,0	25,0
Individual retention (guaranteed, subject to remaining on the PSP for the duration of the award fulfilment period)	25,0	25,0
Return on average capital employed	25,0	8,33 – 25,0
Compliance to the dti and ICASA	–	8,33 – 12,5
Black economic empowerment	–	8,33

For the total shareholder return vesting condition, vesting is based on a sliding scale that ranges from 25% vesting at the median to 100% vesting at the 75th percentile of the performance of the MSCI Emerging Markets Telecoms Index comparator group. For the cumulative operating free cash flow vesting condition, vesting is based on a sliding scale that ranges from 25% vesting at 90% of the target to 100% vesting at 110% of the target cumulative operating free cash flow over the measurement period. The individual return retention condition is guaranteed subject to the employee remaining employed by the group for the duration of the vesting period. The return on average capital employed is based on a sliding scale that ranges from 25% vesting at 90% of the budget to 100% vesting at 100% of the budgeted return on average capital employed. The vesting conditions with regards to compliance to the dti and ICASA are based on reasonable efforts made to ensure compliance with the relevant targets and codes. For the black economic empowerment vesting condition, vesting is based on the achievement of previously agreed upon deliverables as applicable in South Africa.

Details of the outstanding equity-settled performance share plan rights are as follows:

	Number outstanding at 31 December 2016	Offered	Forfeited	Exercised during 2017	Number outstanding at 31 December 2017
Offer date					
20 December 2013 ¹	1 521 513	–	(1 298 419)	(223 094)	–
19 December 2014	1 658 396	–	(111 643)	–	1 546 753
30 June 2016	3 627 038	–	(372 822)	–	3 254 216
28 December 2016	5 549 103	–	(567 659)	–	4 981 444
9 March 2017	–	66 500	–	–	66 500
29 September 2017	–	213 600	–	–	213 600
18 December 2017	–	6 025 000	(5 300)	–	6 019 700
Total	12 356 050	6 305 100	(2 355 843)	(223 094)	16 082 213

¹ The options granted in 2013 were forfeited due to the applicable conditions not being met.

Notes to the group financial statements continued

for the year ended 31 December 2017

8 EQUITY STRUCTURE (continued)

8.4 Share-based payments (continued)

A valuation has been prepared using a stochastic model to determine the fair value of the performance share plan and the expense to be recognised for share rights granted during the current and prior year.

The range of inputs into the stochastic model used for rights granted during the year was as follows:

	March 2017	September 2017	December 2017
Share price (R)	120,80	124,38	134,46
Expected life	3 years	2 years	3 years
Risk-free rate	7,36% – 7,57%	7,09% – 7,93%	7,60% – 7,93%
Expected volatility	32,55% – 36,55%	26,14% – 35,44%	24,08% – 32,88%
Dividend yield	9,17%	7,16%	6,33%

	June 2016	December 2016
Share price (R)	144,09	126,17
Expected life	3 years	3 years
Risk-free rate	7,45% – 7,83%	7,88% – 8,01%
Expected volatility	31,80% – 43,19%	32,10% – 37,65%
Dividend yield	8,58%	9,43%

The risk-free rate was estimated using the nominal bond curve as compiled by the JSE of South Africa and obtained from I-Net Bridge (2016: the risk-free rate was estimated using the implied yield on SA zero-coupon government bonds).

Volatility was estimated using annualised standard deviation of the continuously compounded rates of return of the share and the daily dividend yield was provided by I-Net Bridge (2016: volatility was estimated using the weekly closing share price and the dividend yield was estimated by using a one-year moving average of the dividend yield at valuation date).

Employee share ownership programme

On 1 December 2017 approximately 2 million shares were granted to qualifying employees for no consideration and subject to a service condition. The shares will vest in three tranches, i.e. a third will vest on the third, fourth and fifth anniversary of the grant date respectively. The plan is facilitated through a structured entity (the 2016 MTN ESOP trust). MTN will provide shares and funding to the 2016 MTN ESOP trust to enable the trust to satisfy its objectives.

Cash-settled share-based payment transactions

During the year, the group granted newly appointed executives cash-settled onboarding incentives to compensate the executives in respect of the actualised pre-tax amount of stocks or equity relinquished by the executives with their previous employers. The value of each incentive will be determined based on the market value of the specified number of ordinary listed shares in MTN Group Limited at the end of the incentive period for each respective executive. The remaining incentive period at 31 December 2017 is approximately two years. The total number of MTN Group shares on which the incentives are based is 837 664. The fair value of these incentives was determined as at 31 December 2017 using a Black-Scholes valuation methodology and a cash-settled share-based payment expense of R30 million was accounted for. None of the incentives granted have been forfeited since the respective grant dates. In addition, throughout the group there are various notional share schemes. The total income recorded for these schemes in the current year is R74 million (2016: R41 million), arising from the reversal of previously recorded expenses.

	2017 Rm	2016 Rm
Expense arising from equity-settled share-based payment transactions	237	1
Income arising from cash-settled share-based payment transactions	(44)	(41)
Total (note 2.4) ¹	193	(40)

¹ The expense/(income) has fluctuated due to non-market vesting conditions not being met and termination of employment before the vesting date.