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W17084

MTN AND THE NIGERIAN FINE[1]

Albert Wöcke and Paul W. Beamish wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

On October 26, 2015, South African telecommunications group MTN saw its share price drop by more than 12 per cent after receiving an enormous fine from the Nigerian Communications Commission (NCC). MTN advised shareholders on the Johannesburg Securities Exchange Stock Exchange News Service (SENS):

> The NCC has imposed a fine equivalent to US$5.2 billion[2] on MTN Nigeria. This fine relates to the timing of the disconnection of 5.1 million MTN Nigeria subscribers who were disconnected in August and September 2015, and is based on a fine of ₦200,000[3] for each unregistered subscriber. MTN Nigeria is currently in discussions with the NCC to resolve the matter in recognition of the circumstances that prevailed with regard to these subscribers. We will continue to update shareholders in this regard.[4]

MTN's subscriber base had been almost entirely prepaid since entering Nigeria in 2001, and about 99 per cent were anonymous until 2011, when Nigerian authorities introduced legislation requiring mobile telecommunications operators to register all users on a central database.

The fine was equivalent to about 20 per cent of MTN's market capitalization and more than MTN's 2014 revenue from its affiliate in Nigeria, which was about $4 billion.[5] Insiders at MTN believed that the fine was less about the regulatory issues than about the Nigerian government's need to raise cash due to falling revenues from oil, as well as security concerns about Boko Haram Islamist militants using the MTN network. The Boko Haram movement had killed more than 30,000 people from 2009 to 2015 through attacks on mosques, churches, political rallies, polling stations, schools, bus stations, and marketplaces.[6]

MTN appeared surprised by the extent of the fine and declared that it had always conducted its business in accordance with established principles related to sound corporate governance. However, its main shareholder, the Public Investment Corporation of South Africa, which managed the state pension funds, did not agree; its chief executive said, "MTN should have handled it better from the outset. I don't expect this to be a surprise. I am worried because there is a lot at stake for shareholders to lose in terms of value."[7] How could MTN, an emerging-market multinational enterprise that operated in some of the riskiest countries, and that had operated in Nigeria since 2001, find itself in this situation? What should it do now?

MTN

MTN was a South African telecommunications company with operations in 22 countries, 21,000 employees, and 232.5 million subscribers in Africa and the Middle East.[8] The company had an annual turnover of $11.55 billion in 2015. In 2015, MTN was the best-known telecommunications brand on the African continent, and was recognized as a best brand in Nigeria, even ahead of Coca-Cola (see Exhibit 1).[9]

Founded in 1994 as one of two mobile telecommunications operator licensees in South Africa, MTN began its first forays into the rest of Africa in 1997, acquiring licences in Uganda, Rwanda, and Swaziland. At the time, MTN was receiving ISO 9001 and 14001 accreditation for its operations in South Africa. In 2000, it acquired a licence in Cameroon (its first non-Anglophone country). In 2001, it expanded into Nigeria. By 2005, MTN had 14 million subscribers, of which 8 million were in South Africa, and in the same year, it acquired a licence to operate in Iran. In 2006, MTN acquired the Investcom LLC group for $5.5 billion, and by 2015, it had subscribers in countries such as Afghanistan, Sudan, Syria, and Yemen. MTN's expansion strategy was to leverage its scale and large footprint across Africa to provide competitive prices and respond to changes in the market through the rapid introduction of new services and products.

MTN's success in Africa and the Middle East was largely attributable to its ability to operate in some of the world's toughest markets. It had a track record of successfully running operations in war-torn countries such as Iran, Afghanistan, Nigeria, Sudan, and Ivory Coast. MTN had managed to be the dominant telecommunications provider in 15 of the 22 countries in which it operated, and by 2015, its operations were well established and profitable. In some countries, its operations could be regarded as mature, but developing-country challenges remained. In 2015, MTN had to deal with the Ebola crisis in West Africa.[10] The Ebola outbreak and war impacted operations through limiting travel and hindering the ability to repair cellular towers. However, MTN managed to operate through this largely unhindered with the exception of isolated closures of service centres, and the rerouting of calls and data when cellular tower sites could not be reached.[11]

The success of MTN's approach was dependent on the implementation of a prepaid subscription model. MTN developed the prepaid model during the 1990s to overcome the complexities of billing customers who did not have bank accounts or who did not engage in the formal financial services sector. This led to MTN handling vast amounts of cash in Nigeria, and MTN eventually developed appropriate cash-handling and security abilities that rivalled those of most Nigerian banks.

MTN's operating model evolved over time, as some countries matured quicker than others. When MTN initially entered a market such as Nigeria, it was met with limited competition and the way to gain market share was simply to build a reliable network that covered the whole country as quickly as possible. Customers would use the network if it was reliable and they were willing to pay a premium for services. Early users were predominantly voice users. As the market became more mature, subscribers would begin to use data services more than voice services. Later, data services would be driven by Internet access. The most mature markets (South Africa and Iran) were hardly using voice services, had smartphones, and were using data to access the Internet. In Africa, the use of data was especially prevalent, as a mobile phone was the only way a large number of Africans could access the Internet.

This, in turn, led to customers focusing on network maintenance and quality and putting pressure on MTN's network capacity.[12] These pressures were not unusual for a network provider but were significantly more complex in emerging countries, where infrastructure was not as prevalent as it was in developed countries. For example, MTN would have to provide electricity-generation capabilities in large parts of its network and also engage with the local communities to protect power generators and electrical equipment from theft by locals who did not have access to these utilities in their homes. MTN's top identified risks recognized this evolving operating environment (see Exhibit 2). MTN's strategy reflected its focus on creating shareholder value through innovation and the sharing of best practices across the Group. Key to achieving this strategy was efficient asset utilization, quality back-office systems and processes, and the sharing of best practices and innovations (see Exhibit 3).

In 2014, the South African and Nigerian operations accounted for almost 65 per cent of MTN's revenues and the chief executive officers (CEOs) of these operations reported directly to Sifiso Dabengwa, the Group CEO. Dabengwa had restructured MTN in line with the strategy. The other country operations were clustered into a large opco (operating company) cluster and a small opco cluster (see Exhibit 4).

MTN IN NIGERIA

MTN Nigeria was 75.81 per cent owned by MTN International, 18.7 per cent by Nigerian investors, 2.78 per cent by the Mobile Telephone Networks NIC B.V. (an MTN subsidiary in the Netherlands), and 2.71 per cent by Shanduka, a South African investment group founded by Cyril Ramaphosa, who would later become the deputy president of South Africa. MTN entered the Nigerian market in 2001, when it secured one of four licences for $285 million for an initial 15-year period. The first call on the network was made on May 16, 2001, and business operations commenced in August 2001. By February 10, 2003, MTN had 1 million active subscribers in Nigeria. This active subscriber base would eventually exceed 55 million Nigerian users serviced through 15 service centres, 144 MTN Connect Stores, and 247 MTN Connect Points.

MTN had invested more than $15 billion in infrastructure in Nigeria up to 2015 to build a network that covered almost 90 per cent of Nigeria's landmass, including 3,340 cities, towns, and villages across the country. MTN Nigeria had also commissioned the world's largest network switch centre in Lagos in 2010. This expansion was supported by sophisticated marketing campaigns with carefully targeted sponsorships and highly publicized corporate social investment programs. MTN had invested over $32 million in 338 sustainable projects spanning the education, health, and economic empowerment sectors.[13]

THE NIGERIAN TELECOMMUNICATIONS MARKET

The Nigerian telecommunications sector had been dominated by a state-owned monopoly, Nigerian Telecommunications Limited (NITEL), until 1999, when the government decided to deregulate the sector. Although the Nigerian telecommunications sector had been in existence since the late 1800s, it was characterized by inadequate capacity, an inability to generate much revenue, and poor facility maintenance. As a consequence, NITEL was underfunded and unable to respond quickly to new technologies.[14]

By the mid-1990s, the Nigerian telecommunications sector consisted of 780,000 fixed lines, 10,000 cellular mobile telephones (mostly the outdated code division multiplexing (CDM) technology), and 15,000 voicemail lines. The only digital exchanges in the country were in 47 local government buildings. Nigeria's telephone penetration rate was about eight lines per 1,000 citizens in 1994, and the waiting time for a line was more than 10 years. Cellular telephones were first introduced in 1992, with the formation of Mobile Telecommunications Service (MTS, which would later become MTEL, Mobile Telecommunications Ltd.), a joint venture between NITEL and Digital Communications of Atlanta. MTS had an initial installed capacity of 10,000 lines, but this was exceeded within its first year, and extended to 50,000 lines by the mid-1990s. However, network congestion severely affected the quality of service.[15]

Deregulation

In 1999, the Nigerian government decided to deregulate the telecommunications sector with the auction of three Global System for Mobile Communications (GSM) licences, of which MTN successfully won one. The other two were won by Communications Investments Ltd. (CIL) and Econet Wireless Nigeria. A fourth licence was reserved for MTEL, the mobile arm of the state-owned NITEL.[16]

CIL was a consortium led by Nigerian billionaire Mike Adenuga, but due to a dispute, he was not able to pay the required deposit in time and the licence was revoked. Adenuga would successfully lead another consortium to launch Globacom Limited (Globacom) in 2003, when the Nigerian government conducted a second auction.[17] Globacom would use its Nigerian base to expand into Benin and Ghana, and would become the second-largest operator in Nigeria after MTN.

Econet Wireless Nigeria (ECN) was owned by the Econet Wireless Group, a privately held company with operations in Zimbabwe and Botswana. ECN was a partnership between Econet Wireless Group, Nigerian state government departments, local banks, and wealthy Nigerian investors. Econet Wireless Group was contracted to manage ECN, but this changed when Nigerian shareholders voted it out in 2004. According to the CEO of Econet Wireless Group, this was due to the Group's refusal to pay bribes and facilitation fees to government officials and politically connected individuals.[18] Econet Wireless Group was then replaced by Vodacom from South Africa as the main operator in the consortium. This also lasted a few months, at which time Vodacom abruptly ended its association with the group (later named Vee Networks Limited) amidst rumours of the payment of bribes to Nigerian government officials. Vodacom dismissed its Nigerian CEO and withdrew from Nigeria entirely.[19] Vee Networks was renamed Vmobile and bought by Celtel International in 2006. Celtel was an international company that had about 24 million subscribers in 14 countries across Africa at the time. The deal was worth about $1 billion and gave Celtel 65 per cent of the operator. Celtel was later acquired by the Zain Group, and eventually by the Indian company Bharti Airtel, when it became Airtel Nigeria.[20]

MTEL's fortunes were tied to those of its parent firm, NITEL. NITEL was privatized at the same time that the telecommunications industry was deregulated. A series of failed bids by interested outside parties eventually led to Pentascope from the Netherlands taking over NITEL and MTEL. This takeover was unsuccessful and after 23 months, NITEL/MTEL's connected lines dropped from 555,000 to 440,000 and the Nigerian government revoked the privatization deal. The Nigerian government then called for bidders and Transnational Corporation of Nigeria Plc, an investment company from Nigeria, took over NITEL in 2006. The deal was worth $500 million, but also failed to turn the company around. In 2012, the Nigerian government approved the guided liquidation of NITEL.[21]

Dominance of Mobile

The success of deregulating the telecommunications sector was dramatic. In 2016, there were more than 150 million active telephone lines in Nigeria, with mobile lines accounting for more than 99 per cent of those lines. Fixed lines had dropped from a peak of about 1.5 million active lines in 2007 to about 150,000 in 2016 (see Exhibit 5).[22] Mobile lines were almost entirely dominated by the four GSM network operators.[23] MTN was the largest, with an almost 40 per cent market share, and the next largest was Globacom, with an almost 25 per cent market share, followed by Airtel Nigeria and Etisalat Telecommunications Corporation, with roughly 22 per cent and 14 per cent market shares, respectively (see Exhibit 6).

The operators were under continuous pressure to reduce their prices to customers, and had to receive approval from the NCC for pricing and promotions. The average cost per minute for voice calls during peak calling times dropped from an average of ₦34.20 (or $0.27) in 2007 to ₦12.01 (or about $0.05) in 2016. At the same time, the number of Internet subscribers using the GSM network grew from about 28 million in 2012 to about 93 million in 2016.[24]

THE NIGERIAN ECONOMY IN 2015

Nigeria was Africa's most populous country, with a population of 183 million and a gross domestic product (GDP) of $485 billion. Nigeria had had a tumultuous political history, but had returned to democracy in 1999, and since then, it had enjoyed relative political stability. Even so, political and security risks remained high, with the emergence of the radical Boko Haram group and Movement for the Emancipation of the Niger Delta (MEND) (see Exhibit 7).

The Nigerian economy was heavily dependent on the export of oil. Its exports were worth $93.55 billion in 2013, of which 95 per cent was in the form of oil and petroleum products. Nigeria's largest export markets were the United States (16.8 per cent of exports in terms of value), India (11.5 per cent), the Netherlands (8.6 per cent), and Brazil (7.6 per cent).[25] Nigeria was the 12th-largest oil producer in the world but the fifth-largest oil exporter. The country produced 2.524 million barrels of oil per day in 2012, but still imported the vast majority of refined petroleum for its economy (see Exhibit 8).[26]

In April 2014, the Nigerian Central Bank published the results of a statistical revision of its economy (a "rebasing"), which led to a redoubling of the calculated value of Nigeria's GDP. This rebasing led to Nigeria supplanting South Africa as Africa's largest economy, and its revised GDP in 2013 was $510 billion.[27] However, this new status was short lived, and the recalculation was followed by a dramatic decline in the global oil price, from a high of $110 per barrel to less than $30 per barrel in 2015, for an average of below $50 for the year.

The impact of the decline in the oil price on the Nigerian treasury was further complicated by an investigation into billions of dollars of revenues that were unaccounted for from crude sales by the Nigerian state oil company. Nigerian National Petroleum Corporation was reported to have withheld more than $20 billion from the Nigerian government between 2012 and 2013, and there was evidence of further diverting of revenue that should have been remitted to the Nigerian government.[28]

These events were combined with the presidential elections held in March 2015, when Muhammadu Buhari beat outgoing President Goodluck Jonathan by more than 15 million votes. Buhari's campaign was essentially based on fighting corruption, defeating the Boko Haram, and developing a new economic policy that would reduce Nigeria's reliance on oil revenues. Buhari immediately began tackling corruption and dismissed large numbers of senior public servants, diplomats, and officials in the state oil corporation.[29]

The contribution of the telecommunications industry to the Nigerian economy was not as large as that of the oil industry, but was still significant. During 2012 to 2014, the contribution to GDP was below 8 per cent, but the contribution grew in 2015 to more than 8 per cent, and was almost 10 per cent by 2016.[30] However, the Nigerian economy entered a recession in 2016, with the economy shrinking by 0.4 per cent in the first quarter of 2016, and shrinking a further 2.1 per cent in the second quarter. The International Monetary Fund (IMF) predicted that the Nigerian economy would shrink by 1.8 per cent in 2016.[31] The economic crisis caused many multinationals operating in Nigeria to reconsider their investments, and local suppliers were reduced to buying hard currencies at black-market rates when dollars were not available on the official foreign currency market.[32]

THE FINE—OCTOBER 2015

In 2008, the Nigerian security agencies approached the NCC for assistance in dealing with criminals and terrorists who used mobile phones. In response, the NCC launched a registration program in 2010 that ran until 2013 to document and register all existing subscriber identity module (SIM) cards. The GSM required users to use a SIM card in their mobile phones. The SIM card (or subscriber identity module card) was a removable card that stored user-specific data about the network, telephone number, and messages. The SIM registration required biometric information such as photographs and fingerprints, and was supported by a national campaign with the establishment of registration centres in the large cities.[33] The regulations meant that everybody who used a SIM card had to personally register so that their fingerprints and picture could be taken. Fingerprint scanners were not widely available in Nigeria at the time. Many Nigerians preferred not to register their personal details on a national register, or were apathetic about physically visiting a registration centre. Physically capturing subscribers' personal details also required operators to roll out facilities to remote areas that lacked power and infrastructure, and had high levels of social apathy and terrorist activity.[34]

Registrations were confounded by several practices to circumvent the registration by locals. These practices included dealers "pre-registering" SIM cards and then on-selling them at a premium, and agents charging fees for registering customers and network operators registering users from other networks as their own subscribers.[35] Pre-registered SIM cards were difficult to resolve, as network operators had the details of the dealer on their register, but not the end user.

The first registration initiative enjoyed limited success and expired on June 30, 2013. The NCC blamed the lack of success on the network operators and fined them for 146 pre-registered cards that the NCC had acquired in enforcement activities.[36] All four operators were fined, and MTN's fine was ₦29.2 million (or $184,000), with an additional ₦500,000 ($3,100) per day if it failed to settle the penalty within seven days.

The second registration initiative began on June 30, 2013, when the NCC instructed all operators to immediately deactivate all unregistered SIM cards on their networks, including the ability to make and receive calls or send and receive text messages. All operators were to provide the NCC with a summary of registered and active lines on their network as at June 30, 2013 (although the NCC was supposed to already have this information). In addition, operators were instructed to forward the personal details and biometric information of new subscribers weekly so that these could be entered into a central database. The NCC would also begin random checks and test calls on unregistered and deactivated SIM cards to ensure compliance. It would also conduct physical audits of Home Location Register log files of operators to reconfirm the numbers of active and deactivated lines in the networks based on submissions received from the operators themselves.[37] The second initiative created some confusion, with customers believing that they were correctly registered but finding their lines blocked. Operators were inundated with customers trying to validate their details.

Further fines were imposed on all the network operators for registration-related activities. In June 2015, the NCC fined MTN ₦7 million ($35,000), Airtel ₦5.6 million ($28,000), Globacom ₦6.4 million ($32,000), and Etisalat ₦6.2 million ($31,000) for the sale of pre-registered SIM cards. The NCC also instructed the operators to "mop up" all pre-registered SIM cards from the Nigerian market within 21 days, and stipulated that upon expiration of the 21 days, the operators would be fined for every pre-registered SIM card.[38]

Mopping up was the process whereby the operator suspended a subscriber's services until they had visited a registration centre and had their correct details registered. The NCC had asked the operators to suspend 37 million SIM cards from their networks after discovering that about 45 per cent of the cards were incorrectly registered and needed revalidation. Of these, 18.6 million were MTN numbers. By the end of August 2015, the NCC claimed that MTN had only removed 1.6 million of those telephone numbers.[39] Operators claimed that they were still in discussions with the NCC about the exact number of unregistered subscribers when the deadline passed, and so were under the impression that the matter was still being resolved and that they did not need to take immediate decisive action yet.[40]

In the third quarter of 2015, the NCC advised that the four operators had paid a combined fine amounting to ₦40 million ($200,000) for sales of pre-registered SIM cards. MTN's portion of the fine was ₦21.8 million ($109,000). But it was clear that the NCC was focusing on MTN in the third quarter of 2015, when MTN was fined a further ₦80.4 million ($402,000) for the failure to deactivate 402 registrations that were either incompletely or improperly registered, and none of the other operators were sanctioned.[41] An enforcement team from the NCC visited MTN from September 2 to 4, 2015, at which time MTN admitted that 5.1 million improperly registered SIM cards remained active on its network.[42] The NCC then sent MTN a letter on October 5, giving MTN notice to state why it should not be sanctioned in line with the regulations for failure to deactivate improperly registered SIM cards active at the time of the NCC visit in September. MTN failed to convince the NCC about its reasons for failing to deactivate the SIM cards, and was fined ₦1.4 trillion ($5.2 billion) on October 20.[43] MTN was the only operator that received a fine for pre-registration this time around.[44]

MTN REACTS

Within a month, MTN's long-term credit rating had been downgraded by both Standard & Poor's and Moody's to BBB− and negative Baa2, respectively.[45] This was followed by the resignation of MTN's CEO, Dabengwa, on November 9, 2015, and the appointment of the chairman of the board, Phuthuma Nhleko, as the acting CEO while remaining chairman.[46] Dabengwa had been the head of MTN Nigeria from 2004 to 2006, and later became the chief operating officer of MTN Group, reporting to Nhleko, who was CEO at the time. Dabengwa had succeeded Nhleko as CEO in 2011, when Nhleko became chairman of the MTN Group.

There was speculation that the size of the fine was due to pressure on the Nigerian government to fill a revenue gap left by lower oil prices.[47] The $5.2 billion fine represented 20 per cent of forecasted expenditure and more than 60 per cent of forecast revenues for the Nigerian central government in 2015.[48] The extent of the fine was questioned by many industry analysts, who felt that it was excessive.[49] It was the largest fine any telecommunications company had been fined anywhere in the world at the time. The next-largest fine was the $100 million fine that the U.S. Federal Communications Commission had imposed on AT&T.[50] Concerns were also raised by analysts that the fine had been imposed shortly before MTN was due to negotiate the renewal of its 15-year operating licence. (The NCC did, however, approve the renewal of MTN's licence on November 2, 2015. The extension would allow MTN to operate in Nigeria until August 2021, for $94.2 million.)

Concerns were also raised that the size of the fine would impact MTN's ability to invest in the market and would scare away future investment in Nigeria.[51] However, the NCC defended the fine by stating that MTN had ignored other Nigerian rules and had committed a total of 28 infractions. Tony Ojobo, the spokesperson of the NCC, asked, "Are investors not supposed to respect the laws of the land where they are operating? It is in accordance with our regulations and guidelines that if service providers don't comply they'll face a penalty."[52]

The fine was due on November 16, and MTN's chairman, Nhleko, immediately flew into Nigeria to engage with the Nigerian authorities to reduce the fine or delay its payment. The Nigerian government's response was that it was open to engaging with MTN before the November 16 deadline, but that it was MTN's responsibility to come up with proposals for the Nigerian government to consider. According to the communications minister, the law had to be followed and there had to be consequences, but nobody wanted MTN to leave Nigeria.[53] On November 16, MTN announced that although talks were ongoing, the Nigerian government had agreed, without prejudice, that the fine would not be imposed until talks had been concluded.[54] MTN acknowledged that it should have responded quicker to the regulator but pointed out that compliance with the regulator's conditions meant implementing biometric standards akin to U.S. immigration and Federal Bureau of Investigation standards in a country that had little infrastructure or equipment to do this. MTN spent more than $20 million on equipment and staff to comply. It suffered a further blow when the NCC suspended its regulatory services. This meant that the NCC withdrew approval of new tariff plans and promotions, which were linked to its determination of MTN as a "dominant operator" in the Nigerian market.[55]

EXHIBIT 1: MTN SUBSCRIBERS, JUNE 2015

Country	Number of subscribers (thousands), June 2015	World Economic Forum (WEF) Global Competitiveness Index ranking, 2016 (out of 138 countries)*
South Africa	28,504	47
Nigeria	62,813	127
Ghana	14,886	114
Cameroon	10,363	119
Ivory Coast	8,488	99
Uganda	11,146	113
Syria	5,765	N/A
Sudan	8,757	N/A
Yemen	5,239	138
Benin	3,913	124
Afghanistan	6,487	N/A
Congo-Brazzaville	2,128	N/A
Rwanda	3,958	52
Zambia	4,901	118
Liberia	1,300	131
Guinea Conakry	3,485	N/A
Cyprus	354	83
Guinea Bissau	705	N/A
South Sudan	982	N/A
Iran	44,146	76
Botswana	1,784	64
Swaziland	892	N/A
Total subscribers	**230,996**	

Note: * Not all countries included in the WEF list.
Source: MTN financial statements for 2015 and WEF Global Competitiveness Index.

EXHIBIT 2: MTN'S TOP RISKS AND MITIGATION STRATEGIES, 2014

Top 5 Identified Risks	Mitigation Strategies
1. Network performance: • Dropped calls due to network constraints • Capital investment does not keep up with demand on the network • Customers migrate to other operators due to dissatisfaction with service quality	• Continuous monitoring of networks for quality, coverage, and demand • Standardization and optimization of systems and processes to reduce costs and focus on core activities • Outsourcing non-core activities • Reducing roll-out costs through the establishment of tower companies • Exploring energy-efficient hybrid power solutions to reduce costs and reliance on grid electricity
2. Create and maintain a competitive advantage: • Changing market conditions threaten market share and revenue streams • Need to provide new services at competitive prices	• Implement a digital strategy with broader service offerings • Effectively manage costs to offset the impact of slowing revenue growth • Build and maintain appropriate skills to roll out new technologies at the correct price
3. Adverse regulatory changes or non-compliance with laws and regulations: • Managing the complexity of 22 jurisdictions • Increased regulatory/legal changes impact negatively on revenues	• Continuous, proactive, and transparent engagement with authorities at Group and country operating company (opco) levels • Closely monitor compliance with the tax risk management framework • Regular review of mitigation strategies developed through tax risk registers at all MTN opcos
4. Financial performance targets: • Changes in the markets are slowing down revenue growth, which threatens earnings before interest, tax, depreciation, and amortization (EBITDA) margins • Lack of operational efficiency as competition intensifies impact on profitability • Currency exposure impacts on reported results and increases costs of servicing foreign denominated obligations	• Cost-saving initiatives and stricter controls on spending • Sale of non-core assets (such as towers) • A local currency funding strategy, which includes principles on gearing and repatriation of cash • Active management of foreign-denominated assets and liabilities to minimize the impact of translation effects
5. Compromised information security: • Increased cyberattacks worldwide • Lack of an effective Group-wide information security program could lead to reputational damage and the loss of customers, in turn impacting revenue and margins	• Establish a security forum with representation from opcos to monitor information security controls • Program and policies to instil ethical behaviour

Source: Adapted from MTN Integrated Report, 2014.

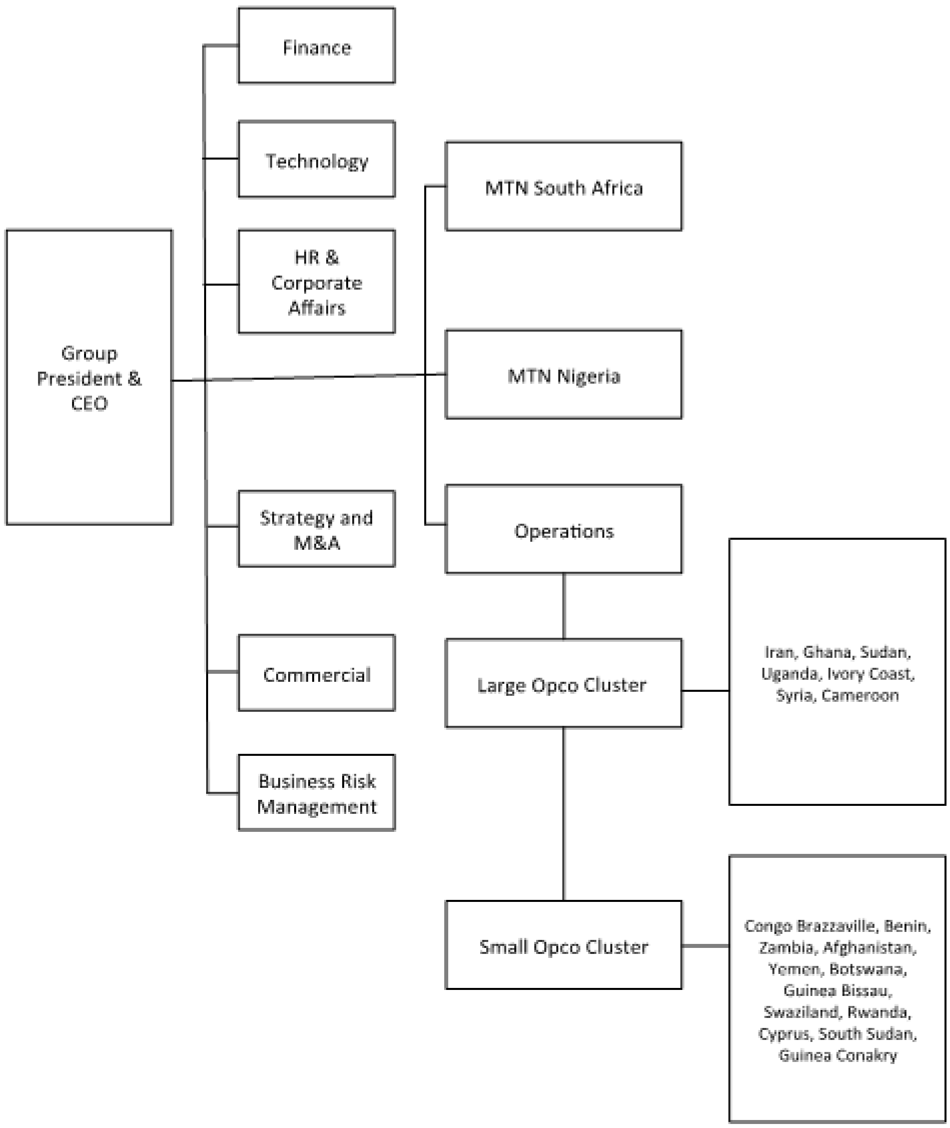
EXHIBIT 3: MTN'S STRATEGY

"MTN's strategy is built around five strategic themes: **Creating and managing stakeholder value** and **innovation and best practice** sharing describe our approach to our work, people and other stakeholders. Tangible priorities under **creating a distinct customer experience**, **driving sustainable growth,** and **transforming our operating model** define how we strive to secure a sustainable competitive advantage and deliver superior shareholder returns."

Strategic Priorities	Target for 2015
Creating and managing stakeholder value: • Sustainable shareholder returns • Responsible corporate citizenship • Creating a great place to work • Sound governance and values	• 5% to 15% dividend growth • Opportunistic share buy-backs • Increase positive media sentiment by 4% from 2014 baseline • Statistical improvement on vital behaviours in the Group culture audit
Creating a distinct customer experience: • Brand leadership • Customer experience • Customer analytics • Network quality and coverage	• Net promoter score improvements • 7.5 million net additions • Implement core-managed services strategy
Driving sustainable growth: • MTN in digital space • Adjacent sectors • Enterprise strategy • Voice and data evolution • Mergers and acquisitions (M&A) and partnerships	• Grow MTN mobile money in smaller markets • Increase new revenue streams—target $2.4 billion • Grow enterprise business unit revenue by 30% year-on-year • M&A and partnerships
Transforming the operating model: • Asset optimization • Supply chain management • Process standardization and optimization	• Group EBITDA margin of 44.6% • Realization of transformation benefits • Improve procurement savings of more than 7% • Improve capital investment efficiency and effectiveness in both South Africa and Nigeria
Innovation and best practices • Innovation • Sharing best practices	• Security framework rolled out and adopted into standard applications • Digital readiness for services migration and deployment

Source: Adapted from MTN Integrated Report, 2015.

EXHIBIT 4: MTN'S ORGANIZATIONAL STRUCTURE, 2014



Source: MTN Annual Financial Statement, 2014.

EXHIBIT 5: NIGERIAN TELECOMMUNICATIONS USAGE, 2015

Fixed-telephone subscriptions per 100 inhabitants	0.1
Mobile-cellular subscriptions per 100 inhabitants	82.2
Mobile-broadband subscriptions per 100 inhabitants	21
Households with a computer (%)	9.8
Households with Internet access at home (%)	11.4
Individuals using the Internet (%)	47.4

Source: International Telecommunication Union, 2016.

EXHIBIT 6: TELECOMMUNICATIONS INDUSTRY IN NIGERIA IN NOVEMBER 2016

	Airtel	Etisalat	Globacom	MTN	Total
Number of subscribers	33,376,556	21,621,832	37,268,483	61,280,293	153,547,164
Market share of GSM (%)	21.74	14.08	24.27	39.91	100
Internet subscribers	19,143,700	14,132,007	27,122,892	32,017,779	92,416,378
Incoming porting*	1,111	13,428	1,381	1,572	17,492
Outgoing porting*	5,770	1,623	3,488	5,746	16,627

Note: * Porting refers to the number of transactions whereby a mobile number is transferred from one operator to another on the request of the subscriber who wishes to retain the same number. Outgoing porting refers to the number of subscribers leaving an operator; incoming are those joining the operator.
Source: Nigerian Communications Commission.

EXHIBIT 7: NIGERIA WORLDWIDE GOVERNANCE INDICATORS

	2010		2015	
	Estimate	Ranking	Estimate	Ranking
Voice and accountability (the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media)	−0.80	27.01	−0.44	33.00
Political stability/no violence (the absence of violence/terrorism measures, perceptions of the likelihood of political instability, and/or politically motivated violence, including terrorism)	−2.19	3.32	−2.07	5.71
Government effectiveness (the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies)	−1.15	10.53	−0.95	16.83
Regulatory quality (the ability of the government to formulate and implement sound policies and regulations that permit and promote private-sector development)	−0.71	26.32	−0.84	21.63
Rule of law (extent to which agents have confidence in and abide by the rules of society—in particular, the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence)	−1.17	12.32	−1.04	12.98
Control of corruption (the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests)	−1.00	15.24	−1.10	11.06

Note: Estimate ranges from –2.5 (weak) to 2.5 (strong); rank is the percentile rank among all countries and ranges from 0 (lowest) to 100 (highest rank).
Source: World Bank Worldwide Governance Indicators.

EXHIBIT 8: NIGERIA'S ECONOMIC TRENDS

Indicator	2010	2011	2012	2013	2014	2015
GDP in millions of US$*	369,062	411,744	460,954	514,965	568,499	525,220
GDP growth rate (%)*	7.84	4.89	4.28	5.39	6.31	2.86
Annualized inflation rate (%)*	13.7	10.8	12.2	8.5	8.1	9
Federal government revenues (₦ in billions)**	2,839	4,628	5,007	4,805	4,714	3,741
Foreign direct investment flow in US$ millions*	6,099	8,915	7,127	5,608	4,694	3,064
Fuel exports (in US$ millions at current prices)***	72,969	87,839	93,492	89,930	77,489	39,318
Annual oil (OPEC Basket Price) US$****	77.45	107.46	109.45	105.87	96.29	49.49
Contribution of telecoms industry to GDP*****	8.9%	8.6%	7.7%	7.4%	7.6%	8.5%

Sources: * UNCTAD; ** Chartered Institute of Management Accountants Nairametrics; *** World Trade Organization; **** Organization of the Petroleum Exporting Countries; ***** Nigerian Communications Commission.

ENDNOTES

[1] This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of MTN or any of its employees.
[2] All currency amounts are in US$ unless otherwise specified.
[3] ₦ = NGN = Nigerian naira; US$1 = ₦199.271 on October 26, 2015.
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