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MTN GROUP LIMITED

https://www.mtn.com/investors/financial-reporting/integrated-reports/

Annual General Meeting
21 May 2020
Financial Year End: 31 December 2019

Proxies voted
CDT Trust
The Ditikeni Trust

The website provides a number of reports which are in fact just pages of the Integrated Annual Report and a lot of time can be wasted downloading these. The proxy form resolutions were incorrectly numbered, one resolution was repeated, and there were errors in the non-executive directors remuneration resolution, when this was queried the company sent a corrected Notice and Proxy and informed us that the correct one was now on the website.

We are concerned at the disruption at board, board committee and executive management level. As reported below, only 1 remaining director will have served on the board for more than 6 years, 6 directors will or have already stepped down, both executive directors have served for 3 or less years and the CEO has announced his decision to step down.

Disclosure of overall employee numbers, employee costs, training, gender diversity etc is very good. The numbers were something of a puzzle as total employee costs are reported as R 10.6bn with total number of employees of 19 288 which gives an AVERGE salary of R 550 000 per annum.

The Report is called interactive by which MTN; it has embedded hyperlinks which worked well. The layout is seemingly designed to be read on a phone – really! The font is too small on a laptop screen, even at 100% it was difficult to read due to the small font used, and double page spreads were impossible to read properly. Layout should be in landscape to be read on an average laptop screen. The extensive use of bold text in blocks of text was not easy to read. One of the most difficult reports to read, even pictures are split over two pages.

	Resolution	Rationale	Vote	Outcome of AGM
	To present and consider: the audited annual financial statements (AFS); the directors' report; the audit committee report; the report of the social and ethics committee.	We are pleased that the AFS and reports are presented to shareholders. Our preference is for these to be put to the vote as this assists in ensuring shareholders engage with the AFS and reports. The audit report has no qualifications.		
	Ordinary Resolutions			
1	To consider the election and re-election of directors by separate resolutions	There were a number of changes to the board during, at the end of and shortly after the financial year: - A new chairman was appointed - A new lead independent director was appointed - 4 directors step down - A further 2 step down in early 2020 - 2 new directors were appointed We are pleased that a strong minded and respected person has been appointed as the independent chairman, there is some confusion as the directors' fees (special resolution 1 below) only provide for a foreign chairman's fees. However, with the retirement of 4 directors including the long serving former CEO and Executive Chair and with a further 2 directors leaving and the impending retirement of the current CEO we will be looking to ensure proper provision is made for continuity. **Independence:** 80% independent, 6.7% non-exec and 13.3% exec. Tenure: <3yrs 45.5%; 3-6yrs 45.5%; 6-9yrs 0; >9yrs 9%. The figures here are for non-executives after impending retirements. Both executive directors have served less than 3 years. **Continuity:** As noted above, we do have a concern with continuity and the potential loss of institutional knowledge. This concern is heightened as only 1 (9%) of directors have served for more than 6 years and 45% for less than 3 years. To compound this concern both executive directors have served for less than 3 years and the impending retirement of the CEO has been announced.		

	Resolution	Rationale	Vote	Outcome of AGM
		Diversity: The report states that 40% of directors are female and 60% are black. However, in terms of rules governing score cards, foreign directors are all classified as white (not previously disadvantaged individuals) and after the impending resignations we find only 18% are women and 45% are black (pdi). As is fitting a company with an international footprint, only 45% of directors are South African. Age includes executives in their table so the following has been compiled excluding executives who would generally be younger than non-executives. Average age 58yrs with one over 65yrs. Given, the nature of the industry we expect a young profile of directors. **Skills:** A detailed graphic of all skills is provided and it appeared to cover all bases. Our key concern is continuity and this will inform our support or otherwise of directors. Directors profiles included are most inadequate. MTN appears to be overly concerned with appointing high-profile people to the board.		
1.1	Election of L Sanusi as a director	Mr Sanusi, 58, is suitably skilled and experienced. He is one of the directors appointed during the year, we are unable to assess his attendance from information provided. Mr Sanusi is a prominent Nigerian and it is appropriate that MTN include people from that country on the board. He does not appear to be over-committed.	FOR	FOR 99.8%
1.2	Election of V Rague as a director	Mr Rague, 66, is suitably skilled and experienced. As with Mr Sanusi, he is a new appointee and we are unable to assess his attendance. Mr Rague is a prominent Kenyan and it is appropriate that MTN include people from that country on the board. However, we find that he is hopelessly overcommitted and consequently oppose his appointment. As he is a new appointment we have no concerns regarding continuity in opposing his appointment.	AGAINST	FOR 94.7%

	Resolution	Rationale	Vote	Outcome of AGM
1.3	Re-election of S Miller as a director	Mr Miller, 61, is suitably skilled and experienced and has served on the board for 3 years. His attendance record in 2019 was good and an improvement on 2018 attendance. He does not appear to be overcommitted and with 3 years' service he is one of the longer serving directors.	FOR	FOR 99.8%
1.4	Re-election of P Hanratty as a director	Mr Hanratty, 58, is suitably skilled and experienced and his attendance record in 2019 was impeccable and was an improvement from 2018. He does not appear to be overcommitted and as with Mr Miller with 3 years' service he is one of the longer serving directors. We are reluctant to lose any of the directors with a service history with the company, however Mr Hanratty has recently been appointed the CEO of Sanlam Ltd and he is to be congratulated on the appointment. It is a challenging appointment and we cannot see that Mr Hanratty will have the time and energy to devote to other directorships – he is now overcommitted.	AGAINST	FOR 96.9%
1.5	Re-election of N Sowazi as a director	Mr Sowazi, 56, is suitably skilled and experienced and his attendance record in 2019 was good and a great improvement on his poor attendance record in 2018. He is overcommitted but many of the boards he serves on or chairs are not listed companies and with 3 years' service we are reluctant to oppose his reappointment given our grave concern with continuity.	FOR	FOR 94.5%
1.6	Re-election of AT Mikati as a director	Mr Mikati, 47, is not an independent director and with 13 years' service on the board he is the only long serving director and is not classified independent. We are not told why he is not classified as independent but news reports from 2006 when he was first appointed a director, state that his family acquired up to 10% of MTN. His family are not listed in the AFS as significant shareholders but the holding/s could be through nominee companies. His attendance record in 2019 was impeccable and in 2018 it was excellent with only 1 committee meeting missed. He is not overcommitted.	FOR	FOR 85.0%

	Resolution	Rationale	Vote	Outcome of AGM
2.	To consider the election and re-election of members of the audit committee by separate resolutions	As noted under 1 above, we do not have concerns regarding the independence of the board. Our key concern is continuity and this applies to this committee.		
2.1	To elect KC Ramon as a member of the audit committee	Ms Ramon, 52, is the longest serving independent director with 5 years' service. Her attendance record in 2019 was good and in 2018 it was impeccable. She is well qualified to lead this committee.	FOR	FOR 99.5%
2.2	To elect B Tshabalala as a member of the audit committee	Ms Tshabalala, 54 was appointed in 2018. Her attendance record in 2019 was unacceptable with 54% of board meetings attended and only 46% of committee meetings attended. This is in sharp contrast to her impeccable attendance in 2018 but with no explanation for the shocking attendance her appointment to this committee is opposed.	AGAINST	FOR 96.2%
2.3	To elect V Rague as a member of the audit committee	Mr Rague's appointment to the board is opposed under 1.2 above.	AGAINST	FOR 99.3%
2.4	To elect PB Hanratty as a member of the audit committee	Mr Hanratty has been evaluated as a director under 1.4 above and we oppose his appointment as he is overcommitted.	AGAINST	FOR 97.5%
3	To consider the election and re-election of members of the social and ethics committee by separate resolutions	It is not a requirement at this time for the company to put the election of member of the Social and Ethics Committee to shareholders. We are pleased at this level of engagement. We are concerned that all the long standing members of this committee are leaving and only Mr Sanusi continues from 2019 – he were both only appointed to the board during the year. Again, the level of disruption of the board, committees and executives is disturbing.		
3.1	To elect L Sanusi as a member of the social and ethics committee	Mr Sanusi is evaluated under 1.1 above and we know of no reasons why he should not serve on this committee. He is a new appointee to the board.	FOR	FOR 99.9%
3.2	To elect S Miller as a member of the social and ethics committee	Mr Miller is evaluated under 1.3 above and although he has been a director for 3 years this will be his first year on this committee.	FOR	FOR 99.9%
3.3	To elect N Sowazi as a member of the social and ethics committee	Mr Sowazi is evaluated under 1.5 above and although he has served as a director for 3 years this will be his first year on this committee.	FOR	FOR 98.9%

	Resolution	Rationale	Vote	Outcome of AGM
3.4	To elect K Mokhele as a member of the social and ethics committee	Mr Mokehle 64, has been a director for just over a year. His attendance record in 2019 was good (2018 could not be evaluated as he was only appointed in that year). He is suitably skilled and experienced to serve on this committee, and is the Lead Independent Director. However, he serves as non-executive chairman of two other listed companies and as such we consider him overcommitted.	AGAINST	FOR 94.6%
4	Re-appointment of Pricewaterhouse Coopers Inc. (PWC) as an auditor of the company	PWC serve as joint auditors of the company and were first appointed on the formation of the company 26 years ago. PWC are one of the big international firms and are competent to carry out the audit of the company. The audit partner is named and his length of service. Impending regulations regarding the rotation of auditors will limit audit tenure to 10 years. The audit committee has undertaken a tender process and Ernst & Young are nominated under 6 below to replace SizweNtsaluba Gobodo Grant Thornton as the first replacement to allow and overlap of the joint auditors. We commend the audit committee on making the change to auditors ahead of the legal cut-off date when we expect a level of confusion to arise. No reason is given as to why SizweNtsaluba Gobodo Grant Thornton are being replaced and not PWC but this is not a major issue. On the basis that the rotation is under way we support the reappointment of PWC despite their very long service.	FOR	FOR 68.0%
5	Re-appointment of SizweNtsaluba Gobodo Grant Thornton Inc. as an auditor of the company for the year ended 31 December 2020.	SizweNtsaluba Gobodo Grant Thornton have been auditors for 17 years and this is the last year they will carry out this duty. The audit partner is named and his length of service, 2020 will the last year he would be able to serve as audit partner in terms of the Companies Act. They are a large local firm and are capable of acting as auditors of the company. See 4 above re audit firm rotation.	FOR	FOR 92.1%
6	Appointment of Ernst & Young (EY) as an auditor of the company for the year ending 31 December 2021.	EY are one of the large international audit firms and are capable of carrying out the audit. See 4 above re audit firm rotation.	FOR	FOR 99.5%

	Resolution	Rationale	Vote	Outcome of AGM
7	General authority for directors to allot and issue ordinary shares	This resolution allows the directors to issue shares or securities convertible into shares subject only to the laws and regulations and limited to 5% of the issued share capital. Such issue shall be in addition to shares issued under any employee incentive schemes. The resolution does not specify the price, terms or circumstances under which the directors may issue such shares or securities. The resolution is extremely broad and sweeping and reason is provided for the resolution.	AGAINST	FOR 82.1%
8	General authority for directors to allot and issue ordinary shares for cash	This resolution which requires the approval of 75% of shareholders, enables directors to issue shares per resolution 7 above for cash. The only further restriction to those imposed under 7 above is that the discount such shares are issued at my be no greater than 5% of the average traded price. The directors note that they have no intention at present of issuing such shares but would like the right in case a business opportunity presents itself. We are of the opinion that a business opportunity of the magnitude of more than R 3bn (being 5% of the market cap at the lowest price in the last 10 years) and issuing shares to that value for cash should be placed before the shareholders.	AGAINST	FOR 81.6%
9	Non-binding advisory vote – endorsement of the company's remuneration policy report.	The Remuneration Report is fairly easy to follow which is a welcome change to many company remuneration reports. However, shareholders have not greeted MTN's remuneration reports with a great deal of enthusiasm with the 2017 and 2018 AGM's not approving the reports. The 2019 reports were narrowly approved. A large remuneration committee comprising 6 independent directors if recently retired directors are excluded. The Report tells us that fixed pay *is benchmarked with the general market and industry comparatives (peer group)*. However, we are not given details of the benchmarking – who does this and which companies comprise the Peer Group.	AGAINST	AGAINST 40.3%

	Resolution	Rationale	Vote	Outcome of AGM
		Short Term Incentives (STIs) for the CEO and CFO are capped at 200% and 175% respectively of annual fixed remuneration. STIs are based on 70% company performance and 30% team performance. Company performance metrics are Revenue, EBITDA, Operating free cash flow, Group attributable earnings, which make up 80% of company performance. The remaining 20% is made up of non-financial metrics: Market share, Customer churn and Customer promoter score. The later is the willingness of customers to recommend the company and products to others. Team performance making up 30% of the bonus is defined *a collection of key performance indicators (KPIs) that look at broader aspects of delivery on the strategy, including cash upstreaming, subscriber growth, active data users, regulatory risk management, network quality etc*. No further details are provided. The Long Term Incentives (LTIs) are in the form of share allocations and the metrics applied to the CEO and CFO are TSR against the index for telecoms 25%, Cumulative operating free cash flow 25%, Return on average capital employed 8.3%, Compliance 8.3% and BEE 8.3% and Service/retention (remaining in the employ of the company) 25%. We are pleased that malus and clawback provisions are included. The company strategy emphasised throughout the report is – BRIGHT - customers, returns, commercial performance, growth, hearts and minds & technological excellence. We find that neither the STIs nor the LTIs are sufficiently aligned with this strategy. Customers are only included in the STI, returns being financial returns are strongly covered, as is commercial performance albeit largely financial and growth is indirectly covered but hearts and minds and technological excellence do not appear to be covered at all.		

	Resolution	Rationale	Vote	Outcome of AGM
10	Non-binding advisory vote – endorsement of the company's remuneration implementation report.	We note with concern that the CEO and CFO are awarded a LTI equivalent to 50% of their annual base pay even if their performance is below threshold. This presumably is the Service/retention component spoken of above. The CEO, CFO and COO were all paid significant on-board bonuses in 2017 the value of which at the time was just under R 100m. It now appears that the CEO and COO will leave in early 2021 after 4 years' service having received onboard bonuses of R 41m and R 8m respectively. The company have informed us that no part of these bonuses will be clawed back or forfeited. The CEO and CFO base salaries are R 20 257k and R 10 449k and increases granted were 13% and 11% respectively. We found no justification for these above inflation increases and no details are provided of general staff increases. Their STI's were just below 140% of their annual base salary, R 27 584k and R 13 434k The CEO's LTI amounted to 75% of 200% of his base salary or 150% of his base salary. Total remuneration for the CEO and CFO amounted to R 58m and R 66m respectively. The CFO's remuneration includes his onboard bonus whereas the CEO will only receive this at the end of his contract in March 2021 The share price since the CEO and CFO were appointed has dropped from approximately R 128 per share to R 87 per share pre-covid. However, pre tax profits have increased during that period from R 9.55b to R 19.85b on a like for like basis, still far off the heady days of R 51b of 2014. The remuneration of the executives is spectacular and whilst there has been significant revenue growth, shareholders are not seeing the same returns as the executives are with a share price that continues to plummet.	AGAINST	AGAINST 33.2%

	Resolution	Rationale	Vote	Outcome of AGM
	Special Resolutions			
1	Approval of remuneration payable to non-executive directors	We had some concerns and some confusion regarding proposed directors' fees and some corrections were made when we queried these: - The chairman's fee was proposed for a foreign director only but the recently appointed chairman, Mcebisi Jonas, is a South African. Now in Rand as well; - The resolution states *Pursuant to an independent review, no increase in the board fees is recommended*. However, we noted that the proposal did increase some fees, and reduces other fees. We were told that the statement applied to board fees only and not to committee fees. - We are concerned that the relationship between Euro fees and Rand fees is inappropriate. At current exchange rates the Euro fees for directors are <u>7 x the Rand fees</u>, for other positions the Euro fees converted to Rands are just under 2 x the Rand fee. It is difficult to arrive at fair remuneration given the very different countries in which foreign directors live, some of those countries will have a much higher cost of living and remuneration levels whilst others will have a lower cost of living and remuneration levels than South Africa. The 7 fold differential is grossly excessive. We were told that this was correct and was the company's intention. - The Rand fee for the Lead Independent Director is rightly higher than the Rand fee for a director. The Euro fee for the Lead Independent Director was <u>lower</u> than the Euro fee for a director. This has now been corrected. - It is unusual for a chairman to be paid attendance fees in addition to the base fee, taking this into account we find the differential between board fees and the chairman's fee to be high. The preparation of this resolution was sloppy and did not agree to the Remuneration Report, it has now been corrected after we queried this with the company. We still find the fees inappropriate in particular foreign directors fees.	AGAINST	FOR 76.3%

	Resolution	Rationale	Vote	Outcome of AGM
2	Repurchase of the company's shares	This resolution will empower the company or any of its subsidiaries to purchase or re-purchase up to 10% of the issued share capital at a price which is no greater than 10% above the average share price subject to applicable laws and regulations. However, no reason is provided for this resolution and given that the board is simultaneously looking for the authority to issue shares for cash (ordinary resolution 8 above) there does not appear to be any real intention to repurchase or issue. Further, we consider repurchases in general prejudicial to minority interests.	AGAINST	FOR 99.3%
3	Financial assistance to subsidiaries and other related and interrelated entities	We do not favour broad and poorly defined resolutions and as such are inclined not to favour resolutions such as this one. However, we do recognise the need to provide financial assistance to subsidiary companies but this must be on a fair and proper basis. In this case we are particularly opposed to this resolution which states inter alia that funds may be advanced to a subsidiary or related company for *the subscription for any option, or any securities issued or to be issued by the company*. There are insufficient checks and balances outlined in the resolution.	AGAINST	FOR 94.2%
4	Financial assistance to directors and/or prescribed officers and employee share scheme beneficiaries	This resolution clearly states that authority is sought to provide financial assistance to directors or prescribed officers *in order to facilitate their participation in any such schemes that do not constitute employee share schemes that satisfy the requirements of section 97 of the Companies Act*. We can see no reason why permission should be sought for authority to make loans for schemes which do not comply with the Companies Act.	AGAINST	FOR 95.5%

	Resolution	Rationale	Vote	Outcome of AGM

Outcome of the AGM

The meeting was not very well attended with only 70% of shares voted in person or by proxy.

Shareholders are clearly not overjoyed with the way in which MTN is being managed with support of resolutions of 85%, MTN has the lowest approval rating of companies voted by Active so far this year by a large margin.

Neither of the remuneration advisor votes were approved, this will be the third year in a row that one or both of these resolutions have not been approved. The special resolution approving the non-executive directors' remuneration was only passed by a narrow margin of 1.3%.

Active will register our interest in taking part in the remuneration consultations once the company opens this process and will post our submission and any response here.