



# MTN Zakhele Futhi (RF) Limited

Interim Financial Results

for the 6 months ended 30 June 2018



# ***Index***

The reports and statements set out below comprise the annual report presented to the shareholders.

<b>Index</b>	<b>Page</b>
Results overview	3
Summarised statement of profit or loss	4
Summarised statement of other comprehensive income	4
Summarised statement of financial position	5
Summarised statement of changes in equity	6
Summarised statement of cash flows	7
Notes to the summarised annual financial statements	8 – 14
Administration	15

## **Preparer**

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Manager Client Relationships: Share Scheme Administration - Nedbank Limited

## **Supervised by**

Jaynesh Padayachy CA (SA)

Senior Financial Manager: Central Finance - Nedbank Limited

# **Results overview**

## **Performance for the six months ended 30 June 2018**

### **Financial performance**

The Company's financial performance is based entirely on the MTN Group share price and any dividend declared and received from MTN Group during the year.

At 30 June 2018, the Company recognised a loss after taxation of R26.4 million (30 June 2017: R112.8 million profit; 31 December 2017: R366.9 million profit). The loss is entirely attributable to the revaluation of the derivative asset.

At 30 June 2018 the MTN Group share price decreased by R28.70 from the prior financial year to R107.90. The decrease in the MTN share price had a direct impact on the revaluation of the derivative financial asset resulting in a loss of R392.9 million (30 June 2017: R189.5 million; 31 December 2017: R7.9 million) being recognised in the profit or loss.

In addition to the fair value loss recognised on the derivative financial asset, a fair value loss of R1 466.9 million (30 June 2017: R616.9 million; 31 December 2017: R533.1 million profit) was recognised in the statement of comprehensive income.

### **Repayment of MTN Zakhele Futhi's debt**

During the 6 month period, the Company received greater-than-expected dividends from MTN Group and was able to repay debt in excess of the budgeted repayment schedule. The Company received R345.8 million (30 June 2017: R345.8 million; 31 December 2017: R537.8 million) in dividend income from MTN Group. This income was used firstly to pay the Company's permitted operational costs and tax with the remainder of the dividend income being used to pay dividends owing to the preference shareholders and to reduce the capital portion of the debt owing to the preference shareholders.

R235.3 million (30 June 2017: R271.7 million; 31 December 2017: R398.5 million) of the dividend income was applied towards the early redemption of the preference shares during the 6 month period ended 30 June 2018. This will ultimately result in a reduction of dividends payable on the preference shares over the life of these instruments.

## Summarised statement of profit or loss

for the 6 months ended 30 June 2018

		6 months ended 30 June 2018	6 months ended 30 June 2017	Year ended 31 December 2017
	Notes	R'000	R'000	Audited R'000
Dividend Income	5	345 759	345 759	537 848
Directors emoluments		(341)	(312)	(604)
Other operating expenses		(5 554)	(6 435)	(13 630)
<b>Operating profit</b>		<b>339 864</b>	<b>339 012</b>	<b>523 614</b>
Finance income		1 609	2 109	3 461
Finance costs incurred on financial liabilities measured at amortised cost		(62 498)	(80 691)	(152 989)
Loss on re-measurement of the derivative financial instrument		(392 925)	(189 504)	(7 922)
<b>(Loss)/profit before taxation</b>		<b>(113 950)</b>	<b>70 926</b>	<b>366 164</b>
Income tax credit		87 564	41 843	806
<b>(Loss)/profit for the period</b>		<b>(26 386)</b>	<b>112 769</b>	<b>366 970</b>

## Summarised statement of comprehensive income

for the 6 months ended 30 June 2018

	6 months ended 30 June 2018	6 months ended 30 June 2017	Year ended 31 December 2017
	R'000	R'000	Audited R'000
<b>Profit for the period</b>	<b>(26 386)</b>	<b>112 769</b>	<b>366 970</b>
<b>Other comprehensive (loss)/income – items that will subsequently be reclassified to profit or loss:</b>	<b>(1 138 374)</b>	<b>(478 752)</b>	<b>413 702</b>
(Loss)/gain on re-measurement of the available-for-sale financial asset	(1 466 977)	(616 948)	533 121
Deferred tax on gain/(loss) on re-measurement of the available-for-sale financial asset	328 603	138 196	(119 419)
<b>Total comprehensive (loss)/income for the period</b>	<b>(1 164 760)</b>	<b>(365 983)</b>	<b>780 672</b>

# Summarised statement of financial position

for the 6 months ended 30 June 2018

		6 months ended 30 June 2018	6 months ended 30 June 2017	Year ended 31 December 2017
	Notes	R'000	R'000	Audited R'000
<b>Assets</b>				
<b>Non-Current Assets</b>				
Available-for-sale financial assets	6	5 515 224	5 832 132	6 982 201
Derivative financial assets	7	486 691	698 034	879 616
		<b>6 001 915</b>	<b>6 530 166</b>	<b>7 861 817</b>
<b>Current Assets</b>				
Current tax receivable		41	1	3
Cash and cash equivalents		33 824	10 753	7 219
Cash and cash equivalents – restricted funds		3 958	7 272	4 193
Other receivables		350	966	603
		<b>38 173</b>	<b>18 992</b>	<b>12 018</b>
<b>Total Assets</b>		<b>6 040 088</b>	<b>6 549 158</b>	<b>7 873 835</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Share capital		2 468 336	2 468 366	2 468 336
Reserves		1 092 922	1 502 843	2 536 206
Accumulated profit		623 936	232 120	345 412
		<b>4 185 194</b>	<b>4 203 299</b>	<b>5 349 954</b>
<b>Liabilities</b>				
<b>Non-Current Liabilities</b>				
Borrowings	8	1 514 366	1 875 978	1 750 617
Deferred tax		315 482	433 811	732 100
		<b>1 829 848</b>	<b>2 309 789</b>	<b>2 482 717</b>
<b>Current Liabilities</b>				
Borrowings	8	19 140	25 678	34 521
Other liability		3 958	7 272	4 193
Trade and other payables		1 948	3 120	2 450
		<b>25 046</b>	<b>36 070</b>	<b>41 164</b>
<b>Total Liabilities</b>		<b>1 854 894</b>	<b>2 345 859</b>	<b>2 523 881</b>
<b>Total Equity and Liabilities</b>		<b>6 040 088</b>	<b>6 549 158</b>	<b>7 873 835</b>

## Summarised statement of changes in equity

for the 6 months ended 30 June 2018

	6 months ended 30 June 2018	6 months ended 30 June 2017	Year ended 31 December 2017
	R'000	R'000	Audited R'000
<b>Share Capital</b>	<b>2 468 336</b>	<b>2 468 336</b>	<b>2 468 336</b>
Balance at the beginning of the period	2 468 336	2 468 336	2 468 336
Issue of shares during the period	-	-	-
<b>Available-for-sale reserve</b>	<b>715 252</b>	<b>961 172</b>	<b>1 853 626</b>
Balance at the beginning of the period	1 853 626	1 439 924	1 439 924
Other comprehensive (loss)/income for the period	(1 138 374)	(478 752)	413 702
<b>Non-distributable reserve</b>	<b>377 670</b>	<b>541 671</b>	<b>682 580</b>
Balance at the beginning of the period	682 580	688 727	688 727
Transfer between reserves *	(304 910)	(147 056)	(6 147)
<b>Total reserves</b>	<b>1 092 922</b>	<b>1 502 843</b>	<b>2 536 206</b>
<b>Accumulated profit</b>	<b>623 936</b>	<b>232 120</b>	<b>345 412</b>
Balance at the beginning of the period	345 412	(27 705)	(27 705)
(Loss)/profit for the period	(26 386)	112 769	366 970
Transfer between reserves *	304 910	147 056	6 147
<b>Total equity at the end of the period</b>	<b>4 185 194</b>	<b>4 203 299</b>	<b>5 349 954</b>

\*The transfer between reserves arises in respect of the gain on re-measurement of the derivative financial asset that was recorded in the profit and loss. The amount transferred is net of the related deferred tax.

This transfer of the net gain from retained earnings to the non-distributable reserve is effected as the gain is currently not distributable.

## ***Summarised statement of cash flows***

*for the 6 months ended 30 June 2018*

	<b>6 months ended 30 June 2018</b>	<b>6 months ended 30 June 2017</b>	<b>Year ended 31 December 2017</b>
	<b>R'000</b>	<b>R'000</b>	<b>Audited R'000</b>
<b>Cash flows from operating activities</b>			
Cash used in operations	339 614	325 987	510 285
Interest income received	1 609	2 109	3 461
Finance costs paid	(78 774)	(72 729)	(134 818)
Tax paid	(488)	(905)	(1 272)
<b>Net cash from operating activities</b>	<b>261 961</b>	<b>254 462</b>	<b>377 654</b>
<b>Cash flows from financing activities</b>			
Redemption of cumulative redeemable non-participating preference shares	(235 356)	(271 724)	(398 451)
Cash (refund to)/received from unsuccessful participants	(235)	(564)	(3 643)
<b>Net cash from financing activities</b>	<b>(235 591)</b>	<b>(272 288)</b>	<b>(402 093)</b>
<b>Total cash at the beginning of the period</b>	<b>11 412</b>	<b>35 851</b>	<b>35 851</b>
<b>Total cash movement for the period</b>	<b>26 370</b>	<b>(17 826)</b>	<b>(24 439)</b>
<b>Total cash at the end of the period</b>	<b>37 782</b>	<b>18 025</b>	<b>11 412</b>

# Notes to the summarised financial statements

for the 6 months ended 30 June 2018

## 1. General information

MTN Zakhele Futhi (RF) Limited was incorporated as a public company under the laws of the Republic of South Africa on 21 June 2016.

The company is incorporated as the special purpose investment vehicle to effect MTN Group Limited's 2016 Broad Based Black Economic Empowerment ("BBBEE") transaction.

## 2. Basis of preparation

The summarised financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"), the presentation and disclosure requirements of IAS 34, Interim Financial Reporting, and the interpretation of these standards as adopted by the Independent Accounting Standards Board, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the South African Companies Act, 71 of 2008 as amended.

## 3. Accounting policies

The accounting policies adopted are described in the financial statements. During the period under review, the Company adopted all the IFRS and interpretations that were effective and deemed applicable to the Company. The accounting policies are consistent with those of the prior financial period.

## 4. Contingent liabilities and commitments

There is no reimbursement to any third party for potential obligations of the company that have not been accrued for at the end of the period. The company did not have any contingent liabilities at the end of the period.

## 5. Dividend income

During the period, MTN Zakhele Futhi received dividends from its investment in MTN Group Limited shares.

The total dividend income received by MTN Zakhele Futhi (RF) limited from MTN Group Limited during the financial period was R345 759 201 (30 June 2017: R345 759 201; 31 December 2017: R537 847 646).

## 6. Available-for-sale financial assets

The investment consists of 51 114 213 (30 June 2017: 51 114 213; 31 December 2017: 51 114 213) MTN Group Limited shares. The total investment, including the derivative financial assets, comprises a total of 76 835 378 MTN Group Limited shares, representing approximately 4% of the MTN Group issued share capital.

The shares were acquired for cash at a price of R4 593 511 342 on 23 November 2016.

The fair value of the available-for-sale investment is based on a quoted market price of R107.90 (30 June 2017: R114.10; 31 December 2017: R136.60) per share as listed on the JSE Limited at 30 June 2018. The total loss recorded in other comprehensive income for the current financial period is R1 466 977 913 (30 June 2017: R616 948 551; 31 December 2017: R533 121 241 gain).

	6 months ended 30 June 2018	6 months ended 30 June 2017	Year ended 31 December 2017
	R'000	R'000	Audited R'000
Balance at the beginning of the period	6 982 201	6 449 080	6 449 080
Gain on re-measurement of available-for-sale financial assets	(1 466 977)	(616 948)	533 121
<b>Balance at the end of the period</b>	<b>5 515 224</b>	<b>5 832 132</b>	<b>6 982 201</b>



# Notes to the summarised financial statements *continued*

for the 6 months ended 30 June 2018

## 7. Derivative financial assets

As part of the implementation of the MTN Group BBBEE scheme, MTN Zakhele Futhi obtained Notional Vendor Finance ("NVF") to facilitate the purchase of MTN Group shares. MTN Group issued 25 721 165 NVF shares to MTN Zakhele Futhi at a total subscription price of R2 572. MTN Group has a call option against MTN Zakhele Futhi in respect of a variable number of shares.

The notional outstanding debt at a given point in time is dependent on the dividends generated by MTN Group during the life of the option. The structure therefore represents a path dependent option for MTN Zakhele Futhi. The Monte Carlo simulation was applied as the valuation technique which is in line with the standard market practice.

The valuation was performed at 30 June 2018 indicating a value of R486 690 552 (30 June 2017: R698 033 749; 31 December 2017: R879 615 583). The significant inputs into the model at the valuation date were as follows:

- the market price of MTN Group shares of R107.90 (30 June 2017: R114.10; 31 December 2017: R136.60);
- the NVF balance of approximately R3 769 million (30 June 2017: R3 470 million; 31 December 2017: R3 621 million);
- volatility of 31,59% (30 June 2017: 31,18%; 31 December 2017: 31,24%);
- a dividend yield of 5,76% (30 June 2017: 6,08%; 31 December 2017: 4,66%);
- an expected option life of 8 years from inception (30 June 2017: 8 years; 31 December 2017: 8 years); and
- an annual risk free rate of 8,00% (30 June 2017: 7,82%; 31 December 2017: 7,60%).

	6 months ended 30 June 2018	6 months ended 30 June 2017	Year ended 31 December 2017
	R'000	R'000	Audited R'000
Balance at the beginning of the period	879 616	887 538	887 538
Fair value adjustments recorded in profit or loss	(392 925)	(189 504)	(7 922)
<b>Fair value at the end of the period</b>	<b>486 691</b>	<b>698 034</b>	<b>879 616</b>

## 8. Borrowings

MTN Zakhele Futhi issued cumulative redeemable non-participating MTN Zakhele Futhi preference shares ("MTN Zakhele Futhi preference shares") to Jabisan 04 (RF) Proprietary Limited on 23 November 2016 at an issue price of R1 000 per MTN Zakhele Futhi preference share. The MTN Zakhele Futhi preference shares are redeemable after 5 years from the date of issue i.e. 23 November 2021.

The MTN Zakhele Futhi preference shares accrue preference share dividends at the MTN Zakhele Futhi Dividend Rate of 75% of the prime rate expressed as a simple rate of interest (compounded on each MTN Zakhele Futhi scheduled preference dividend date) with the preference shares dividends accrued (in arrears) being payable on 30 April and 30 September over the term of the MTN Zakhele Futhi preference shares, or such earlier date as may be agreed in writing by MTN Zakhele Futhi and the Preference Share Agent at least 5 business days prior to 30 September of any year during the term of the MTN Zakhele Futhi preference shares.

## Notes to the summarised financial statements *continued*

for the 6 months ended 30 June 2018

### 8. Borrowings (continued)

	6 months ended 30 June 2018	6 months ended 30 June 2017	Year ended 31 December 2017
	R'000	R'000	Audited R'000
Balance at the beginning of the period	1 785 138	2 165 418	2 165 418
Redemption of non-participating preference shares at a par value of R1 000	(235 356)	(271 724)	(398 451)
Dividends paid on cumulative redeemable non-participating preference shares	(78 774)	(72 729)	(134 818)
Accrued dividends at the effective dividend rate	62 498	80 691	152 989
Balance at the end of the period	<b>1 533 506</b>	<b>1 901 656</b>	<b>1 785 138</b>

### 9. Related parties

#### Relationships:

Preference shareholder:	Jabisan 04 (RF) Proprietary Limited
Shareholder of preference shareholder:	BFC2 Ownership Trust
Provider of Notional Vendor Finance:	MTN Group Limited
Non-executive directors:	Shauket Allie Fakie <sup>(1)</sup>
	Simphiwe Cele <sup>(1)</sup>
	Sibongile Mtshali <sup>(1)</sup>
	Sindisiwe Mabaso-Koyana <sup>(2)</sup>
	Sonja De Bruyn Sebotsa <sup>(2)</sup>
	Grant Gelink <sup>(3)</sup>

(1) Resigned from the board of directors on 6 June 2017.

(2) Appointed as a member of the board on 6 June 2017.

(3) Appointed as a member of the board on 9 June 2017.

## Notes to the summarised financial statements *continued*

for the 6 months ended 30 June 2018

9. Related parties (continued)	6 months ended 30 June 2018	6 months ended 30 June 2017	Year ended 31 December 2017
	R'000	R'000	Audited R'000
<b>Related party balances:</b>			
<b>Preference share liability</b>			
Jabisan 04 (RF) Proprietary Limited	1 533 506	1 901 656	1 785 138
<b>Amounts included in Other Payables regarding related parties</b>			
Shauket Allie Fakie, in respect of directors remuneration	-	59	59
MTN Group Limited	-	-	-
	-	<b>59</b>	<b>59</b>
<b>Ordinary share capital held by related party</b>			
MTN Group Limited	365 499	558 371	365 605
<b>Related party transactions:</b>			
<b>Dividends received from related parties</b>			
MTN Group Limited	345 759	345 759	537 848
<b>Preference dividends to related parties</b>			
Jabisan 04 (RF) Proprietary Limited	(78 774)	(72 729)	(134 818)
<b>Expenses paid on behalf of related parties</b>	<b>(588)</b>	<b>(871)</b>	<b>(1 434)</b>
Jabisan 04 (RF) Proprietary Limited	(588)	(871)	(1 434)
BFC2 Ownership Trust	-	-	-

# Notes to the summarised financial statements *continued*

for the 6 months ended 30 June 2018

9. Related parties (continued)	6 months ended 30 June 2018  R'000	6 months ended 30 June 2017  R'000	Year ended 31 December 2017  Audited R'000
<b>Related party transactions (continued):</b>			
Remuneration of the board of directors – directors' fees	(341)	(312)	(604)
Shauket Allie Fakie <sup>(4)</sup>	-	(166)	(166)
Simphiwe Cele <sup>(5)</sup>	-	-	-
Sibongile Mtshali <sup>(5)</sup>	-	-	-
Sindisiwe Mabaso- Koyana <sup>(6)</sup>	(161)	(71)	(207)
Sonja De Bruyn Sebotsa <sup>(6)</sup>	(87)	(32)	(107)
Grant Gelink <sup>(6)</sup>	(93)	(43)	(124)

*(4) Resigned from the board of directors on 6 June 2017.*

*(5) Simphiwe Cele and Sibongile Mtshali waived their director's fees for 2016 and 2017. Both directors resigned on 6 June 2017.*

*(6) Sindisiwe Mabaso-Koyana and Sonja De Bruyn Sebotsa were appointed as members of the board on 6 June 2017. Grant Gelink was appointed as a member of the board on 9 June 2017.*

The directors do not consider the key service providers to be "key management personnel" as defined in IAS 24, *Related Party Disclosure*.

## 10. Events after the reporting period

The directors are not aware of any other matter or circumstance arising after the reporting date to the date of signing of this report that would require adjustment or disclosure.

## 11. Fair value measurement

In terms of IFRS 13, *Fair Value Measurements*, financial instruments that are measured in the statement of financial position at fair value require disclosure of the fair value measurements by level in terms of the following fair value measurement hierarchy:

- Level 1: Fair value is based on quoted prices (unadjusted) in active markets for identical assets and liabilities. These are readily available and obtainable from multiple sources;
- Level 2: Fair value is based on input other than quoted prices included within Level 1 that are observable from the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); or
- Level 3: Fair value is based on input for the asset or liability that is not based on observable market data (i.e. observable inputs)

## Notes to the summarised financial statements *continued*

for the 6 months ended 30 June 2018

### 11. Fair value measurement (continued)

The fair value of the available-for-sale financial assets is based on the MTN Group share price, as listed on the Johannesburg Stock Exchange ("JSE") Limited. The fair value of the derivative financial asset is based on a valuation model. The input to this model includes the MTN Group share price, which is an observable input in the market. Other inputs include interest rates on the borrowings, which inputs are not observable in the market.

The table below presents the Company's assets and liabilities that are measured at fair value.

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
<b>30 June 2018</b>				
<b>Recurring fair value measurement</b>				
Available-for-sale financial asset	5 151 224	-	-	5 151 224
Derivative financial asset	-	-	486 691	486 691
<b>Amortised cost measurement</b>				
Other receivables	-	350	-	350
Cash and cash equivalents	-	37 782	-	37 782
Borrowings	-	(1 559 337)	-	(1 559 337)
Other payables	-	(1 948)	-	(1 948)
Other liability	-	(3 958)	-	(3 958)
<b>30 June 2017</b>				
<b>Recurring fair value measurement</b>				
Available-for-sale financial asset	5 832 132	-	-	5 832 132
Derivative financial asset	-	-	698 034	698 034
<b>Amortised cost measurement</b>				
Other receivables	-	966	-	966
Cash and cash equivalents	-	18 025	-	18 025
Borrowings	-	(1 901 656)	-	(1 901 656)
Other payables	-	(3 120)	-	(3 120)
Other liability	-	(7 272)	-	(7 272)

## **Notes to the summarised financial statements** *continued*

for the 6 months ended 30 June 2018

<b>11. Fair value measurement (continued)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>31 December 2017</b>				
<b>Recurring fair value measurement</b>				
Available-for-sale financial asset	6 982 201	-	-	<b>6 982 201</b>
Derivative financial asset	-	-	879 616	<b>879 616</b>
<b>Amortised cost measurement</b>				
Other receivables	-	603	-	<b>603</b>
Cash and cash equivalents	-	11 412	-	<b>11 412</b>
Borrowings	-	(1 832 352)	-	<b>(1 832 352)</b>
Other payables	-	(2 450)	-	<b>(2 450)</b>
Other liability	-	(4 193)	-	<b>(4 193)</b>
There were no transfers between level 1, 2 or 3 during the financial year.				

# **Administration**

## **Company registration number**

2016/268837/06

## **Postal address**

PO Box 1144  
Johannesburg  
2000

## **Registered address**

135 Rivonia Road  
Sandown, 2196  
Johannesburg

## **Board of directors**

SN Mabaso-Koyana (non-executive chairman)  
S De Bruyn Sebotsa (non-executive)  
GG Gelink (non-executive)

## **Office of the transfer secretaries**

Nedbank Limited, acting through its Share Scheme Administration business unit  
(Registration number 1951/000009/06)  
135 Rivonia Road  
Sandton, 2196  
Tel: +27 83 900 6863  
E-mail: ssa-zakhelefuthi@Nedbank.co.za

## **Company secretary**

Nedbank Limited, acting through its Group Secretariat  
135 Rivonia Road  
Sandown  
Johannesburg, 2196

## **Auditors**

SizweNtsalubaGobodo Inc.  
20 Morris Street East  
Woodmead, 2191  
PO Box 2939, Saxonwold, 2132

## **Attorneys**

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