MTN Zakhele Futhi (RF) Limited

Interim financial results for the six months ended 30 June 2020

Index

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

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Results overview

Performance for the six months ended 30 June 2020

Financial performance

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

At 30 June 2020, the Company recognised a profit after taxation of R395.7 million (30 June 2019: R310 million). The profit in the period under review is largely attributable to the dividend income received and to a smaller extent for the revaluation of the derivative asset.

At 30 June 2020 the MTN Group Limited share price, at R52.83, decreased by R52.77 from the prior financial year of R105.60 at 30 June 2019. The decrease in the MTN share price had a direct impact on the revaluation of the derivative financial asset, this has resulted in a profit of R167.5 million (30 June 2019: (R39.8) million loss) being recognised in the statement of profit or loss.

In addition to the fair value loss recognised on the derivative financial asset, a fair value loss on the re-measurement of the financial asset of R1 516 million (30 June 2019: R907.2 million gain) was recognised in the statement of comprehensive income.

Repayment of MTN Zakhele Futhi's debt

The Company received R272.8 million (30 June 2019: R249.7 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.

R212.6 million (30 December 2019: R177.9 million) of the dividend income was applied towards the early redemption of the preference shares during the 6-month period ended 30 June 2020. This will ultimately result in a reduction of dividends payable on the preference shares over the life of these instruments.

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF MTN ZAKHELE FUTHI (RF) LIMITED

We have reviewed the Condensed financial statements of MTN Zakhele Futhi (RF) Limited that comprise the Condensed statement of financial position as at 30 June 2020 and the Condensed statement of profit or loss, Condensed statement of comprehensive income, Condensed statement of changes in equity and Condensed statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 5 to 22.

Directors' Responsibility for the interim Financial Statements

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on these interim financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures performed in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Material uncertainty relating to going concern

We draw attention to note 11 in the Condensed financial statements, which indicates that the R15 million advance provided by Mobile Telephone Networks Holdings Limited will only allow the company to meet its obligations for the next 7 months, until MTN's final dividend declaration decision becomes known. Mobile Telephone Networks Holdings Limited has committed to an additional R15 million advance in the event that the MTN Group does not declare a dividend. Taking both advances into account, MTN Zakhele Futhi (RF) Limited will not have enough cash to meet its preference share obligations in April 2021. MTN Group Limited has indicated MTN Group's intention to support the company should it not declare a dividend. This is however subject to approvals which could not be guaranteed at the time of the audit report. As stated in note 11, these events or conditions, along with other matters as set forth in note 11, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Condensed financial statements of MTN Zakhele Futhi (RF) Limited for the six months ended 30 June 2020 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

Agnes Dire
SizweNtsalubaGobodo Grant Thornton Inc.
Director
Registered Auditor

16 October 2020

20 Morris Street East
Woodmead, Gauteng
South Africa
2191

Condensed statement of profit or loss

for the 6 months ended 30 June 2020

	Notes	6 months ended 30 June 2020 Reviewed R'000	6 months ended 30 June 2019 Reviewed R'000	Year ended 31 December 2019 Audited R'000
Dividend Income	5	272 766	249 715	399 544
Directors emoluments		(436)	(342)	(768)
Other operating expenses		(9 010)	(10 499)	(36 320)
Operating profit		**263 320**	**238 874**	**362 456**
Finance income		646	1 999	3 364
Finance costs incurred on financial liabilities measured at amortised cost		(35 607)	(54 690)	(99 717)
Gain/(Loss) on re-measurement of the derivative financial instrument		167 562	(39 807)	(303 210)
Profit/ (Loss) before taxation		**395 921**	**146 376**	**(37 107)**
Income tax expense		(181)	164 612	(942)
Profit/ (Loss) for the period		**395 740**	**310 988**	**(38 049)**
Basic and diluted earnings per share (cents)		**184.88**	**284.23**	**215.85**

Condensed statement of comprehensive income

for the 6 months ended 30 June 2020

	6 months ended 30 June 2020 Reviewed R'000	6 months ended 30 June 2019 Reviewed R'000	Year ended 31 December 2019 Audited R'000
Profit/ (Loss) for the period	**395 740**	**310 988**	**(38 049)**
Other comprehensive loss – items that will subsequently be reclassified to profit or loss:	**(1 516 048)**	**713 980**	**(332 754)**
(Loss)/gain on re-measurement of the financial asset	(1 516 048)	907 277	(332 754)
Deferred tax on gain/(loss) on re-measurement of the financial asset	-	(193 297)	-
Total comprehensive loss for the period	**(1 120 308)**	**1 024 968**	**(370 803)**

Condensed statement of financial position

for the 6 months ended 30 June 2020

	Notes	6 months ended 30 June 2020 Reviewed R'000	6 months ended 30 June 2019 Reviewed R'000	Year ended 31 December 2019 Audited R'000
Assets				
Non-Current Assets				
Investment in equities	6	2 700 364	5 456 442	4 216 411
		2 700 364	**5 456 442**	**4 216 411**
Current Assets				
Current tax receivable		-	52	5
Cash and cash equivalents		23 077	33 809	18 240
Cash and cash equivalents – restricted funds		3 416	3 682	3 566
Other receivables		1 938	453	1 160
		28 431	**37 996**	**22 971**
Total Assets		**2 728 795**	**5 494 438**	**4 239 382**
Equity and Liabilities				
Equity				
Share capital		2 468 336	2 468 336	2 468 336
Reserves		(2 874 845)	97 434	(1 377 875)
Accumulated loss/(profit)		1 330 930	874 727	954 265
		924 421	**3 440 497**	**2 044 726**
Liabilities				
Non-Current Liabilities				
Borrowings	8	952 991	1 265 885	1 165 613
Derivative financial instrument	7	833 213	737 372	1 000 775
Deferred tax		-	28 125	-
		1 786 204	**2 031 382**	**2 166 388**
Current Liabilities				
Borrowings	8	11 237	16 335	22 165
Other liability		3 411	3 682	3 566
Trade and other payables		3 438	2 542	2 537
Current tax payable		84		-
		18 170	**22 559**	**28 268**
Total Liabilities		**1 804 374**	**2 053 941**	**2 194 656**
Total Equity and Liabilities		**2 728 795**	**5 494 438**	**4 239 382**

Condensed statement of changes in equity

for the 6 months ended 30 June 2020

	6 months ended 30 June 2020 Reviewed R'000	**6 months ended 30 June 2019 Reviewed R'000**	**Year ended 31 December 2019 Audited R'000**
Share Capital	**2 468 336**	**2 468 336**	**2 468 336**
Balance at the beginning of the period	2 468 336	2 468 336	2 468 336
Issue of shares during the period	-	-	-
Investment in equities reserve	**(1 893 145)**	**669 637**	**(377 097)**
Balance at the beginning of the period	(377 097)	(44 343)	(44 343)
Other comprehensive (loss)/income for the period	(1 516 048)	713 980	(332 754)
Other reserve	**981 700**	**(572 203)**	**(1 000 778)**
Balance at the beginning of the period	(1 000 778)	(697 568)	(697 568)
Transfer between reserves *	19 078	125 365	(303 210)
Total reserves	**(2 874 845)**	**97 434**	**(1 377 875)**
Accumulated profit	**1 330 927**	**874 727**	**954 265**
Balance at the beginning of the period	954 265	689 104	689 104
(Loss)/profit for the period	395 740	310 988	(38 049)
Transfer between reserves *	(19 078)	(125 365)	303 210
Total equity at the end of the period	**924 418**	**3 440 497**	**2 044 726**

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

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

Condensed statement of cash flows

for the 6 months ended 30 June 2020

	6 months ended 30 June 2020 Reviewed R'000	6 months ended 30 June 2019 Reviewed R'000	Year ended 31 December 2019 Audited R'000
Cash flows from operating activities			
Cash used in operations	(9 270)	(10 652)	(37 611)
Dividend received	272 766	249 715	399 544
Interest income received	646	1 999	3 364
Finance costs paid	(46 539)	(64 909)	(105 403)
Tax paid	(146)	(611)	(946)
Net cash from operating activities	**217 457**	**175 542**	**258 948**
Cash flows from financing activities			
Redemption of cumulative redeemable non-participating preference shares	(212 620)	(177 917)	(276 892)
Cash (refund to)/received from unsuccessful participants	(150)	(83)	(199)
Net cash from financing activities	**(212 770)**	**(178 000)**	**(277 091)**
Total cash at the beginning of the period	**21 806**	**39 949**	**39 949**
Total cash movement for the period	**4 687**	**(2 458)**	**(18 143)**
Total cash at the end of the period	**26 493**	**37 491**	**21 806**

Notes to the condensed financial statements

for the 6 months ended 30 June 2020

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 condensed 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 (RF) Limited 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 R272 765 592 (30 June 2019: R249 714 979).

6. Investment in equities

The investment consists of 51 114 213 (30 June 2019: 51 114 213) MTN Group Limited shares. The total investment, including the derivative financial liability, 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 R52.83(30 June 2019: R106.75) per share as listed on the JSE Limited at 30 June 2020. The total loss recorded in other comprehensive income for the current financial period is R1 516 047 558 (30 June 2019: R907 277 281 gain).

	6 months ended 30 June 2020 Reviewed R'000	**6 months ended 30 June 2019 Reviewed R'000**	**Year ended 31 December 2019 Audited R'000**
Balance at the beginning of the period	4 216 411	4 549 165	4 549 153
Gain/(loss) on re-measurement of investment in equities	(1 516 047)	907 277	(332 742)
Balance at the end of the period	**2 700 364**	**5 456 442**	**4 216 411**

7. Derivative financial instrument

As part of the implementation of the MTN Group Limited 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 2020 indicating a liability of R763 856 175 (30 June2019: R737 371 853).

The significant inputs into the model at the valuation date were as follows:

- the market price of MTN Group shares of R52.83 (30 June 2019: R106.75);
- the NVF balance of approximately R4 404 million (30 June 2019: R4 087 million);
- volatility of 45.59% (30 June 2019: 36.36%);
- a dividend yield of 12.47% (30 June 2019: 6.34%);
- an expected option life of 8 years from inception (30 June 2019: 8 years); and
- an annual risk-free rate of 7,80% (30 June 2019: 7.8%).

	6 months ended 30 June 2020 Reviewed	**6 months ended 30 June 2019 Reviewed**	**Year ended 31 December 2019 Audited**
	R'000	**R'000**	**R'000**
Balance at the beginning of the period	(1 000 775)	(697 565)	(697 565)
Fair value adjustments recorded in profit or loss	167 561	39 807	(303 210)
Fair value at the end of the period	**(833 213)**	**(737 372)**	**(1 000 775)**

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.

8. Borrowings (continued)

	6 months ended 30 June 2020 Reviewed R'000	6 months ended 30 June 2019 Reviewed R'000	Year ended 31 December 2019 Audited R'000
Balance at the beginning of the period	1 187 778	1 470 356	1 470 356
Redemption of non-participating preference shares at a par value of R1 000	(212 620)	(177 917)	(276 892)
Dividends paid on cumulative redeemable non-participating preference shares	(46 538)	(64 909)	(105 403)
Accrued dividends at the effective dividend rate	35 608	54 690	99 717
Balance at the end of the period	**964 228**	**1 282 220**	**1 187 778**

9. Operating Expenses

	6 months ended 30 June 2020 Reviewed R'000	6 months ended 30 June 2019 Reviewed R'000	Year ended 31 December 2019 Audited R'000
Administration and preference agent fees	(4 750)	(3 507)	(7 325)
Auditors remuneration	(307)	(104)	(975)
Securities transfer tax	(531)	(445)	(692)
Legal and other professional fees	(2 090)	(221)	(1 524)
Secretarial expenses	(40)	(39)	(69)
Annual general meeting, including printing and postage	-	(2 562)	(2 624)
Expenses paid on behalf of Jabisan 04 and BFC 2 Ownership Trust	(543)	(461)	(956)
Listing Expense	(749)	(3 160)	(22 155)
Total operating expenses	**(9 010)**	**(10 499)**	**(36 320)**

In accordance with the underlying Transaction document the company pays all the expenses of Jabisan 04 (RF) Proprietary Limited and BFC 2 Ownership Trust. The major expenses paid in respect of these include audit fees and securities transfer taxation paid on the redemption of preference shares by Jabisan 04.

10. 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:	
	Sindisiwe Mabaso-Koyana
	Sonja De Bruyn Sebotsa [(1)]
	Grant Gelink
	Belinda Mapongwana [(2)]
	Manana Nhlanhla [(2)]
	Edward Pitsi [(2)]

(1) Resigned from the board of directors on 22 June 2020.

(2) Appointed as a member of the board on 22 June 2020.

10. Related parties (continued)

	6 months ended 30 June 2020 Reviewed R'000	6 months ended 30 June 2019 Reviewed R'000	Year ended 31 December 2019 Audited R'000
Related party balances:			
Preference share liability			
Jabisan 04 (RF) Proprietary Limited	964 223	1 282 220	1 187 778
Ordinary share capital held by related party			
MTN Group Limited	365 540	365 540	365 540
Related party transactions:			
Dividends received from related parties			
MTN Group Limited	272 765	249 715	399 544
Interest to related parties			
Jabisan 04 (RF) Proprietary Limited	(46 538)	(64 909)	(105 403)
Expenses paid on behalf of related parties	**(543)**	**(460)**	**(956)**
Jabisan 04 (RF) Proprietary Limited	(543)	(460)	(956)
BFC2 Ownership Trust			-
Remuneration of the board of directors – directors' fees	**(380)**	**(342)**	**(768)**
Sindisiwe Mabaso- Koyana	(185)	(172)	(397)
Sonja De Bruyn Sebotsa [(3)]	(78)	(68)	(165)
Grant Gelink	(117)	(102)	(206)
Belinda Linda Mapongwana [(4)]	-	-	-
Manana Margaret Nhlanhla [(4)]	-	-	-
Tebatso Morudi Edward Pitsi [(4)]	-	-	-

(3) Resigned from the board of directors on 22 June 2020.
(4) Appointed as a member of the board on 22 June 2020.

11. Going concern

The interim financial statements have been prepared on the basis of the accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.
Mobile Telephone Networks Holdings Limited has advanced an amount of R15,000,000 to assist MTNZF to meet its immediate liquidity shortfall. This advance will only allow the company to meet its obligations for the next 7 months, until MTN's final dividend declaration decision becomes known.

The directors have assessed the Going Concern assumption based on the following below.

The following factors contribute negatively to the going concern assumption:

- There is currently no guarantee that MTN will declare a full year dividend.
- The received MTN letter of support indicates that whilst it is MTN's intention to provide support, it should not in any way be construed as a guarantee of support or other firm undertaking.
- The company's forecasts and projections indicate that without receipt of a final dividend from MTN, the company will not be able to meet its obligations over the next 12 months.

The following factors contribute positively to the going concern assumption:

- MTN were willing to exercise its call option to acquire the preference share funding which is currently around R964 million in March this year.
- The MTN letter of support does mention that subject to the necessary approvals, indicate that it is MTN Group's current intention to continue to support the MTNZF scheme in the event that it faces further liquidity challenges.
- Mobile Telephone Networks Holdings Limited have further indicated there is an additional R15 000 000 which can be advanced as and when the company needs the liquidity.
- The company's directors are also considering the possibility of requesting future preference share dividends be postponed, which would give the company more liquidity to meet its obligations for the next 12 months.

Consideration of the above factors mentioned above have created a material uncertainty around the going concern assumption for the company for the next 12 months.

Based on the above factors the directors have doubt that the company has adequate resources to meet its obligations for the next 12 months, however based on MTN's advance to assist the company to meet its operational expenses for the period before MTN may or may not announce a dividend, the directors have some comfort that the company can continue to operate for the foreseeable future.

12. Significant events during the reporting period

MTN Group Limited declared a final dividend of 355 cents on 11 March 2020.

On 15 March 2020 the President of the Republic of South Africa declared South Africa to be in a "National State of Disaster" due to the increasing impact of the COVID-19 virus in South Africa. The Covid-19 virus has had an unprecedented global impact, causing the prices of shares globally to decline significantly.

As is customary, the third-party funding documents require the MTN share price to remain above certain set cover levels and price thresholds ("**share covenants**"), which enable the funders to accelerate their repayment should these share covenants be triggered. Due to the impacts of Covid-19, these thresholds were triggered subsequent to year-end.

MTN Zakhele Futhi is structured robustly and is supported by MTN in multiple ways. Over the eight-year life of the scheme, the potential for unforeseen, but material and sudden, movements in market prices was provided for, and a mechanism was included in the Transaction Documents to enable MTN to voluntarily take over the third-party funding in these circumstances, through the exercise of an option to purchase the preference shares. On 26 March 2020, in co-ordination with the third-party funders, and in continued support of MTN Zakhele Futhi, MTN voluntarily entered into an agreement with the holders of the preference shares to exercise its call option to acquire the preference share funding. Under the exercise of the call option, MTN would have acquire the preference shares on and with effect from immediately after the next scheduled priority of payments, which was anticipated to be 15 April 2020.

Following further discussions with the third-party funders after the recent increase in the MTN share price, MTN issued a call option revocation notice and the third-party funders agreed thereto.

No other events were noted up to the 30th June 2020 that require adjustment or disclosure.

13. Financial risk management and financial instruments

a. Financial risk management

The Company has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk (price risk and interest rate risk). This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital. Further quantitative disclosures are included throughout these interim financial statements.

b. Fair value estimation

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs).

13. Financial risk management and financial instruments (continued)

b. Fair value estimation (continued)

The company's policy is to recognised transfers into and transfers out of the fair value hierarchy at the date of the event or change in circumstances that caused the transfer. During the year under review there have been no transfers between any of the levels.

The fair value of the investment in equity financial assets is based on the MTN Group share price, as listed on the 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 borrowings, which inputs are not observable in the market. The assumptions and model used are disclosed in note 3.

The table below presents the Company's assets and liabilities that are measured at fair value (where the fair value does not approximate the financial instruments carrying amount) and those measured at amortised cost whose fair value is disclosed.

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
30 June 2020				
Recurring fair value measurement				
Investment in equities	2 700 364	-	-	2 700 364
Derivative financial instrument	-	-	(833 213)	(833 213)
Amortised cost measurement				

Cash and cash equivalents	-	26 493	-	26 493
Other receivables	-	1 938	-	1 938
Borrowings	-	(964 225)	-	(964 225)
Trade and other payables	-	(3 493)	-	(3 493)
Current tax payable	-	(84)	-	(84)
Other liability	-	(3 415)	-	(3 415)

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
31 December 2019				
Recurring fair value measurement				
Investment in equities	4 216 411	-	-	4 216 411
Derivative financial instrument	-	-	(1 000 775)	(1 000 775)
Amortised cost measurement				
Cash and cash equivalents	-	21 806	-	21 806
Other receivables	-	667	-	667
Borrowings	-	(1 187 778)	-	(1 187 778)
Trade and other payables	-	(2 537)	-	(2 537)
Other liability	-	(3 566)	-	(3 566)

There were no transfers between level 1, 2 or 3 during the financial year.

13. Financial risk management and financial instruments (continued)

c. Derivative financial instrument

Sensitivity analysis – impact of change in the MTN Group share price

The table below summarises the impact of increases/(decreases) of the MTN Group share price on profit or loss.

The analysis is based on the assumption that the MTN Group share price increases/(decreases) by 10% with all other variables held constant.

		Impact on post-tax profit	
		30 June 2020 R'000	31 December 2019 R'000
10%	increase	35 678	39 643
10%	decrease	(13 428)	(14 721)

Sensitivity analysis – impact of change in interest rate

The table below summarises the impact of increases/(decreases) in the interest rate on the borrowings on profit or loss.

The analysis is based on the assumption that the interest rate increased/decreased by 1% with all other variables held constant.

		Impact on post-tax profit	
		31 June 2020 R'000	31 December 2019 R'000
1%	increase	3 180	12 156
1%	decrease	(3 128)	(12 142)

Sensitivity analysis – impact of change in volatility

The table below summarises the impact of increases/(decreases) in the volatility of the MTN Group share price on profit or loss.

The analysis is based on the assumption that the volatility percentage applied in the valuation model increased/decreased by 5% with all other variables held constant.

13. Financial risk management and financial instruments (continued)

c. Derivative financial instrument (continued)

		Impact on post-tax profit	
		31 June 2020 R'000	31 December 2019 R'000
5% (2019: 5%)	increase	134 898	331 915
5% (2019: 5%)	decrease	(133 669)	(202 564)

Sensitivity analysis – impact of dividend yield

The table below summarises the impact of increases/(decreases) in the dividend yield of the MTN Group share price on profit or loss. The analysis is based on the assumption that the dividend yield applied in the valuation model increased/decreased by 1% with all other variables held constant.

		Impact on post-tax profit	
		31 June 2020 R'000	31 December 2019 R'000
1%	increase	(24 698)	(20 174)
1%	decrease	13 567	11 717

d. Financial assets

Price risk

The Company is exposed to equity securities price risk because of investments held by the Company which are classified on the statement of financial position either as financial assets at fair value through other comprehensive income or as financial assets at fair value through profit or loss. The Company's exposure to equity securities price risk is limited to the MTN Group Limited share price.

The table below summarises the impact of increases/(decreases) of the MTN Group Limited share price. The analysis is based on the assumption that the MTN Group share price had increased/(decreased) by 10% with all other variables held constant.

		Impact on other comprehensive income before tax	
		30 June 2020 R'000	31 December 2019 R'000
10%	increase	327 588	421 641
10%	decrease	(482 775)	(421 641)

The methodology for the Price Risk will be changed for the financial year as this current view does not take into consideration the impact of the spot price stresses on the 51 million shares separately disclosed in the financial statements.

The new methodology will take into account these equity stresses, as one of the components used in determining the financial instruments value, is the fair value of the 51 million shares separately disclosed. The accounting for this stress is a more accurate reflection of the financial instrument's sensitivity to the MTN share price. If the above methodology had been applied during the current year numbers, the value would be as follows:

		31 June 2020 R'000	31 December 2019 R'000
10%	increase	(68 152)	15 395
10%	decrease	87 035	13 466

13. Financial risk management and financial instruments (continued)

e. Borrowings

Cash flow and fair value interest risk

The entity's interest rate risk arises from long-term borrowings by means of preference shares which are based on variable rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk, which is partially offset by cash held at variable rates.

The Company analyses its interest rate exposure periodically. Scenarios are generally simulated taking into consideration repricing of preference share funding in terms of the derivative model to further reduce exposure to interest rate changes and, in certain cases refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Sensitivity analysis

The Company has used a sensitivity analysis technique that measures the estimated change to the statement of profit or loss and other comprehensive income of an instantaneous increase or decrease of 1% (100 basis points) in market interest rates, from the rate applicable at 31 December 2019, for each class of financial instrument, with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice, markets rarely change in isolation.

Changes in the above market interest rates at the reporting date would have increased/(decreased) profit before tax by the amounts shown below.

The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables remain constant.

		Upward change in interest rate R'000	Downward change in interest rate R'000
31 June 2020			
1%	movement	6 472	(6 823)
31 December 2019			
1%	movement	(11 118)	11 357

f. Liquidity risk

The Company's risk to liquidity is a result of the funds available to cover future commitments. The Company manages liquidity risk through an on-going review of future commitments and credit facilities.

The Company is primarily dependent on dividends from MTN Group Limited to service its obligations and to a very small extent on interest received. The liquidity risks are low due to the very conservative funding profile of the preference shares.

The Company ensures it has sufficient cash on demand (currently the company is maintaining a positive cash position) to meet expected operational expenses, including the servicing of financial obligations; and having regard to the limitation of the cash flow waterfall provided in the funding agreements.

The Company remains confident that the available cash resources and borrowing facilities will be sufficient to meet its funding requirements. Subject to the rights of the preference shareholders, cash may also be used to repay the Notional Vendor Finance to MTN Group Limited.

The cash and cash equivalents excludes the restricted funds of R3.4 million (31 December 2019: R3,6 million) due to unidentifiable applicants as this cash is not available to the Company for use.

13. Financial risk management and financial instruments (continued)

f. Liquidity risk (continued)

Available liquid resources, subject to the security package described in note 8 are as follows:

	31 June 2020 R'000	31 December 2019 R'000
Cash at bank and on hand	23 077	18 240
Other receivables	1 938	667
	25 015	18 907

The table below analyses the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Payable more than three months but less than one year	Payable more than one year but less than five years	Payable more than five years	Total
	R'000	R'000	R'000	R'000
30 June 2020				
Borrowings	11 232	952 911	-	964 225
Trade and other payables	3 493	-	-	3 493
Other liability	3 416	-	-	3 416
31 December 2019				
Borrowings	22 165	1 165 613	-	1 187 778
Other payables	2 537	-	-	2 537
Other Liability	3 566	-	-	3 566

g. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Company consists of debt, which includes the preference share liabilities (excluding derivative financial liabilities) disclosed in notes 8, cash and cash equivalents disclosed in note 5, and equity as disclosed in the statement of financial position.

Income generated by the entity will first be utilised for the purpose of settling any obligations in respect of borrowings before dividends are declared.

The borrowings (preference shares) have debt covenants, the details of which have been included in note 8. The security and credit support disclosed in note 8 have a remaining contractual period up to 23 November 2021.

13. Financial risk management and financial instruments (continued)

h. Credit risk

Credit risk, or the risk of financial loss to the Company rises due to counterparties not meeting their contractual obligations.

Credit risk is managed on an entity basis. Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and outstanding receivables. The company deposits cash only with major banks with high-quality credit standings and limits exposure to any one counterparty. There are no material receivables and all financial assets are fully performing with no history of defaults.

The Company will continue to manage its credit risk relating to financial instruments by only transacting with credit-worthy counterparties.

The Company's maximum exposure to credit risk is represented by the carrying amount of the financial assets that are exposed to credit risk.

There are no financial assets held that are past due and not impaired.

Cash and cash equivalents

The cash and cash equivalents are held at Nedbank Limited. This financial institution is a highly rated entity in the South African environment thus the credit quality of this institution is acceptable.

14. Dividend income

During the 2019 financial year MTN Zakhele Futhi received dividends from MTN Group Limited.

MTN Zakhele Futhi holds 51 114 213 MTN Group Limited shares as a fair value through other comprehensive income financial asset (note 2) and 25 721 165 MTN Group Limited shares through an NVF facility (note 3). The Company held 76 835 378 MTN Group Limited shares throughout the financial year.

The total dividend income received by MTN Zakhele Futhi (RF) Limited from MTN Group Limited during the financial period was R272 765 592 (30 June 2019: R249 714 979).

15. Independent review

These condensed financial results set out on pages 4 to 15 have been reviewed by the Company's independent auditors, SizweNtsalubaGobodo Grant Thornton Inc., who performed their review in accordance with the International Standards on Auditing. They have included a material uncertainty paragraph on the going concern in their audit report where they draw the attention of the users to note 11, their conclusion is not modified in respect of the matter. A full copy of their report is available for inspection at the Company's registered offices.

16. Events after the reporting date

Due to the economic conditions prevalent within the market, MTN Group have decided not to declare an interim dividend on 6th August 2020. This will result in MTN ZF not being able to meet its obligations for the September POP.

Following discussions between MTNZF and MTN, MTN has advanced (from MTN Holdings) an amount of R15,000,000 to assist MTNZF to meet its liquidity shortfall and this advance has been received by MTNZF on the 22nd September 2020.

No other significant events have occurred between the reporting (30 June 2020) and 20 August 2020 that require adjustment or disclosure.

Notes to the condensed financial statements *continued*

for the 6 months ended 30 June 2020

17. Basic and diluted earnings per share	**6 months ended 30 June 2020 Reviewed R'000**	**6 months ended 30 June 2019 Reviewed R'000**	**Year ended 31 December 2019 Audited R'000**
Number of ordinary shares in issue at year end ('000)	123 417	123 417	123 417
Weighted average number of shares ('000)	123 417	123 417	123 417
(Loss)/profit for the period	395 740	310 988	(38 049)
Adjusted for:			
- Gain/(Loss) on remeasurement of the derivative financial instrument	(167 562)	39 807	303 210
(Loss)/Profit for attributable to shareholders	**228 178**	**350 795**	**265 161**
Basic and diluted earnings per share (cents)	184.88	284.23	215.85

There are no items included in the calculation of profit attributable to shareholders which are required to be excluded in terms of circular 2/2015, Headline Earnings, in the calculation of headline earnings per share.

Administration

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S De Bruyn Sebotsa (non-executive) (Resigned 22 June 2020)
GG Gelink (non-executive)
Belinda Mapongwana (non-executive) (Appointed 22 June 2020)
Manana Nhlanhla (non-executive) (Appointed 22 June 2020)
Edward Pitsi (non-executive) (Appointed 22 June 2020)

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