



MTN Zakhele Futhi (RF) Limited

Interim Financial Results

for the 6 months ended 30 June 2019



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

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Preparer

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Senior Financial Officer: Central Finance - Nedbank Limited

Supervised by

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Results overview

Performance for the six months ended 30 June 2019

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 period.

At 30 June 2019, the Company recognised a profit after taxation of R310.9 million (30 June 2018: R146.5 million loss; 31 December 2018: R325.8 million loss). The losses in prior periods are entirely attributable to the revaluation of the derivative financial instrument.

At 30 June 2019 the MTN Group share price decreased by R1.15 from the comparable financial period to R106.75. The decrease in the MTN share price had a direct impact on the revaluation of the derivative financial instrument resulting in a loss of R39.8 million (30 June 2018: R547.7 million; 31 December 2018: R661.4 million) being recognised in the profit or loss.

In addition to the fair value loss recognised on the derivative financial instrument, the improvement in the MTN Group share price since the 2018 year end resulted in a fair value gain of R907.2 million (30 June 2018: R1 466.9 million loss; 31 December 2018: R2 433 million loss) 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 R249.7 million (30 June 2018: R345.8 million; 31 December 2018: R480.2 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.

R177.9 million (30 June 2018: R235.3 million; 31 December 2018: R313 million) of the dividend income was applied towards the early redemption of the preference shares during the 6 month period ended 30 June 2019. 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 2019

		6 months ended 30 June 2019 Reviewed	6 months ended 30 June 2018 Restated Unreviewed	Year ended 31 December 2018 Audited
	Notes	R'000	R'000	R'000
Dividend income	5	249 715	345 759	480 221
Directors emoluments		(342)	(341)	(695)
Other operating expenses		(10 499)	(5 554)	(13 554)
Operating profit		238 874	339 864	465 972
Finance income		1 999	1 609	2 970
Finance costs incurred on financial liabilities measured at amortised cost		(54 690)	(62 498)	(124 418)
Loss on re-measurement of the derivative financial instrument		(39 807)	(547 786)	(661 448)
Profit/(loss) before taxation		146 376	(268 811)	(316 924)
Income tax credit/(expense)		164 612	122 253	(8 923)
Profit/(loss) for the period		310 988	(146 558)	(325 847)

Summarised statement of comprehensive income

for the 6 months ended 30 June 2019

		6 months ended 30 June 2019 Reviewed	6 months ended 30 June 2018 Restated Unreviewed	Year ended 31 December 2018 Audited
		R'000	R'000	R'000
Profit/(loss) for the period		310 988	(146 558)	(325 847)
Other comprehensive income/(loss) – items that will subsequently be reclassified to profit or loss:		713 980	(1 138 374)	(1 897 969)
(Loss)/gain on re-measurement of the investment in equities		907 277	(1 466 977)	(2 433 036)
Deferred tax on gain/(loss) on re-measurement of the investment in equities		(193 297)	328 603	535 067
Total comprehensive profit/(loss) for the period		1 024 968	(1 284 932)	(2 223 816)

Summarised statement of financial position

at 30 June 2019

		30 June 2019 Reviewed	30 June 2018 Restated Unreviewed	31 December 2018 Audited
	Notes	R'000	R'000	R'000
Assets				
Non-Current Assets				
Investment in equities	6	5 456 442	5 515 224	4 549 165
		5 456 442	5 515 224	4 549 165
Current Assets				
Current tax receivable		52	41	1
Cash and cash equivalents		33 809	33 824	36 184
Cash and cash equivalents – restricted funds		3 682	3 958	3 765
Other receivables		453	350	832
		37 996	38 173	40 782
Total Assets		5 494 438	5 553 397	4 589 947
Equity and Liabilities				
Equity				
Share capital		2 468 336	2 468 336	2 468 336
Reserves		97 434	262 141	(741 911)
Accumulated profit		874 727	623 936	689 104
		3 440 497	3 354 413	2 415 529
Liabilities				
Non-Current Liabilities				
Borrowings	8	1 265 885	1 514 366	1 442 079
Derivative financial instrument	7	737 372	583 903	697 565
Deferred tax		28 125	75 669	-
		2 031 382	2 173 938	2 139 644
Current Liabilities				
Borrowings	8	16 335	19 140	28 277
Other liability		3 682	3 958	3 765
Trade and other payables		2 542	1 948	2 732
		22 559	25 046	34 774
Total Liabilities		2 053 941	2 198 984	2 174 418
Total Equity and Liabilities		5 494 438	5 553 397	4 589 947

Summarised statement of changes in equity

for the 6 months ended 30 June 2019

	6 months ended 30 June 2019 Reviewed R'000	6 months ended 30 June 2018 Restated Unreviewed R'000	Year ended 31 December 2018 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	669 637	715 252	(44 343)
Balance at the beginning of the period	(44 343)	1 853 626	1 853 626
Other comprehensive income/(loss) for the period	713 980	(1 138 374)	(1 897 969)
Other reserve	(572 203)	(453 111)	(697 568)
Balance at the beginning of the period	(697 568)	(28 029)	(28 029)
Transfer between reserves *	125 365	(425 082)	(669 539)
Total reserves	97 434	262 141	(741 911)
Accumulated profit	874 727	623 936	689 104
Balance at the beginning of the period	689 104	345 412	345 412
Profit/(loss) for the period	310 988	(146 558)	(325 847)
Transfer between reserves *	(125 365)	425 082	669 539
Total equity at the end of the period	3 440 497	3 354 413	2 415 529

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

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

Summarised statement of cash flows

for the 6 months ended 30 June 2019

	6 months ended 30 June 2019 Reviewed R'000	6 months ended 30 June 2018 Restated Unreviewed R'000	Year ended 31 December 2018 Audited R'000
Cash flows from operating activities			
Cash used in operations	(10 652)	(6 145)	(14 196)
Dividend received	249 715	345 759	480 221
Interest income received	1 999	1 609	2 970
Finance costs paid	(64 909)	(78 774)	(126 154)
Tax paid	(611)	(488)	(830)
Net cash from operating activities	175 542	261 961	342 011
Cash flows from financing activities			
Redemption of cumulative redeemable non-participating preference shares	(177 917)	(235 356)	(313 046)
Cash refund to unsuccessful participants	(83)	(235)	(428)
Net cash from financing activities	(178 000)	(235 591)	(313 474)
Total cash at the beginning of the period	39 949	11 412	11 412
Total cash movement for the period	(2 458)	26 370	28 537
Total cash at the end of the period	37 491	37 782	39 949

Notes to the summarised financial statements

for the 6 months ended 30 June 2019

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 R249 714 979 (30 June 2018: R345 759 201; 31 December 2018: R480 221 113).

6. Investment in equities

The investment consists of 51 114 213 (30 June 2018: 51 114 213; 31 December 2018: 51 114 213) MTN Group Limited shares. The total investment, including the derivative financial instrument, 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 investment in equities is based on a quoted market price of R106.75 (30 June 2018: R107.90; 31 December 2018: R89.00) per share as listed on the JSE Limited at 30 June 2019. The total gain recorded in other comprehensive income for the current financial period is R907 277 281 (30 June 2018: R1 466 977 913 loss; 31 December 2018: R2 433 036 539 loss).

	6 months ended 30 June 2019 Reviewed R'000	6 months ended 30 June 2018 Restated Unreviewed R'000	Year ended 31 December 2018 Audited R'000
Balance at the beginning of the period	4 549 165	6 982 201	6 982 201
Gain/(loss) on re-measurement of investment in equities	907 277	(1 466 977)	(2 433 036)
Balance at the end of the period	5 456 442	5 515 224	4 549 165

Notes to the summarised financial statements *continued*

for the 6 months ended 30 June 2019

7. Derivative financial instrument

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 2019 indicating a liability of R737 371 853 (30 June 2018: R583 902 766; 31 December 2018: R697 565 010). The significant inputs into the model at the valuation date were as follows:

- the market price of MTN Group shares of R106.75 (30 June 2018: R107.90; 31 December 2018: R89.00);
- the NVF balance of approximately R4 087 million (30 June 2018: R3 769 million; 31 December 2018: R3 924 million);
- volatility of 36.36% (30 June 2018: 31,59%; 31 December 2018: 35,16%);
- a dividend yield of 6,34% (30 June 2018: 5.76%; 31 December 2018: 6,79%);
- an expected option life of 8 years from inception (30 June 2018: 8 years; 31 December 2018: 8 years); and
- an annual risk free rate of 7,80% (30 June 2018: 8,00%; 31 December 2018: 7,70%).

	6 months ended 30 June 2019 Reviewed R'000	6 months ended 30 June 2018 Restated Unreviewed R'000	Year ended 31 December 2018 Audited R'000
Balance at the beginning of the period	(697 565)	(36 117)	(36 117)
Fair value adjustments recorded in profit or loss	(39 807)	(547 786)	(661 448)
Fair value at the end of the period	(737 372)	(583 903)	(697 565)

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 2019

8. Borrowings (continued)

	6 months ended 30 June 2019 Reviewed R'000	6 months ended 30 June 2018 Restated Unreviewed R'000	Year ended 31 December 2018 Audited R'000
Balance at the beginning of the period	1 470 356	1 785 138	1 785 138
Redemption of non-participating preference shares at a par value of R1 000	(177 917)	(235 356)	(313 046)
Dividends paid on cumulative redeemable non-participating preference shares	(64 909)	(78 774)	(126 154)
Accrued dividends at the effective dividend rate	54 690	62 498	124 418
Balance at the end of the period	1 282 220	1 533 506	1 470 356

9. Related parties

Relationships:

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

(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 2019

9. Related parties (continued)	6 months ended 30 June 2019 Reviewed R'000	6 months ended 30 June 2018 Restated Unreviewed R'000	Year ended 31 December 2018 Audited R'000
Related party balances:			
Preference share liability			
Jabisan 04 (RF) Proprietary Limited	1 282 220	1 533 506	1 470 356
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	249 715	345 759	480 221
Interest to related parties			
Jabisan 04 (RF) Proprietary Limited	(64 909)	(72 729)	(126 154)
Expenses paid on behalf of related parties	(460)	(871)	(1 034)
Jabisan 04 (RF) Proprietary Limited	(460)	(871)	(1 034)
BFC2 Owner Trust	-	-	-
Remuneration of the board of directors – directors' fees	(342)	(341)	(695)
Shauket Allie Fakie ⁽⁴⁾	-	-	-
Simphiwe Cele ⁽⁵⁾	-	-	-
Sibongile Mtshali ⁽⁵⁾	-	-	-
Sindisiwe Mabaso- Koyana ⁽⁶⁾	(172)	(161)	(325)
Sonja Sebotsa ⁽⁶⁾	(68)	(87)	(179)
Grant Gelink ⁽⁶⁾	(102)	(93)	(191)

(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 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*.

Notes to the summarised financial statements *continued*

for the 6 months ended 30 June 2019

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)

The fair value of the investment in equities is based on the MTN Group share price, as listed on the Johannesburg Stock Exchange ("JSE") Limited. The fair value of the derivative financial instrument 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	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
30 June 2019				
Recurring fair value measurement				
Investment in equities	5 456 442	-	-	5 456 442
Derivative financial instrument	-	-	(737 372)	(737 372)
Amortised cost measurement				
Other receivables	-	453	-	453
Cash and cash equivalents	-	37 491	-	37 491
Borrowings	-	(1 282 220)	-	(1 282 220)
Other payables	-	(2 542)	-	(2 542)
Other liability	-	(3 682)	-	(3 682)

Notes to the summarised financial statements *continued*

for the 6 months ended 30 June 2019

11. Fair value measurement (continued)				
	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
30 June 2018				
Recurring fair value measurement				
Investment in equities	5 151 224	-	-	5 151 224
Derivative financial instrument	-	-	(583 903)	(583 903)
Amortised cost measurement				
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)
31 December 2018				
Recurring fair value measurement				
Investment in equities	4 549 165	-	-	4 549 165
Derivative financial instrument	-	-	(697 565)	(697 565)
Amortised cost measurement				
Other receivables	-	361	-	361
Cash and cash equivalents	-	39 949	-	39 949
Borrowings	-	(1 486 160)	-	(1 486 160)
Other payables	-	(2 732)	-	(2 732)
Other liability	-	(3 765)	-	(3 765)

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

12. Restatement

During the 2018 financial year an error in one of the assumptions previously applied in the derivative valuation model was identified. The model previously included a cap on the repayment of the notional vendor finance provided by MTN Group to the number of shares provided through this facility (i.e. the 25 721 165 NVF shares). Since the Transaction Documents require the NVF to be paid as a Rand equivalent it is possible, depending on the MTN Group share price, for more than the 25,7 million NVF shares to be used in the repayment of the NVF. This change in assumption has been retrospectively applied and has therefore resulted in a restatement of the fair value of the derivative financial instrument and related deferred tax recognised at 30 June 2018. The model now incorporates the calculation of an entity value to determine the underlying value of the derivative financial instrument.

The restatement has no cash impact on the company and is purely a fair value accounting adjustment required by International Financial Reporting Standards.

Notes to the summarised financial statements *continued*

for the 6 months ended 30 June 2019

12. Restatement (continued)

30 June 2018	Previously reported R'000	Restatement R'000	Restated Balance
Impact on statement of profit or loss			
Operating profit	339 864	-	339 864
Finance income	1 609	-	1 609
Finance costs incurred on financial liabilities measured at amortised cost	(62 498)	-	(62 948)
Loss on remeasurement of derivative financial instrument	(392 925)	(154 861)	(547 786)
Loss before taxation	(113 950)	(154 861)	(268 811)
Income tax credit	87 564	34 689	122 253
Loss for the year	(26 386)	(120 172)	(146 558)
Impact on statement of financial position			
Non-current assets	6 001 915	(486 691)	5 515 224
Investment in equities	5 515 224	-	5 515 224
Derivative financial instruments	486 691	(486 691)	-
Current assets	38 173	-	38 173
Total assets	6 040 088	(486 691)	5 553 397
Equity			
Share capital	2 468 336	-	2 468 336
Reserves	1 092 922	(830 781)	262 141
Accumulated profit	623 936	-	623 936
	4 185 194	(830 781)	3 354 413
Liabilities			
Non-current liabilities	1 829 848	344 090	2 173 938
Borrowings	1 514 366	-	1 514 366
Derivative financial instruments	-	583 903	583 903
Deferred tax	315 482	(239 813)	75 669
Current Liabilities	25 046	-	25 046
Total liabilities	1 854 894	344 090	2 198 984
Total equity and liabilities	6 040 088	(1 070 594)	5 553 397

Notes to the summarised financial statements *continued*

for the 6 months ended 30 June 2019

13. Independent review

These summarised 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. A full copy of their unmodified audit report is available for inspection at the Company's registered offices.

Administration

Company registration number

2016/268837/06

Postal address

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Registered address

135 Rivonia Road
Sandown, 2196
Johannesburg

Board of directors

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

Office of the transfer secretaries

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E-mail: ssa-zakhelefuthi@Nedbank.co.za

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