MTN Zakhele Futhi (RF) Limited

Annual Financial Statements

for the year ended 31 December 2017

MTN Zakhele Futhi (RF) Limited

(Registration number 2016/268837/06)
Annual Financial Statements for the year ended 31 December 2017

Index

The reports and statements set out below comprise the annual financial statements presented to the shareholders:

Preparer

Yousuf Kola CA(SA)
Senior Financial Officer: Central Finance - Nedbank Limited

Supervised by

Rosalind Friedericksen CA(SA)
Manager Client Relationships: Share Scheme Administration - Nedbank Limited

Board of directors

For the year ended 31 December 2017

Sindisiwe N Mabaso-Koyana (49)

CA(SA), BComm (Natal), Post Graduate Diploma in Accounting (Natal)

Non-executive Chairperson (Appointed: 6 June 2017)

Member of the Audit, Risk & Compliance Committee (Appointed: 9 June 2017)

Directorships:

Sindi is currently the Chairperson of African Women Chartered Accountants (AWCA) Investment Holding Company, the Chartered Accountancy Sector Charter, the Advisory Board of AWCA and the Chairperson of the Advanced Group of Companies. Her other board positions include that of a non-executive director for Adcorp Holdings Limited, MTN Zakhele (RF) Limited, Eskom Holdings SOC Ltd and Toyota South Africa Motors (Pty) Ltd.

Skills, expertise and work experience:

Sindi is a Chartered Accountant by profession with experience in financial management, auditing and governance in both the public and private sector. She is a renowned leader and champion in growth and development of young women. She has been named by The Financial Mail as one of the top 20 most powerful business women in South Africa and was a finalist for the Business Woman of the Year Award in 2004. In 2013 she was nominated by The CEO Magazine as the most Influential Women in Business and Public Sector. She is also the past chairperson of the task team of The South African Institute of Chartered Accountants which launched the paper on meaningful reporting on Broad Based Black Economic Empowerment (BBBEE).

Sonja De Bruyn Sebotsa (46)

LLB (Hons), MA: Economic Policy Management, SFA (UK), Harvard Executive Program

Non-executive Director (Appointed: 6 June 2017)

Member of the Audit, Risk & Compliance Committee (Appointed: 9 June 2017)

Directorships:

Non-executive director of RMB/RMI Holdings, Discovery Holdings Limited, MTN Zakhele (RF) Limited and Remgro. Sonja is also the Chairperson of Ethos Mid-Market Fund I GP Proprietary Limited.

Skills, expertise and work experience:

Sonja is the founder and principle partner of investment, advisory and financing firm Identity Capital Partners. She commenced her career in investment banking in 1997, working on mergers and acquisitions, privatisations, IPO’s and financings, ultimately becoming a vice-president of Deutsche Bank. She was appointed as executive director of Women’s Development Bank Investment Holdings from 2002 to 2007. She was previously a trustee of the National Empowerment Fund and member of the Presidential Working Group on BEE. Sonja has been awarded and recognised by the Black Management Forum and the Association of Black Securities and Investment Professionals. She is a Young Global Leader of the World Economic Forum.

Board of directors

For the year ended 31 December 2017

Grant G Gelink (68)

CA(SA), BComm, BCompt (Hons)

Non-executive Director (Appointed: 9 June 2017)

Chairman of the Audit, Risk & Compliance Committee (Appointed: 9 June 2017)

Directorships:

Non-executive director of FirstRand Limited, Grindrod Limited, Santam Limited, Allied Electronics Limited and MTN Zakhele (RF) Limited

Skills, expertise and work experience:

Grant was the chief executive of Deloitte & Touche from 2006 to 2012. His vast experience at Deloitte spans over 26 years and includes being Lead Client Service Partner across a number of different industries servicing clients such as Barloworld, Imperial Holdings, Murray & Roberts, Nedbank, Sappi, South African Airways and Transnet.

Shauket Fakie (64)

CA(SA)

Non-executive Chairperson (Appointed: 21 June 2016; Resigned: 6 June 2017)

Member of the Audit Committee (Appointed: 21 June 2016; Resigned: 6 June 2017)

Directorships:

Shauket holds director positions on various MTN subsidiaries, Allianz, BancABC

Skills, expertise and work experience:

Shauket is the former Auditor General of South Africa and Business Risk Executive at MTN

Simphiwe Cele (49)

CA (SA), MBA (Wits Business School), Post Graduate Diploma in Accounting (University of Natal), B Com (UCT), Diploma in Investment Management (Rand Afrikaans University)

Non- executive Director (Appointed: 21 June 2016; Resigned: 6 June 2017)

Chairman of the Audit, Risk & Compliance Committee (Appointed: 21 June 2016; Resigned: 6 June 2017)

Directorships:

Simphiwe does not currently hold any other director positions

Skills, expertise and work experience:

Simphiwe is a Chartered Accountant with experience in the public and private sector in the areas of accounting, taxation, consulting and corporate finance. Prior to joining MTN Group he worked for Fisher Hoffman Stride, Nkonki Sizwe Ntsaluba, the Public Investments Commissioners, Telkom SA and the Auditor General of South Africa. He is also a previous board member of the Johannesburg Development Agency and Swazi MTN.

Board of directors

For the year ended 31 December 2017

Sibongile Mtshali (59)

FCIS and Higher Diploma in Company Law

Non- executive Director (Appointed: 21 June 2016; Resigned: 6 June 2017)

Member of the Audit, Risk & Compliance Committee (Appointed: 21 June 2016; Resigned: 6 June 2017)

Directorships:

Sibongile was a director of ATC Tower Uganda, ATC Tower Ghana, Nigeria Tower Interco B.V., Mobile Telephone Networks (Netherlands) and Cooperative U.A

Skills, expertise and work experience:

Sibongile has over 30 years of experience in company law, secretariat and governance and is currently Company Secretary of MTN Group Limited. Prior to joining MTN, she worked at Uthingo Management (Pty) Ltd, Telkom Limited, Anglovaal Limited and Anglo American Limited (Gold division).

Chairperson’s report

For the year ended 31 December 2017

Introduction

In 2016 MTN Group Limited set up MTN Zakhele Futhi (RF) Limited (“MTN Zakhele Futhi” or “the Company”), a vehicle for qualifying black South Africans to invest in MTN Group Limited (MTN Group or MTN), a leading emerging markets telecoms service provider.

MTN Zakhele Futhi has an approximate 4% shareholding in MTN Group. This investment is the Company’s only asset. The Company also administers the associated funding of this investment – being the preference shares subscribed for by third party debt providers and a notional vendor finance facility obtained from MTN Group.

80.5% of the shareholders hold fewer than 500 ordinary shares showing the true broad based nature of the scheme.

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 31 December 2017, the Company recognised a profit after taxation of R367,0 million (2016: R661,0 million). The profit is almost entirely attributable to the receipt of dividends from MTN Group during the year.

At 31 December 2017 the MTN Group share priced increased by R10.43 from the prior financial year to R136.60. This resulted in a fair value gain of R553.1 million (2016: R1 855.6 million) being recognised in the statement of comprehensive income.

Repayment of MTN Zakhele Futhi’s debt

During 2017, 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 R537,8 million (2016: no dividends received) 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.

R398.5 million of the dividend income was applied towards the early redemption of the preference shares during the 2017 financial year. This will ultimately result in a reduction of dividends payable on the preference shares over the life of these instruments.

MTN Zakhele Futhi’s underwrite shares

123 416 818 MTN Zakhele Futhi ordinary shares were allotted and issued to successful applicants on Wednesday 23 November 2016 and Thursday, 14 November 2016.

During 2016 the MTN Zakhele Futhi Public Offer raised approximately R1. 094 billion from more than 81 000 applicants from across South Africa. In addition, applications were received from 11 203 qualifying MTN Zakhele shareholders holding in aggregate 13 479 220 MTN Zakhele shares to re-invest the value of all or part of their MTN Zakhele shares in MTN Zakhele Futhi Ordinary Shares, equating to approximately R0.817 billion.

Applications (in aggregate) from the black public and qualifying MTN Zakhele Shareholders, although exceeding the Minimum Equity Raise (being an amount of R1.234 billion), were less than the Target Equity Raise (R2.468 billion). Although the cash raised by MTN Zakhele Futhi during the Public Offer exceeded the minimum amount of cash required for the Transaction to proceed (being an amount of R250 million), MTN exercised the option to subscribe for 27 848 672 MTN Zakhele Futhi Ordinary Shares (the “Underwrite Shares”) for an aggregate consideration of R557 million.

During 2017 MTN sold 549 974 of these Underwrite Shares through a Secondary Offer targeted specifically at those applicants who had applied for MTN Zakhele Futhi shares during the initial offer period and were not successfully allocated them due to a variety of reasons. In addition to the Secondary Offer, separate sale agreements were entered into by MTN with large institutional investors for the sale of an aggregate of 9 088 320 of the Underwrite Shares. This reduced MTN Group’s holding of MTN Zakhele Futhi Ordinary Shares to 18 280 266 ordinary shares at 31 December 2017.

Chairperson's report

For the year ended 31 December 2017

Shareholder support

Effective and efficient shareholder communication is essential. The Company will continue to use SMS communication as their main means of communication. Notices of the Annual General Meetings will be sent by email or post in accordance with the Memorandum of Incorporation. In order to enable MTN Zakhele Futhi to effectively communicate with shareholders and maintain up to date records, shareholders are requested to notify the MTN Zakhele Futhi Administrator of all changes to their SMS contact details, postal address, status and banking details by calling the designated Call Centre on **083 900 6863** between 8h00 and 16h30 Mondays to Fridays. Agents will log their call and take them through the process and documentation needed to effect such changes. MTN Zakhele Futhi has also set up a designated webpage for shareholders to access particulars of their shareholdings. Shareholders are encouraged to familiarise themselves with the site by visiting **www.mtnzakhelefuthi.co.za**.

Prospects

Due to the nature and purpose of MTN Zakhele Futhi, its prospects are aligned with the growth prospects of the MTN Group. It is anticipated that due to sound operational performance of MTN Group, the company's future outlook is optimistic.

Sindisiwe Mabaso-Koyana

Chairperson

18 June 2018

Audit, risk & compliance committee report

For the year ended 31 December 2017

The MTN Zakhele Futhi (RF) Limited audit, risk and compliance committee presents its report in terms of section 94(7)(f) of the Companies Acts and as recommended by King III in respect of the financial year ended 31 December 2017.

Membership and meeting attendance

The Company constituted the audit, risk and compliance committee on 15 November 2016. Members of the committee are formally nominated by the board and ratified by the shareholders at the next annual general meeting. Members of the audit, risk and compliance committee were all independent non-executive directors of the Company. The composition of the committee and the attendance at meetings by its members are set out below:

Members	Attendance
Grant G Gelink (1)	2
Sindisiwe N Mabaso – Koyana (1)	2
Sonja De Bruyn Sebotsa (1)	2
Simphiwe Cele (2)	-
Shauket A Fakie (2)	-
Sibongile Mtshali (2)	-

(1) *Grant Gelink, Sindisiwe Mabaso-Koyana and Sonja De Bruyn Sebotsa were appointed as members of the audit, risk and compliance committee on 9 June 2017.*

(2) *Simphiwe Cele, Shauket Fakie and Sibongile Mtshali resigned as members of the audit, risk and compliance committee on 6 June 2017. No meetings were held prior to the resignation of these members from the committee.*

Biographical details of members at 31 December 2017 are set out on pages 2 to 4 of this annual report.

The external auditors attend all audit, risk and compliance committee meetings. The committee meets at least twice a year.

The committee is satisfied that the members thereof have the required knowledge and experience as set out in Section 94(5) of the Companies Act and Regulation 42 of the Companies Regulation, 2011. The effectiveness of the committee as a whole and its individual members are assessed on an annual basis.

The audit, risk and compliance committee performs the duties laid upon it by section 94(7) of the Companies Act, by holding meetings with the key role-players on a regular basis and by the unrestricted access granted to the external auditors.

Independence of the external auditor

The Company's external auditor is SizweNtsalubaGobodo Inc. Fees paid to the auditor for the year under review is disclosed in note 12 to the annual financial statements.

The committee satisfied itself through enquiry that the external auditor is independent, as defined by the Companies Act and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided by the Companies Act that internal governance processes within the firm support and demonstrate the claim to independence.

The audit, risk and compliance committee agreed to the terms of the engagement. The audit fee for the external audit has been considered and approved, taking into consideration such factors as the timing of the audit, the extent of the work required and the scope.

Expertise and experience of finance function

The committee satisfied itself that the composition, experience and skills set in the finance function meets the Company's requirements.

The administration of the Company's statutory records and accounting is outsourced to Nedbank Limited acting through its Share Scheme Administration Division, in its capacity as the professional administrator of the Company.

The authority and responsibility for all management decisions lies with the board of directors.

Audit, risk & compliance committee

For the year ended 31 December 2017

Execution of functions of the audit risk and compliance committee

The committee is satisfied that, in respect of the financial year under review, it has discharged its duties and responsibilities in accordance with its terms of reference and in terms of the Companies Act.

The committee performed the following activities during the year under review:

- reviewed the reports of the external auditors regarding their audit and where necessary requested appropriate responses from the service providers appointed by the board of directors;
- reviewed and approved the policy for no-audit services that may be provided by the external auditors. This policy sets out those services that may be provided by the external auditors and the required authorisation process;
- approved the non-audit related services performed by the external auditors during the year in accordance with the policy established and approved by the board;
- approved the external auditors' fees and engagement terms of the external auditors for the 2017 audit;
- considered the independence and objectivity of the external auditors and ensured that the scope of additional services provided did not impair their independence;
- recommended the external auditors for re-appointment; and
- reviewed legal matters that could have a significant impact on the organisation's annual financial statements.

After assessing the requirements set out in section 94(8)(a)-(c) of the Companies Act, the committee is satisfied with the independence and objectivity of the external auditors.

Following the review by the committee of the financial statements of the Company for the year ended 31 December 2017 and based on the information provided to it, the committee considers that, in all material respects, the Company complies with the provisions of the Companies Act, International Financial Reporting Standards and that the accounting policies applied are appropriate and consistent. The committee recommended the Company's 2017 annual financial statements for the year ended 31 December 2017 for approval by the board on 18 June 2018.

The committee concurs with the board of directors that the adoption of the going concern status in preparation of the annual financial statements is appropriate.

Grant Gelink
Chairperson: Audit, Risk & Compliance Committee

18 June 2018

Directors responsibilities and approval

For the year ended 31 December 2017

The directors are required in terms of the South African Companies Act 71 of 2008 (Companies Act) to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards (IFRS). The external auditor is engaged to express an independent opinion on the annual financial statements.

The financial statements are prepared in accordance with IFRS and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees of Nedbank Limited, in its capacity as the administrator of the Company, are required to maintain the highest ethical standards in ensuring the company’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are responsible for the Company’s system of internal control and are of the opinion that the systems of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The going concern assumption has been adopted in preparing the Company’s annual financial statements. The directors have reviewed the company’s cash flow forecast for the 12 month period to 31 December 2018 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditor and their report is presented on pages 15 to 16.

The annual financial statements set out on pages 17 to 49, were approved by the board on 18 June 2018 and were signed on their behalf by:

Sindisiwe Mabaso-Koyana
Chairperson: Board of Directors

18 June 2018

Grant Gelink
Chairperson: Audit, Risk & Compliance Committee

18 June 2018

Company secretary's certification

For the year ended 31 December 2017

We certify that to the best of our knowledge and belief, the Company has lodged with the Companies and Intellectual Property Commission, all such returns and notices required of a public company in terms of section 88(2) (e) of the Companies Act, No 71 of 2008, as amended, in respect of the period ended 31 December 2017 and that such returns and notices are, to the best of our knowledge and belief, true, correct and up to date.

Nedbank Limited
Company Secretary

18 June 2018

Directors report

For the year ended 31 December 2017

The directors have pleasure in presenting their report, for the year ended 31 December 2017.

MTN Zakhele Futhi is a special purpose company which only has non-executive directors and does not employ any employees. The Company has engaged service providers with the necessary skills and experience to provide all goods and services required to effectively carry out its functions and activities. The board of directors retain full authority and responsibility for all management decisions taken and carried out by the service providers.

The MTN Zakhele Futhi board recognises that, at the core of MTN Zakhele Futhi's corporate governance system, it is ultimately responsible and accountable for the performance and affairs of the Company. The board embraces the principles of good corporate governance as set out in the guidelines of the Code of Good Governance Principles for South Africa as laid out in the King Report on Corporate Governance.

The principles relating to the appointment of a Chief Executive Officer and Chief Financial Officer to the board to achieve a balance of power have not been applied. The Company has engaged service providers with the necessary skills and experience to provide all goods and services required by the Company, with the ultimate responsibility residing with the board of directors. This has been the case for the full period under review.

MTN Zakhele Futhi is committed to business integrity, transparency and professionalism in all its activities to ensure that it acts ethically and responsibly to enhance the value of its business and benefit of all stakeholders.

1. Incorporation and nature of business

MTN Zakhele Futhi 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's Broad Based Black Economic Empowerment ("BBBEE") transaction. The implementation of the scheme followed the approval of the necessary elements of the BBBEE transaction by the shareholders of MTN Group on Friday, 7 October 2016.

MTN Zakhele Futhi is engaged in acquiring and holding shares in MTN Group on behalf of the participating black public.

2. Operating and financial review

The operating results and state of affairs of the Company are fully set out in the attached annual financial statements.

Net profit after tax of the Company for the year was R367,0 million (2016: R661,0 million for the 6 month period), after tax credits of R0,8 million (2016: R200,7 million, tax expense)

3. Share capital

The issued share capital consisted of 8 ordinary shares issued on incorporation at no par value. A total of 123 416 818 ordinary shares were issued subsequently on 23 and 24 November 2016 as part of the BBBEE transaction. The shares were issued at R20 per share on the date of issue.

The offer described in the MTN Zakhele Futhi prospectus opened on 12 September 2016 and closed on 28 October 2016, after being extended by a week from the original closing date of 21 October 2016.

4. Dividends

No dividends were declared or paid during the current year or prior period.

5. Directorate

The Company has a unitary board comprising of three non-executive directors and is committed to ensuring that there is a clear balance of power and authority at the board of directors' level. This is evident in the Memorandum of Incorporation where the powers of the directors have been clearly stipulated. The aim is to promote objectivity and reduce the possibility of conflicts of interest.

The directors of the Company in office for the period of this report are as follows:

Director	Changes
Shauket Allie Fakie	Resigned 6 June 2017
Simphiwe Cele	Resigned 6 June 2017
Sibongile Mtshali	Resigned 6 June 2017
Sindisiwe Mabaso-Koyana	Appointed 6 June 2017
Sonja De Bruyn Sebotsa	Appointed 6 June 2017
Grant Gelink	Appointed 9 June 2017

6. Auditors

SizweNtsalubaGobodo Inc., will, subject to shareholders approval at the annual general meeting, continue in office in accordance with section 90 of the Companies Act.

7. Secretary

Maitland Group South Africa Limited resigned as Company Secretary on 15 February 2017. Nedbank Limited, acting through its Group Secretariat was appointed on 15 February 2017 as Company Secretary.

The address of the Company Secretary is:

Postal and physical address:	135 Rivonia Road Sandown Johannesburg 2193

Directors report

For the year ended 31 December 2017

8. Directors' interests in shares

As at 31 December 2017, the directors of the Company held the following number of direct or indirect beneficial interests in the issued ordinary shares:

	2017		2016	
	Direct	**Indirect**	**Direct**	**Indirect**
Shauket Allie Fakie (Resigned 6 June 2017)	13 031	-	13 031	-
Simphiwe Cele (Resigned 6 June 2017)	9 100	-	9 100	-
Sibongile Mtshali (Resigned 6 June 2017)	-	39 703	-	39 703
Sindisiwe Mabaso-Koyana (Appointed 6 June 2017)	-	50 000	-	50 000
Sonja De Bruyn Sebotsa (Appointed 6 June 2017)	-	5 000 000	-	-
Grant Gelink (Appointed 9 June 2017)	61 023	-	61 023	-
	83 154	**5 089 703**	**83 154**	**89 703**

The register of directors' and others interests in shares of the Company is available to shareholders on request.

There have been no changes in beneficial interests of the directors that occurred between the end of the reporting period and the date of this report.

9. Meetings held by the board

The board held 6 meetings during 2017 and the members attended the meetings as follows:

	Applicable Meetings (from date of appointment / till date of resignation)	**Attended**
Shauket Allie Fakie (Resigned 6 June 2017)	3	3
Simphiwe Cele (Resigned 6 June 2017)	3	3
Sibongile Mtshali (Resigned 6 June 2017)	3	3
Sindisiwe Mabaso-Koyana (Appointed 6 June 2017)	4	4
Sonja De Bruyn Sebotsa (Appointed 6 June 2017)	4	4
Grant Gelink (Appointed 9 June 2017)	3	3

10. Borrowing powers

Borrowing capacity is determined by the directors and is limited in terms of the Memorandum of Incorporation.

11. Events after the reporting date

MTN Group declared a final dividend of 450 cents in March 2018.

No other significant events have occurred between the reporting date and 18 June 2018 that require adjustment or disclosure.

Directors report

For the year ended 31 December 2017

12. Going concern

The directors have reviewed the Company's budget and cash flow forecast for the year ahead. On the basis of this review, and in light of the current financial position of the Company, the directors are satisfied that the Company has sufficient funds for the foreseeable future and will continue as a going concern.

The annual financial statements set out on pages 17 to 49, which have been prepared on the going concern basis, were approved by the board on 18 June 2018 and were signed on its behalf by:

Sindisiwe Mabaso-Koyana

Chairperson

18 June 2018

Sizwe Ntsaluba Gobodo

AUDIT • ADVISORY • FORENSICS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MTN ZAKHELE FUTHI (RF) LIMITED

Opinion

We have audited the annual financial statements of MTN Zakhele Futhi (RF) Limited set out on pages 17 to 49, which comprise the statement of financial position as at 31 December 2017 and the statement of profit or loss, the statement of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising summary of significant accounting policies and other explanatory information.

In our opinion, these financial statements present fairly, in all material respects, the financial position of MTN Zakhele Futhi (RF) Limited as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of MTN Zakhele Futhi (RF) Limited in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

MTN Zakhele Futhi (RF) Limited's Board of Directors is responsible for the other information. The other information comprises the Directors' Report and Audit and Risk Committee report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the financial statements

MTN Zakhele Futhi (RF) Limited's directors are responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the MTN Zakhele Futhi (RF) Limited's Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, Directors are responsible for assessing MTN Zakhele Futhi (RF) Limited's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless Directors either intends to liquidate MTN Zakhele Futhi (RF) Limited's or to cease operations, or has no realistic alternative but to do so.

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20 Morris Street East, Woodmead, 2191
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Tel: +27 (0) 11 231 0600
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Independent auditors' report to the shareholders of MTN Zakhele Futhi (RF) Limited

For the year ended 31 December 2017

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MTN Zakhele Futhi (RF) Limited's internal control.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on MTN Zakhele Futhi (RF) Limited's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that SizweNtsalubaGobodo has been the auditor of MTN Zakhele Futhi (RF) Limited for 2 years.

SizweNtsalubaGobodo Inc.
Director – Agnes Dire
Registered Auditor

20 Morris Street East
Woodmead
2191
Johannesburg

19 June 2018

Statement of financial position

As at 31 December 2017

	Notes	**31 December 2017 R '000**	31 December 2016 R '000
ASSETS			
Non-current assets			
Available-for-sale financial assets	2	6 982 201	6 449 080
Derivative financial assets	3	879 616	887 538
		7 861 817	**7 336 618**
Current assets			
Current tax receivable	18	3	-
Cash and cash equivalents	5	7 219	28 015
Cash and cash equivalents -restricted funds	5	4 193	7 836
Other receivables	4	603	393
		12 018	**36 244**
Total assets		**7 873 835**	**7 372 862**
EQUITY AND LIABILITES			
Equity			
Share capital	6	2 468 336	2 468 336
Reserves	7	2 536 206	2 128 651
Accumulated profit/(loss)		345 412	(27 705)
		5 349 954	**4 569 282**
Liabilities			
Non-Current Liabilities			
Borrowings	8	1 750 617	2 147 702
Deferred tax	9	732 100	614 456
		2 482 717	**2 762 158**
Current Liabilities			
Borrowings	8	34 521	17 715
Other liability	11	4 193	7 836
Trade and other payables	10	2 450	15 571
Current tax payable	20	-	300
		41 164	**41 422**
Total Liabilities		**2 523 881**	**2 803 580**
Total Equity and Liabilities		**7 873 835**	**7 372 862**

Statement of profit or loss

For the year ended 31 December 2017

	Notes	**31 December 2017 R '000**	6 months ended 31 December 2016 R '000
Dividend Income	25	537 848	-
Directors' emoluments	19	(604)	(210)
Other operating expenses	12	(13 630)	(16 031)
Operating profit/(loss)		**523 614**	**(16 241)**
Finance income	13	3 461	6 889
Finance costs incurred on financial liabilities measured at amortised cost	14	(152 989)	(16 424)
(Loss)/gain on re-measurement of the derivative financial instrument	15	(7 922)	887 535
Profit before taxation		**366 164**	**861 759**
Income tax credit/(expense)	16	806	(200 737)
Profit for the year		**366 970**	**661 022**

Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	**31 December 2017 R '000**	6 months ended 31 December 2016 R '000
Profit for the year		**366 970**	**661 022**
Other comprehensive income:			
Items that may be reclassified to profit or loss:	7	**413 702**	**1 439 924**
Gain on re-measurement of the available-for-sale financial asset		533 121	1 855 572
Deferred tax on gain on re-measurement of the available-for-sale financial asset		(119 419)	(415 648)
Total comprehensive income for the year		**780 672**	**2 100 946**

Statement of changes in equity

For the year ended 31 December 2017

	Share capital R '000	Available-for-sale reserve R '000	Non-distributable reserve R '000	Total reserves R '000	Accumulated profit/ (loss) R '000	Total equity R '000
Profit for the 2016 period	-	-	-	-	661 022	661 022
Other comprehensive income for the 2016 period	-	1 439 924	-	1 439 924	-	1 439 924
Total comprehensive income for the 2016 period	**-**	**1 439 924**	**-**	**1 439 924**	**661 022**	**2 100 946**
Issue of shares	2 468 336	-	-	-	-	2 468 336
Transfer between reserves*	-	-	688 727	688 727	(688 727)	-
Total contributions by and distributions to owners of company recognised directly in equity	**2 468 336**	**-**	**688 727**	**688 727**	**(688 727)**	**2 468 336**
Balance at 1 January 2017	**2 468 336**	**1 439 924**	**688 727**	**2 128 651**	**(27 705)**	**4 569 282**
Profit for the 2017 year	-	-	-	-	366 970	366 970
Other comprehensive income	-	413 702	-	413 702	-	413 702
Total comprehensive income the 2017 year	**-**	**413 702**	**-**	**413 702**	**366 970**	**780 672**
Transfer between reserves*	-	-	(6 147)	(6 147)	6 147	-
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**-**	**(6 147)**	**(6 147)**	**6 147**	**-**
Balance at 31 December 2017	**2 468 336**	**1 853 626**	**682 580**	**2 536 206**	**345 412**	**5 349 954**
Notes	6	7	7			

* The transfer between reserves arises in respect of the (loss)/gain on re-measurement of the derivative financial asset that was recorded in profit and loss. The amount transferred is net of the related deferred tax.
The transfer of the net (loss)/gain from retained earnings to the non-distributable reserve is effected as the gain is currently not distributable.

Statement of cash flows

For the year ended 31 December 2017

	Notes	**31 December 2017 R '000**	6 months ended 31 December 2016 R '000
Cash flows from operating activities			
Cash used in operations	17	510 285	(1 063)
Interest income received	13	3 461	6 889
Finance costs paid		(134 818)	(16 424)
Tax paid	18	(1 272)	(1 629)
Net cash from operating activities		**377 654**	**(12 227)**
Cash flows from investing activities			
Purchase of available-for-sale financial assets		-	(3 776 400)
Purchase of derivative financial assets		-	(3)
Cash received from MTN Zakhele reinvestment		-	(817 108)
Net cash from investing activities		**-**	**(4 593 511)**
Cash flows from financing activities			
Proceeds from the issuance of ordinary shares	6	-	2 468 336
Redemption of cumulative redeemable non-participating preference shares	8	(398 451)	-
Borrowings raised		-	2 165 417
Cash (refunded to)/received from unsuccessful participants		(3 643)	7 836
Net cash from financing activities		**(402 093)**	**4 641 589**
Total cash movement for the year		**(24 439)**	**35 851**
Cash at the beginning of the year		35 851	-
Total cash at the end of the year	5	**11 412**	**35 851**

Accounting policies

For the year ended 31 December 2017

1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 General Information

MTN Zakhele Futhi (RF) Limited is an investment company that was specifically formed to facilitate the implementation of a Broad Based Black Economic Empowerment (BBBEE) transaction by MTN Group aimed at maintaining MTN Group's BBBEE status in support of South Africa's Broad Based Black Economic Empowerment Codes of Good Practice.

MTN Zakhele Futhi (RF) Limited is a public company incorporated in the Republic of South Africa. The company has registered its office at 135 Rivonia Road, Sandown, 2196, Johannesburg.

1.2 Basis of preparation

The annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these annual financial statements and the Companies Act 71 of 2008 of South Africa, as amended.

These annual financial statements comply with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the company's functional currency.

Amounts are rounded to the nearest thousand Rand.

The preparation of annual financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period based on management's best knowledge of current events and actions.

It also requires management to exercise their judgement in the process of applying the company's accounting policies. Actual results may differ from these estimates. Refer to note 1.13 for the critical accounting estimates and judgements used in the preparation of the annual financial statements.

1.3 Financial instruments

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.3 Financial instruments (continued)

Categories

The company classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

A financial asset classified as held-to-maturity that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below. Categories of financial instruments are as follows:

- **Financial assets at fair value through profit or loss**

  Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise they are classified as non-current.

- **Loans and other receivables**

  Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current. The entity's loans and receivables comprise other receivables and cash and cash equivalents.

- **Available-for-sale financial assets**

  Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are initially recognised at fair value. The day one difference between the transaction price and the fair value is recognised in other comprehensive income. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit and loss.

- **Financial liabilities**

  Financial liabilities comprise trade and other payables, borrowings and other non-current liabilities (excluding provisions).

  Financial liabilities are measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Refer to note 1.7 below for the accounting policy on preference shares.

1.3 Financial instruments (continued)

Initial recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, being the date on which the entity commits to purchase or sell the instrument.

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments. Financial instruments are recognised initially at fair value.

For financial assets that are not measured at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Financial instruments carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

Non-derivative financial instruments comprise available-for-sale financial assets, other receivables, cash and cash equivalents, borrowing and other payables.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Net gains or losses on the financial instruments at fair value through profit or loss exclude dividends and interest.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends received on available-for-sale equity instruments are recognised in profit or loss as part of other income when the company's right to receive payment is established. When an investment is derecognised or impaired, the cumulative gain or loss is reclassified to profit or loss.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

De-recognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

1.3 Financial instruments (continued)

Fair value determination

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A number of the company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value has been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the note specific to that asset or liability.

Transfers between fair value levels (level 1, level 2 and level 3) occur when a manner in which the fair value is determined has changed.

Available-for-sale financial asset

The fair value of available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date, unless it is short-term in nature, in which case its amortised cost approximates fair value.

Other receivables

Other receivables are classified as loans and receivables. The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date, unless it is short-term in nature, in which case its amortised cost approximates fair value.

Derivatives

The fair value of derivatives which relate to the existing option, is estimated using valuation techniques. A Monte Carlo methodology was adopted to value the option. The Monte Carlo simulation allows for the option model to consider the dependencies which exist between the company value, the dividends paid, the notional funding value and the remitted value. Refer to note 3 for the respective assumptions used in the valuation.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date, unless it is short-term in nature, in which case its amortised cost approximates fair value.

1.3 Financial instruments (continued)

Impairment of financial assets

At each reporting period the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its costs is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit of loss – is removed from equity as a reclassification adjustment to other comprehensive income and recognised in profit or loss.

Only impairment losses recognised in other comprehensive income are recorded in other comprehensive income.

Derivative financial instruments

Derivatives are classified at fair value through profit or loss.

A derivative is a financial instrument or other contract with all of the following characteristics:

- it's value changes in response to a change in a specified interest rate, financial instrument price, commodity price, foreign exchange or other variable,
- it requires no initial net investment or an initial investment that is smaller than would be for other types,
- it is settled at a future date. Derivatives are classified at fair value through profit or loss.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and attributable transaction costs are capitalised. Subsequently derivatives are remeasured at their fair value and movements are recognised immediately in profit or loss.

1.4 Other receivables

Other receivables consist of accrued interest on the call accounts and prepayments relating to administration expenses that were paid in advance.

1.5 Other payables

Other payables are initially measured at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method. These payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

1.6 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call and investments in money market instruments, net of bank overdrafts, all of which are available for use by the company. Bank overdrafts are included within current liabilities on the balance sheet, unless the entity has a legally enforceable right to set off the amounts and intends to settle on a net basis, or realise the asset and settle the liability simultaneously.

Restricted funds are deposits held and are not available for use by the company, as these are legally due to unidentified depositors.

1.7 Borrowings/preference shares

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

1.8 Tax

Current tax assets and liabilities

Current tax is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current period exceeds the amount due for this period, the excess is recognised as an asset.

Current tax liabilities (assets) are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the annual financial statements.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction which, at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.8 Tax (continued)

Tax expenses

The tax (credit)/expense for the period comprises current and deferred tax.

Current and deferred taxes are recognised in profit or loss, except to the extent that the tax relates to items recognised:
- in other comprehensive income; or
- directly in equity.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.9 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (note 1.7).

Incremental external costs directly attributable to the issue of new shares or options, other than in connection with a business combination, are shown in equity as a deduction, net of tax, from the proceeds.

1.10 Dividends payable

Dividends payable are recognised as a reduction from equity in the period in which they are approved by the company's shareholders.

1.11 Revenue recognition

Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the entity reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Dividend income

Dividend income is recognised in profit or loss when the right to receive payment is established.

1.12 Directors' emoluments

Remuneration to directors in respect of the services rendered during the reporting period is expensed in that reporting period.

1.13 Significant judgements and sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on several factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Critical judgements in applying accounting policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the annual financial statements, are outlined as follows:

Income taxes

Where applicable tax legislation is subject to interpretation, the Company makes assessments, based on expert tax advice, of the relevant tax that is likely to be paid and provides accordingly. When the final outcome is determined and there is a difference, this is recognised in the period in which the final outcome is determined.

For purposes of the annual financial statements we have assumed that the tax will be borne by MTN Zakhele Futhi. Deferred tax has been calculated at capital gains tax rate as the increase in the investment in MTN Group shares will only be realised on the sale thereof.

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The derivative instrument is based on assumptions as set out in note 3, these judgements and estimates are subject to change.

The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Impairment of available-for-sale assets

The company follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement.

In determining the need to impair an available-for-sale investment, the company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

The company determines that available for sale equity instruments are impaired and recognised as such in profit or loss when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the company evaluates, among other factors, the normal volatility in the fair value. In addition, the impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry or sector, or operational and financing cash flows or significant changes in technology.

There is no evidence of impairment to be recognised, based on the increase of the MTN Group share price since initial recognition.

1.14 Expenses

All expenses have been accounted for on the accrual basis. The expenditure is classified in accordance with the nature of the expense.

Expenses for the company include expenses of Jabisan 04 (RF) Proprietary Limited and the BFC2 Ownership Trust.

Administration expenses of the company and Jabisan 04 (RF) Proprietary Limited are limited to the amounts set out in clause 3.1 of Annexe A of the company’s Memorandum of Incorporation i.e. R15 million per annum prior to the commencement of the BEE Listing Period (as defined in the company's Memorandum of Incorporation), with an escalation allowance each year of the higher of 10% per annum or year-on-year changes in the CPI, on written approval of the Preference Share Agent and MTN Group plus the Administration Contingency Amount, plus an amount not exceeding R5 million in aggregate over the term of the Transaction (as defined in the company's Memorandum Of Incorporation) in relation to the specific categories of costs and expenses set out in clause 3.1.2 of Annexe A of the company's Memorandum of Incorporation.

Administration expenses include all service provider expenses payable by the company per the Transaction Documents (as defined in the company's Memorandum of Incorporation), including Preference Share Agent, Security Custodian, the Calculation Agent and Account bank fees and expenses.

		31 December 2017 R'000	31 December 2016 R'000
2.	**Available-for-sale asset**		
	MTN Group Limited shares	6 982 201	6 449 080
	Reconciliation of the available-for-sale asset		
	Balance at the beginning of the year	6 449 080	-
	Initial measurement for additions during the period paid in cash	-	5 832 131
	Gain on re-measurement of available-for-sale financial assets	533 121	616 949
	Balance at the end of the year	**6 982 201**	**6 449 080**

The investment consists of 51 114 213 (2016: 51 114 213) MTN Group Limited shares. The total investment together with the derivative financial asset (refer note 3) comprises approximately 4% of MTN Group's issued share capital.

The shares were acquired for cash at a price of R4 593 511 342 on 23 November 2016. The difference in the amount paid and the fair value gain on initial recognition (R5 832 131 703), based on a share price of R114.10 on 23 November 2016, was recognised in other comprehensive income in the 2016 financial year.

The fair value of the available-for-sale investment is based on a quoted market price of R136,60 (2016: R126,17) per share as listed on the JSE Limited at 31 December 2017. The total gain recorded in other comprehensive income for the current financial year is R533 121 241 (2016:R1 885 571 484).

3. Derivative financial asset

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 on 23 November 2016. MTN Group has a call option against MTN Zakhele Futhi in respect of the shares included in the NVF facility.

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. The Monte Carlo simulation was applied as the valuation technique, which is in line with standard market practice.

Initial recognition

The value of the option to MTN Zakhele Futhi at initial recognition on 23 November 2016 was R670 748 727. The significant inputs into the model were the market share price of MTN Group shares of R114.10 at the original grant date, volatility 33.05%, a dividend yield of 6.04% and an expected option life of eight years and an annual risk free rate of 8.42%.

Subsequent recognition

The value of the option at year end was R879 615 583 (2016: R887 537 535). The significant inputs into the model were the market share price of MTN Group shares of R136.60 (2016: R126.17), volatility of 31.24% (2016: 31.98%), a dividend yield of 4.66% (2016: 5.42%) and an expected option life of eight years from inception and an annual risk free rate of 7.60% (2016: 8.19%).

Notes to the Financial Statements

For the year ended 31 December 2017

		31 December 2017 R'000	31 December 2016 R'000
3.	**Derivative financial asset (continued)**		
	In terms of the notional vendor financing agreement, the notional funding provided by MTN Group earns notional interest at 80% of Prime (NACM).		
	The notional vendor balance accrued R316 million (2016: R26,1 million) in interest from the point of initial recognition to 31 December 2017. The notional vendor finance at year end was R3 621 million (2016: R3 331 million)		
	Financial asset at fair value through profit and loss		
	Balance at the beginning of the period	887 538	-
	Initial recognition of the derivative financial asset	-	766 433
	Fair value adjustments recorded in profit and loss	(7 922)	121 105
	Fair value at end of the year	**879 616**	**887 538**
4.	**Trade and other receivables**		
	Accrued interest income	169	38
	Prepayments	400	355
	Other receivables	34	-
		603	**393**
	The carrying amount of the trade and other receivables approximates fair value.		
5.	**Cash and cash equivalents**		
	Cash and cash equivalents consist of:		
	Bank balances	7 219	28 015
	Restricted funds	4 193	7 836
		11 412	**35 851**

Cash and cash equivalents are denominated in South African Rands.

The carrying amount of the cash and cash equivalents approximates fair value.

R4,2 million (2016: R7,8 million) is held by the company from unsuccessful applicants that need to be refunded as bank deposit references did not match them to their applications resulting in shares not being allocated to them during the initial offer period. Funds are being refunded as and when applicants present themselves. The Company is not obliged to pay interest to the applicants on the amounts refundable. These funds are not available to the company for its own use and are therefore classified as restricted funds.

Notes to the Financial Statements

For the year ended 31 December 2017

		31 December 2017 R'000	31 December 2016 R'000
6.	**Share capital**		
	Authorised share capital		
	300 000 000 ordinary shares of no par value		
	3 200 000 cumulative redeemable non-participating preference shares		
	Issued share capital		
	8 ordinary shares of no par value issued on incorporation	*	*
	123 416 818 ordinary shares of no par value (issued on 23 and 24 November 2016)	2 468 336	2 468 336
		2 468 336	**2 468 336**

**Amount less than R1 000*

Issued cumulative redeemable non-participating preference shares are classified as borrowings (note 8).

The MTN Zakhele Futhi ordinary shares are subject to a minimum investment period of three years, from 24 November 2016 to 23 November 2019. During the fourth to eighth years, restricted trading of the MTN Zakhele Futhi will be permissible between eligible individuals and groups.

		31 December 2017 R'000	31 December 2016 R'000
7.	**Reserves**		
	Reserves consist of:		
	Available-for-sale reserve	1 853 626	1 439 924
	Non-distributable reserve	682 580	688 727
		2 536 206	**2 128 651**
	Available-for-sale reserve		
	Balance at the beginning of the year	1 439 924	-
	Gain on the revaluation of the available-for-sale reserve	533 121	1 855 572
	Deferred tax on gain on the revaluation of the available-for-sale reserve	(119 419)	(415 648)
	Balance at the end of the year	**1 853 626**	**1 439 924**
	Non-distributable reserve		
	Balance at the beginning of the year	688 727	-
	Transfer of (loss)/gain on revaluation of the derivative asset	(7 922)	887 535
	Deferred tax on (loss)/gain on the revaluation of the derivative asset	1 775	(198 808)
	Balance at the end of the year	**682 580**	**688 727**

The transfer between reserves arises in respect of the (loss)/gain on the remeasurement of the derivative financial asset that is recorded in profit or loss. The amount transferred is net of deferred tax calculated at the Capital Gains Tax (CGT) rate. This transfer of the net loss/gain from retained earnings to the non-distributable reserve is effected as the gain is currently not distributable.

		31 December 2017 R'000	31 December 2016 R'000
8.	**Borrowings**		
	Borrowings consist of the cumulative redeemable non-participating preference shares.		
	Long-term portion	1 750 617	2 147 702
	Short-term portion	34 521	17 716
		1 785 138	**2 165 418**
	Reconciliation of the cumulative redeemable non-participating preference shares		
	Balance at the beginning of the year	2 165 418	-
	2 160 857 cumulative redeemable non-participating preference shares issued on incorporation (issued at a par value of R1 000)	-	2 160 857
	Redemption of non-participating preference shares (redeemed at a par value of R1 000)	(398 451)	-
	Interest paid on cumulative redeemable non-participating preference shares	(134 818)	-
	Accrued interest at the effective interest rate	152 989	16 424
	Transaction costs capitalised	-	(11 863)
	Balance at the end of the year	**1 785 138**	**2 165 418**

The above borrowings have been indirectly secured through the back-to-back preference shares issued by Jabisan 04 (RF) Proprietary Limited ("Jabisan 04").

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

The transaction costs capitalised to the borrowings relate to the arrangement fees that were directly attributable to the issue of the preference shares.

The preference shares are classified as debt instruments as they are mandatorily redeemable to the holders by no later than 23 November 2021.

	31 December 2017	31 December 2016
	R'000	R'000

8. Borrowings (continued)

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

The MTN Zakhele Futhi preference shares are subject to the following debt covenants:

MTN Net Debt to EBITDA	Trigger Event		Volatility Protection	
	Share Cover Ratio	Top-Up Required	Share Cover Ratio	Top-Up Required
< 2.00 times	2.00 times	2.90 times	2.30 times	2.60 times
> = 2.00 times	2.20 times	3.20 times	2.60 times	2.90 times

The total share cover is, as at any date, the ratio A:B where:

- A is the number of MTN Shares reflected in the Subject Share Security Account multiplied by the Five Day VWAP of the MTN Shares; and
- B is (a) the aggregate MTN Zakhele Futhi Redemption Amount (excluding any MTN Zakhele Futhi Margin Dividend) of the MTN Zakhele Futhi unredeemed preference shares as at that date calculated on the basis that the MTN Zakhele Futhi unredeemed preference shares were to be redeemed on that date; less (b) the aggregate of all amounts standing to the credit of the Jabisan 04 Collection Account, MTN Zakhele Futhi Collection Account, the MTN Zakhele Futhi Security Account, Jabisan 04 Top up Loan Account and the MTN Zakhele Futhi Top up Loan Account on that date.

The volatility protection share cover is, at any date, the ratio of A:B where:

- A is the MTN Shares in the Subject Share Security Account multiplied by the one day VWAP of the MTN Shares; and
- B is (a) the aggregate MTN Zakhele Futhi Redemption Amount (excluding any MTN Zakhele Futhi Margin Dividend) of the MTN Zakhele Futhi unredeemed preference shares as at that date calculated on the basis that the MTN Zakhele Futhi unredeemed preference shares were to be redeemed on that date; less (b) the aggregate of all amounts standing to the credit of the Jabisan 04 Collection Account, MTN Zakhele Futhi Collection Account, the MTN Zakhele Futhi Security Account, Jabisan 04 Top up Loan Account and the MTN Zakhele Futhi Top up Loan Account on that date.

If the above covenants are triggered the holders of the back-to-back preference shares issued by Jabisan 04 will, amongst other things, have the right to enforce the sale of sufficient MTN Group shares to repay their outstanding debt.

There are no continuing trigger events and MTN Zakhele Futhi is in compliance with its debt covenant requirements at year end.

	31 December 2017	31 December 2016
	R'000	R'000

8. Borrowings (continued)

The following security and credit support are held as at 31 December 2017:

First Ranking Guarantee, given by MTN Zakhele Futhi in respect of the obligations of Jabisan 04 under the Jabisan 04 preference shares (cumulative redeemable non-participating preference shares) issued by Jabisan 04 to the Jabisan 04 Preference Shareholders on 23 November 2016.

MTN Zakhele Futhi Pledge and Cession given by MTN Zakhele Futhi in favour of the Jabisan 04 Preference Shareholders in terms of which MTN Zakhele Futhi pledges and cedes in security the Subject Shares (the MTN Shares held by MTN Zakhele Futhi from time to time) for its obligations under the First Ranking Guarantee.

MTN Zakhele Futhi Reversionary Pledge and Cession by MTN Zakhele Futhi in favour of MTN Group Limited and Mobile Telephone Networks Holdings Limited and each Subordinated MTN Acceded Nominee ("MTN Group Entities") in terms of which MTN Zakhele Futhi pledges and cedes in security its Primary Reversionary Rights to the Subject Shares (the MTN Shares held by MTN Zakhele Futhi from time to time) for its obligations in respect of certain Transaction Documents.

MTN Zakhele Futhi Account Cession by MTN Zakhele Futhi in favour of the Jabisan 04 Preference Shareholders in terms of which MTN Zakhele Futhi cedes in security the MTN Zakhele Futhi Account Rights (and any other assets designated as Collateral) for its obligations under the First Ranking Guarantee.

MTN Zakhele Futhi Reversionary Account Cession by MTN Zakhele Futhi in favour of the MTN Group Entities in terms of which MTN Zakhele Futhi cedes in security the MTN Zakhele Futhi Account Rights (and any other assets designated as Collateral) for its obligations in respect of certain Transaction Documents.

MTN Subordination and Undertaking Agreement entered into between the Jabisan 04 Preference Shareholders, Jabisan 04, MTN Zakhele Futhi, Nedbank Limited (in its capacity as Preference Share Agent), MTN Group Limited and Mobile Telephone Networks Holdings Limited in terms of which the MTN Group Entities (i) subordinate their claims against MTN Zakhele Futhi in favour of Jabisan 04 and the holders of the Jabisan 04 preference shares and (ii) subordinate their claims against Jabisan 04 in favour of the Jabisan 04 Preference Shareholders; and MTN Holdings provides a limited recourse guarantee in favour of the Jabisan 04 Preference Shareholders.

The MTN Group shares (being 76 835 378 ordinary shares) are being held at Nedbank Limited, acting through its Nedbank Investor Services division (in its capacity as Security Custodian).

		31 December 2017 R'000	31 December 2016 R'000
9.	**Deferred tax**		
	Reconciliation of the deferred tax liability		
	Balance at the beginning of the year	614 456	-
	Gain on the revaluation of the available-for-sale assets recorded through other comprehensive income	119 419	415 648
	(Loss)/gain on revaluation of derivative financial asset recorded through profit and loss	(1 775)	198 808
	Balance at the end of the year	**732 100**	**614 456**

Deferred tax on the revaluation of the available-for-sale and the derivative financial assets are raised at the CGT rate of 22.4%.

10.	**Trade and other payables**		
	Administration costs	1 242	427
	Director's and secretarial fees	59	231
	Implementation costs	-	12 965
	Professional fees and other	1 149	1 948
		2 450	**15 571**

The carrying amount of the trade and other payables approximates fair value.

11. Other liability

The other liability consists of amounts due and payable to unsuccessful participants. Shares were not allocated to these participants during the initial offer period due to the incorrect references being used on their payments resulting in their deposits not being matched to their underlying application.

Balance at the end of the year	**4 193**	**7 836**

The carrying amount of the other liability approximates fair value.

Notes to the Financial Statements

For the year ended 31 December 2017

		31 December 2017 R'000	6 months ended 31 December 2016 R'000
12.	**Other operating expenses**		
	Administration and preference agent fees	(5 986)	(1 577)
	Auditors remuneration	(651)	(550)
	Auditors remuneration – prior year under accrual	(573)	-
	Auditors remuneration – non – audit services	-	(550)
	Securities transfer tax	(996)	-
	Legal and other professional fees	(2 074)	(13 860)
	Secretarial expenses	(89)	(21)
	Annual general meeting, including printing and postage	(1 824)	-
	Expenses paid on behalf of Jabisan 04 and BFC 2 Ownership Trust	(1 434)	-
	Other expenses	(3)	(23)
		(13 630)	**(16 031)**
	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.		
13.	**Finance income**		
	Interest income is earned from investments in financial assets.		
	Interest income from bank and cash	**3 461**	**6 889**
14.	**Finance costs incurred on financial liabilities measured at amortised cost**		
	Interest expense – borrowings (accrued dividends)	151 623	17 716
	Effective interest rate adjustment	1 366	(1 292)
		152 989	**16 424**
15.	**(Loss)/gain on re-measurement of the derivative financial instrument**		
	Fair value (losses)/gains arise on financial instruments recognised at fair value through profit or loss.		
	(Loss)/gain on revaluation of the derivative financial asset	**(7 922)**	**887 535**

		31 December 2017 R'000	6 months ended 31 December 2016 R'000
16.	**Income tax credit/(expense)**		
	Major components of the tax credit/(expense) include:		
	Current taxation		
	Normal taxation	(969)	(1 929)
	Deferred taxation		
	Fair value adjustment on the derivative financial asset	1 775	(198 808)
		806	**(200 737)**
	Reconciliation of the tax credit/(expense)		
	The income tax credit/(expense) for the year is reconciled to the effective rate of tax as follows:		
	Applicable rate	28.00%	28.00%
	Exempt dividends	(41.13%)	-
	Expenses not deductible for tax	12.79%	1.06%
	Difference between CGT and statutory tax on the revaluation of the derivative asset	0.12%	(5.77%)
	Effective tax rate	**(0.22%)**	**23.29%**
	Deferred tax on the fair value gain of the derivative financial asset is raised at the CGT rate (22.4%).		
17.	**Cash used in operations**		
	Profit before taxation	366 164	861 759
	Adjusted for:		
	Interest income	(3 461)	(6 889)
	Finance costs incurred on financial liabilities measured at amortised cost	152 989	16 424
	(Loss)/gain on re-measurement of the derivative financial instrument	7 922	(887 535)
	Changes in working capital:		
	Trade and other receivables	(210)	(393)
	Trade and other payables	(13 121)	15 571
		510 283	**(1 063)**

Notes to the Financial Statements

For the year ended 31 December 2017

		31 December 2017	6 months ended 31 December 2016
		R'000	R'000
18.	**Tax paid**		
	Balance at the beginning of the year	(300)	-
	Current tax for the year recognised in profit or loss	(969)	(1 929)
	Balance at the end of the year	(3)	300
		(1 272)	**(1 629)**

19. 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 (1)
	Simphiwe Cele (1)
	Sibongile Mtshali (1)
	Sindisiwe Mabaso-Koyana (2)
	Sonja De Bruyn Sebotsa (2)
	Grant Gelink (3)

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

(2) Appointed to the board of directors on 6 June 2017.

(3) Appointed the board of directors on 9 June 2017.

	31 December 2017	6 months ended 31 December 2016
Related party balances:		
Preference share liability		
Jabisan 04 (RF) Proprietary Limited	1 785 138	2 165 418
Amounts included in trade and other payables relating to related parties		
Shauket Allie Fakie (in respect of directors remuneration)	59	210
MTN Group Limited	-	12 965
	59	**13 175**

Notes to the Financial Statements

For the year ended 31 December 2017

	31 December 2017	6 months ended 31 December 2016
	R'000	R'000
19. Related parties (continued)		
Ordinary share capital held by related party		
MTN Group Limited	365 605	556 973
Related party transactions:		
Dividend received from related party		
MTN Group Limited	(537 848)	-
Interest paid to related parties		
Jabisan 04 (RF) Proprietary Limited	134 818	17 716
Participation fee paid to related party		
Jabisan 04 (RF) Proprietary Limited	-	11 863
Expenses paid on behalf of related parties	**1 434**	**21**
Jabisan 04 (RF) Proprietary Limited	1 434	21
BFC2 Ownership Trust	-	-
Remuneration of the board of directors – directors fees		
Shauket Allie Fakie (4)	166	210
Simphiwe Cele (5)	-	-
Sibongile Mtshali (5)	-	-
Sindisiwe Mabaso-Koyana (6)	207	-
Sonja De Bruyn Sebotsa (6)	107	-
Grant Gelink (7)	124	-
	604	**210**

(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) Appointed to the board of directors on 6 June 2017

(7) Appointed to the board of directors 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 Financial Statements

For the year ended 31 December 2017

20. Going concern

The annual financial statements have been prepared on the basis of 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.

The company's forecasts and projections, taking account of reasonable possible changes in investment performance, show that the Company will be able to operate within the level of its current funding. The directors have a reasonable expectation that the company has adequate resources to continue in existence for the foreseeable future.

21. Events after the reporting period

MTN Group Limited declared a final dividend of 450 cents on 8 March 2018.

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.

22. Contingencies, commitments and guarantees

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

23. Categories of financial instruments

The financial instruments of the Company have been classified as follows:

	Financial assets			Financial liabilities	Non-financial instruments	Total financial instruments	
31 December 2017	**Available for sale financial assets**	**Loans and receivables**	**Financial assets at fair value through profit or loss**	**Financial liabilities at amortised cost**	**Non-financial instruments**	**Total carrying amount**	**Fair value**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Assets							
Available-for-sale financial assets	6 982 201	-	-	-	-	6 982 201	6 982 201
Derivative financial assets	-	-	879 616	-	-	879 616	879 616
Other receivables	-	203	-	-	400	203	203
Cash and cash equivalents	-	11 412	-	-	-	11 412	11 412
Current tax receivable	-	-	-	-	3	-	-
Liabilities							
Deferred tax	-	-	-	-	732 100	-	-
Borrowings	-	-	-	1 785 138	-	1 785 138	1 832 352
Trade and other payables	-	-	-	2 450	-	2 450	2 450
Other liability	-	-	-	4 193	-	4 193	4 193

Notes to the Financial Statements

For the year ended 31 December 2017

23. Categories of financial instruments (continued)

	Financial assets			Financial liabilities	Non-financial instruments	Total financial instruments	
31 December 2016	**Available for sale financial assets**	**Loans and receivables**	**Financial assets at fair value through profit or loss**	**Financial liabilities at amortised cost**	**Non-financial instruments**	**Total carrying amount**	**Fair value**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Assets							
Available-for-sale financial assets	6 449 080	-	-	-	-	6 449 080	6 449 080
Derivative financial assets	-	-	887 538	-	-	887 538	887 538
Other receivables	-	38	-	-	355	38	38
Cash and cash equivalents	-	35 851	-	-	-	35 851	35 851
Liabilities							
Deferred tax	-	-	-	-	614 456	-	-
Borrowings	-	-	-	2 165 418	-	2 165 418	2 009 006
Current tax payable	-	-	-	-	300	-	-
Trade and other payables	-	-	-	15 571	-	15 571	15 571
Other liability	-	-	-	7 836	-	7 836	7 836

24. 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 annual 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).

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.

Notes to the Financial Statements

For the year ended 31 December 2017

24. Financial risk management and financial instruments (continued)

b. Fair value estimation (continued)

The fair value of the available-for-sale 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
31 December 2017				
Recurring fair value measurement				
Available-for-sale financial asset	6 982 201	-	-	6 982 201
Derivative financial asset	-	-	879 616	879 616
Amortised cost measurement				
Borrowings	-	(1 832 352)	-	(1 832 352)
Other payables	-	(2 450)	-	(2 450)
Other liability	-	(4 193)	-	(4 193)
Other receivables	-	603	-	603
Cash and cash equivalents	-	11 412	-	11 412
31 December 2016				
Recurring fair value measurement				
Available-for-sale financial asset	6 449 080	-	-	6 449 080
Derivative financial asset	-	-	887 538	887 538
Amortised cost measurement				
Borrowings		(2 009 006		(2 009 006
Other payables	-	(15 571)	-	(15 571)
Other liability	-	(7 836)	-	(7 836)
Other receivables	-	38	-	38
Cash and cash equivalents	-	35 851	-	35 851

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

Notes to the Financial Statements

For the year ended 31 December 2017

24. Financial risk management and financial instruments (continued)

c. Derivative financial assets

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	
	31 December 2017	**31 December 2016**
	R'000	**R'000**
10% increase	250 029	230 264
10% decrease	(222 563)	(220 386)

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 December 2017	**31 December 2016**
	R'000	**R'000**
1% increase	12 720	59 644
1% decrease	(12 857)	(58 999)

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 3% with all other variables held constant.

	Impact on post-tax profit	
	31 December 2017	**31 December 2016**
	R'000	**R'000**
3% increase	101 137	82 337
3% decrease	(105 630)	(88 830)

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.

24. Financial risk management and financial instruments (continued)

c. Derivative financial assets (continued)

	Impact on post-tax profit	
	31 December 2017	**31 December 2016**
	R'000	**R'000**
1% increase	117 084	30 234
1% decrease	(122 449)	(46 376)

d. Available-for-sale 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 available-for-sale financial assets 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	
	31 December 2017	**31 December 2016**
	R'000	**R'000**
10% increase	698 220	644 908
10% decrease	(698 220)	(644 908)

24. 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 2017, 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	Downward change in interest rate
	R'000	R'000
31 December 2017		
1% movement	(12 019)	12 058
31 December 2016		
1% movement	(3 055)	273

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 R4,2 million (2016: R7,8 million) due to unidentifiable applicants as this cash is not available to the Company for use.

24. 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 December 2017 R'000	31 December 2016 R'000
Cash at bank and on hand	11 412	28 015
Other receivables	203	38
	11 615	28 053

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 R'000	Payable more than one year but less than five years R'000	Payable more than five years R'000	Total R'000
31 December 2017				
Borrowings	-	1 785 138	-	1 785 138
Other payables	2 450	-	-	15 571
Other liability	4 193	-	-	4 193
31 December 2016				
Borrowings	-	2 165 418	-	2 165 418
Other payables	15 571	-	-	15 571
Other Liability	7 836	-	-	7 836

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.

24. 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.

25. Dividend income

During the 2017 financial year MTN Zakhele Futhi received dividends from MTN Group Limited.

MTN Zakhele Futhi holds 51 114 213 MTN Group Limited shares as an available-for-sale financial asset (note 2) and 25 721 165 MTN Group Limited shares through a 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 R537 847 646 (2016: R0).

Notes to the Financial Statements

For the year ended 31 December 2017

26. New standards and interpretations

26.1 Standards and interpretations effective and adopted in the current year

In the current year, the Company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations. The adoption of these standards did not have a material impact on the annual financial statements.

International Financial Reporting Standards and amendments effective for the first time for the 31 December 2017 year end		
Standard	**Details of the development**	**Effective date**
IAS 8, Statement of Cash Flows	Amendments as result of the Disclosure initiative	Annual periods beginning on or after 1 January 2017
IAS 12, Income Taxes	Amendments regarding the recognition of deferred tax assets for unrealised losses	Annual periods beginning on or after 1 January 2017

26.2 Standards and interpretations not yet effective

The Company has chosen not to early adopt the following standards and interpretations, which are relevant to its operations, which have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2018, or later periods. It is expected that the Company will adopt the new pronouncements on their effective dates in accordance with the requirements of the pronouncements. The Company is in the process of assessing the impact of these standards and interpretation on the annual financial statements.

Standard	**Details of the development**	**Effective date**
IFRS 9, Financial Instruments	Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition	Effective for annual periods beginning on or after 1 January 2018
	Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	Annual periods beginning on or after 1 January 2019
IFRS 15, Revenue from Contracts with Customers	Original Issue	Annual periods beginning on or after 1 January 2018
IAS 12, Income Taxes	Amendments resulting from *Annual Improvements 2015–2017 Cycle* (income tax consequences of dividends)	Annual periods beginning on or after 1 January 2019
IAS 23, Borrowing Costs	Amendments resulting from *Annual Improvements 2015–2017 Cycle* (borrowing costs eligible for capitalisation)	Annual periods beginning on or after 1 January 2019