MTN Zakhele Futhi (RF) Limited

Annual Financial Statements

for the year ended **31 December 2019**

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Preparer

Siyabonga Zokoza
Senior Financial Officer: Central Finance - Nedbank Limited

Supervised by

Jaynesh Padayachy CA(SA)
Senior Financial Manager: Central Finance - Nedbank Limited

Board of directors

For the year ended 31 December 2019

Sindisiwe N Mabaso-Koyana (50)

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, Public Investment Corporation 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 (48)

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 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 fund management 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 an Alumni Young Global Leader of the World Economic Forum.

Board of directors

For the year ended 31 December 2019

Grant G Gelink (70)

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, Allied Electronics Limited and Rain Group Holdings Proprietary 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.

Chairperson’s report

For the year ended 31 December 2019

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 2019, the Company recognised a loss after taxation of R38,0 million (2018: R325,8 million). The loss is attributable to the re-measurement of the derivative financial instrument at year end as required by the International Financial Reporting Standards. The loss on the re-measurement of the derivative financial instrument is almost entirely due to the decline in the MTN Group share price from R89,00 at 31 December 2018 to R82,49 at 31 December 2019.

The decline in the MTN Group share price since the prior financial year also resulted in a fair value loss of R332,7 million (2018: R2 433,0 million) being recognised in the statement of comprehensive income.

Repayment of MTN Zakhele Futhi’s debt

During 2019, the Company received R399,5 million (2018: 480,2 million) in dividend income from MTN Group and was able to repay debt in excess of the budgeted repayment schedule. 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.

R276,9 million of the dividend income was applied towards the early redemption of the preference shares during the 2019 financial year. This will ultimately result in a reduction of dividends payable on the preference shares over the life of these instruments.

Listing of MTN Zakhele Futhi on the JSE Limited (JSE)

On 25 November 2019, MTN Zakhele Futhi listed on the BEE Segment of the JSE marking the end of the “Minimum Investment Period”. The listing provides shareholders the ability to trade their shares between qualifying black people and black groups on the open market during the remaining five years of the Empowerment Period.

Various factors outside of the control of MTN Zakhele Futhi and their service providers resulted in the initial share price being well below the original cost of the shares in 2016. Since the only asset held by the Company is an investment in MTN Group shares any change in the share price of these shares will directly impact the MTN Zakhele Futhi share price.

We once again encourage all our shareholders to make sound investment decisions when electing to sell, hold or buy their MTN Zakhele Futhi shares in order to maximise the true value of their investment.

Shareholder support

Effective and efficient shareholder communication is essential to ensure that shareholders are kept up to date. 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, SMS or post. 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 17h00 Mondays to Fridays. Agents will log their call and take them through the process and documentation needed to effect such changes. Shareholders are encouraged to familiarise themselves with the information published from time to time on the MTN Zakhele Futhi website by visiting **www.mtnzakhelefuthi.co.za**.

Chairperson's report

For the year ended 31 December 2019

Prospects

Due to the nature and purpose of MTN Zakhele Futhi, its prospects are aligned with the prospects of the MTN Group.

Annual General Meeting

We will communicate further details of the Annual General Meeting to all shareholders in due course.

Sindisiwe Mabaso-Koyana

Chairperson

31 March 2020

Audit, risk & compliance committee report

For the year ended 31 December 2019

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 IV in respect of the financial year ended 31 December 2019.

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	2/2
Sonja De Bruyn	1/2

Biographical details of members at 31 December 2019 are set out on pages 2 to 3 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 perform 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 Grant Thornton Inc. The fee 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.

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

Audit, risk & compliance committee report

For the year ended 31 December 2019

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 non-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, where applicable, 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 2019 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 annual financial statements of the Company for the year ended 31 December 2019 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, Listing Requirements of the JSE Limited relating to Asset Backed Securities and that the accounting policies applied are appropriate and consistent. The committee recommended the Company's annual financial statements for the year ended 31 December 2019 for approval by the board on 31 March 2020.

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

Grant Gelink
Chairperson: Audit, Risk & Compliance Committee

31 March 2020

Directors responsibilities and approval

For the year ended 31 December 2019

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. 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) and the Listing Requirements of the JSE Limited relating to Asset Backed Securities. The external auditor is engaged to express an independent opinion on the annual financial statements.

The annual 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 2020 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 14 to 17.

The annual financial statements set out on pages 18 to 50, were approved by the board on 31 March 2020 and were signed on their behalf by:

Sindisiwe Mabaso-Koyana
Chairperson: Board of Directors

31 March 2020

Grant Gelink
Chairperson: Audit, Risk & Compliance Committee

31 March 2020

Company secretary's certification

For the year ended 31 December 2019

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 2019 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

31 March 2020

Directors report

For the year ended 31 December 2019

The directors have pleasure in presenting their report, for the year ended 31 December 2019.

MTN Zakhele Futhi is a special purpose company which only has non-executive directors and does not employ any employees. The Company has engaged various service providers with the necessary expertise and experience to provide all services required by MTN Zakhele Futhi 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 its 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 expertise and experience to provide all services required by the Company in this regard, with the ultimate responsibility residing with the board of directors. This has been the case for the full period under review.

There is a clear policy evidencing balance of power and authority at board level to ensure that no director has unfettered powers of decision making.

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.

The material risks applicable to MTN Zakhele Futhi are available in the Pre-Listing Statement issued on 11 November 2019. The Pre-Listing Statement is available on https://www.mtnzakhelefuthi.co.za/docs. Subsequent to year end an additional risk relating to the adverse effect of the Covid-19 virus on the financial results of the Company was identified. Further disclosure in respect of this risk and the resulting impact on MTN Zakhele Futhi has been provided in Note 21 of the annual financial statements.

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.

Due to the nature of the Company, MTN Zakhele Futhi has received a condonation from the Companies Tribunal of the Republic of South Africa from establishing a Social and Ethics Committee. This condonation is in place for a five-year period which expires in March 2024.

During the financial year MTN Zakhele Futhi was in compliance with the provisions of the Companies Act and applicable laws of the Republic of South Africa and was operating in conformity with its Memorandum of Incorporation.

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 loss after tax of the Company for the year was R38,0 million (2018: 325,8 million), after tax expenses of R0,9 million (2018: R8,9 million).

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 ordinary shares were listed on the JSE Limited on 25 November 2019.

Directors report

For the year ended 31 December 2019

4. Dividends

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

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	Appointment
Sindisiwe Mabaso-Koyana	Appointed 6 June 2017
Sonja De Bruyn	Appointed 6 June 2017
Grant Gelink	Appointed 9 June 2017

6. Auditors

SizweNtsalubaGobodo Grant Thornton 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

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

8. Directors' interests in shares

As at 31 December 2019, the directors of the Company held the following number of direct or indirect beneficial interests in the issued ordinary shares:

	2019		2018	
	Direct	**Indirect**	**Direct**	**Indirect**
Sindisiwe Mabaso-Koyana	-	50 000	-	50 000
Sonja De Bruyn	-	5 000 000	-	5 000 000
Grant Gelink	61 023	-	61 023	-
	61 023	**5 050 000**	**61 023**	**5 050 000**

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 5 meetings during 2019 and the members attended the meetings as follows:

	Attended
Sindisiwe Mabaso-Koyana	5/5
Sonja De Bruyn	3/5
Grant Gelink	4/5

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 355 cents on 11 March 2020.

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

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

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

Directors report

For the year ended 31 December 2019

11. Events after the reporting date (continued)

No other significant events have occurred between the reporting date and 31 March 2020 that require adjustment or disclosure.

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 to continue as a going concern.

The annual financial statements set out on pages 18 to 50, which have been prepared on the going concern basis, were approved by the board on 31 March 2020 and were signed on its behalf by:

Sindisiwe Mabaso-Koyana

Chairperson

31 March 2020

SNG Grant Thornton
20 Morris Street East
Woodmead, 2191
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Saxonwold, 2132
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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 18 to 50, which comprise the statement of financial position as at 31 December 2019 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 2019, 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 the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter Description	How the scope of our audit responded to the key audit matter
Valuation of the derivative option were classified as Fair Value carried through profit or loss. 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. As at 31 December 2019; financial liabilities carried at fair value through profit or loss represented 46% of total financial liabilities classified as level 3 in the fair value hierarchy as prescribed by IFRS 13 Fair Value Measurement. Refer to Note 24 in the Annual Financial Statements for selected disclosures applicable to this matter. Financial instruments that are classified as level 2 or level 3 in the fair value hierarchy will have some element of estimation uncertainty inherent in their value, and the uncertainty is higher for level 3 financial instruments which, by their nature, are unobservable. These portfolios include certain derivative financial instruments. In addition, 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 which may increase the estimation uncertainty. As the determination of the valuation model of the derivative is complex, it is subject to estimation uncertainty and represents a material balance, this matter was considered to be a key audit matter in audit of the annual financial statements.	As part of our audit, we identified relevant controls over valuation of financial instruments and evaluated the design and implementation of these controls. We assessed the models used by the management and rates applied at year-end and used valuation tools to re-perform valuations for the notional vendor finance liability. We considered sensitivities to key factors including: • assessing the impact of change in the MTN Group share price, impact of change in volatility; and • assessing the impact of interest rates used by comparing them to similar instruments. We also assessed the disclosures made relating to the valuation of financial instruments in relation to the fair value hierarchy to ensure consistency with the requirements of the relevant accounting standards and with the methodologies applied by management. Utilising our valuation experts, we assessed the appropriateness of key assumptions and inputs observable sources and have audited the inputs.
The liquidity of MTN Zakhele Futhi is dependent on the receipt of dividends from MTN Group.	As part of our audit, we assessed the funding needs based on the agreements in place. We also assessed the approved dividend policy for MTN Group.
The impact of the volatility of the MTN share price on debt covenants for any breaches.	As part of our audit, we assessed the loan agreements for any breaches of the covenants and correspondence issued by the preference share agents with the relevant counterparties.

Other information

MTN Zakhele Futhi (RF) Limited’s Board of Directors is responsible for the other information. The other information comprises the Directors’ Report, Chairperson’s report, Audit, risk & compliance committee report, Directors' responsibilities and approval statement, Company secretary’s certification and Annexure A: Shareholder information. 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.

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 scepticism throughout the audit of the financial statements. 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.

Communication with those charged with governance

We communicate with the accounting authority 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 identify during our audit.

We also provide the accounting authority with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the accounting authority, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 Grant Thornton has been the auditor of MTN Zakhele Futhi (RF) Limited for 4 years.

Agnes Dire
SizweNtsalubaGobodo Grant Thornton Inc.
Director
Registered Auditor

31 March 2020

20 Morris Street East
Woodmead
2191

Statement of financial position

As at 31 December 2019

	Notes	**31 December 2019 R '000**	31 December 2018 R'000
ASSETS			
Non-current assets			
Investment in equities	2	4 216 411	4 549 165
		4 216 411	**4 549 165**
Current assets			
Current tax receivable		5	1
Cash and cash equivalents	5	18 240	36 184
Cash and cash equivalents -restricted funds	5	3 566	3 765
Other receivables	4	1 160	832
		22 971	**40 782**
Total assets		**4 239 382**	**4 589 947**
EQUITY AND LIABILITES			
Equity			
Share capital	6	2 468 336	2 468 336
Reserves	7	(1 377 875)	(741 911)
Accumulated profit		954 265	689 104
		2 044 726	**2 415 529**
Liabilities			
Non-Current Liabilities			
Borrowings	8	1 165 613	1 442 079
Derivative financial instrument	3	1 000 775	697 565
Deferred tax	9	-	-
		2 166 388	**2 139 644**
Current Liabilities			
Borrowings	8	22 165	28 277
Other liability	11	3 566	3 765
Trade and other payables	10	2 537	2 732
		28 268	**34 774**
Total Liabilities		**2 194 656**	**2 174 418**
Total Equity and Liabilities		**4 239 382**	**4 589 947**

Statement of profit or loss

For the year ended 31 December 2019

	Notes	**31 December 2019 R '000**	31 December 2018 R '000
Dividend Income	25	399 544	480 221
Directors' emoluments	19	(768)	(695)
Other operating expenses	12	(36 320)	(13 554)
Operating profit		**362 456**	**465 972**
Finance income	13	3 364	2 970
Finance costs incurred on financial liabilities measured at amortised cost	14	(99 717)	(124 418)
Loss on re-measurement of the derivative financial instrument	15	(303 210)	(661 448)
Loss before taxation		**(37 107)**	**(316 924)**
Income tax expense	16	(942)	(8 923)
Loss for the year		**(38 049)**	**(325 847)**
Basic and diluted earnings per share (cents)	26	**215,85**	**271,92**

Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	**31 December 2019 R '000**	31 December 2018 R '000
Loss for the year		**(38 049)**	**(325 847)**
Other comprehensive loss:			
Items that may not be reclassified to profit or loss:		**(332 754)**	**(1 897 969)**
Loss on re-measurement of the investment in equities	7	(332 754)	(2 433 036)
Deferred tax on loss on re-measurement of the investment in equities		-	535 067
Total comprehensive loss for the year		**(370 803)**	**(2 223 816)**

Statement of changes in equity

For the year ended 31 December 2019

	Share capital R '000	Investment in equities reserve R '000	Other reserve R '000	Total reserves R '000	Accumulated profit/ (loss) R '000	Total equity R '000
Balance at 1 January 2018	**2 468 336**	**1 853 626**	**(28 029)**	**1 825 597**	**345 412**	**4 639 345**
Loss for the year	-	-	-	-	(325 847)	(325 847)
Other comprehensive loss	-	(1 897 969)	-	(1 897 969)	-	(1 897 969)
Total comprehensive loss the year	**-**	**(1 897 969)**	**-**	**(1 897 969)**	**(325 847)**	**(2 223 816)**
Transfer between reserves*	-	-	(669 539)	(669 539)	669 539	-
Balance at 31 December 2018	**2 468 336**	**(44 343)**	**(697 568)**	**(741 911)**	**689 104**	**2 415 529**
Balance at 1 January 2019	**2 468 336**	**(44 343)**	**(697 568)**	**(741 911)**	**689 104**	**2 415 529**
Loss for the year	-	-	-	-	(38 049)	(38 049)
Other comprehensive loss	-	(332 754)	-	(332 754)	-	(332 754)
Total comprehensive loss the year	**-**	**(332 754)**	**-**	**(332 754)**	**(38 049)**	**(370 803)**
Transfer between reserves*	-	-	(303 210)	(303 210)	303 210	-
Balance at 31 December 2019	**2 468 336**	**(377 097)**	**(1 000 778)**	**(1 377 875)**	**954 265**	**2 044 726**
Notes	6	7	7			

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

Statement of cash flows

For the year ended 31 December 2019

	Notes	**31 December 2019 R '000**	31 December 2018 R '000
Cash flows from operating activities			
Cash used in operations	17	(37 611)	(14 196)
Dividends received		399 544	480 221
Interest income received	13	3 364	2 970
Finance costs paid		(105 403)	(126 154)
Tax paid	18	(946)	(830)
Net cash from operating activities		**258 948**	**342 011**
Cash flows from financing activities			
Redemption of cumulative redeemable non-participating preference shares	8	(276 892)	(313 046)
Cash refunded to unsuccessful participants		(199)	(428)
Net cash from financing activities		**(277 091)**	**(313 474)**
Total cash movement for the year		**(18 143)**	**28 537**
Cash at the beginning of the year		39 949	11 412
Total cash at the end of the year	5	**21 806**	**39 949**

Accounting policies

For the year ended 31 December 2019

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, the Companies Act 71 of 2008 of South Africa, as amended and the Listings Requirements of the JSE Limited relating to Asset Backed Securities.

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 financial 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)

Classification and measurement

The company classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through profit or loss (FVTPL)
- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income (FVOCI)
- Financial liabilities at amortised cost

Classification is determined by both the company's business model for managing the financial instrument and the contractual characteristics of the financial instrument. Classification is re-assessed on an annual basis, except for derivatives and financial instruments designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

All income and expenses relating to financial instruments that are recognised in profit or loss are presented within finance costs, finance income or dividends received, except for the impairment losses which are presented within other operating expenses.

Financial instruments are recognised initially at fair value, for instruments not at fair value through profit or loss, adjusted for any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below:

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

  Financial assets at fair value through profit or loss are financial assets with a different business model other than "hold to collect" or "hold to collect and sell". Furthermore, irrespective of the business model, financial assets whose contractual cash flows are not solely payments of principle and interest (SPPI) are accounted for at FVTPL. Derivative financial instruments fall into this category 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.

  Assets in this category are measured at fair value with gains and losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

  The company has made the irrevocable election to account for the investment in MTN Group Limited shares, not classified as a derivative financial instrument, at fair value through other comprehensive income.

- **Financial assets at amortised cost**

  Financial assets are measured at amortised cost if the asset meets the following conditions (and are not designated as FVTPL):
  - they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
  - the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

  They are included in current assets except for maturities greater than 12 months after the end of the reporting period which are classified as non-current. After initial recognition, these are measured at amortised cost using the effective interest rate method. Discounting is omitted where the effect of discounting is immaterial. The entity's financial assets measured at amortised cost comprise other receivables and cash and cash equivalents.

1.3 Financial instruments (continued)

- **Financial assets at fair value through other comprehensive income**

  The company has made the irrevocable election, in terms of IFRS 9.5.7.5 to account for the investment in MTN Group Limited shares, not classified as a derivative financial instrument, at fair value through other comprehensive income. This election has been made due to the nature of the asset and the business model applied in managing this financial instrument.

  Any gains and losses recognised in other comprehensive income will not be recycled upon de-recognition of the asset.

- **Financial liabilities at amortised cost**

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

  Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the company has designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method. All interest related charges and, if applicable, changes in an instruments fair value that are reported in profit or loss are included within finance costs

  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.

De-recognition

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

Fair value

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.

- **Investment in equities**

  Investments in equities are measured at fair value through other comprehensive income. The fair value of the investments in equities are determined by reference to their quoted closing bid price at the reporting date..

1.3 Financial instruments (continued)

- **Other receivables**

  Other receivables are classified as financial assets measured at amortised cost. 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.

- **Derivative financial instrument**

  Derivative financial instruments 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.

  Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and attributable transaction costs are expensed. Subsequently, derivative financial instruments are remeasured at their fair value and movements are recognised immediately in profit or loss.

  The fair value of the derivative financial instrument 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.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred loss model under IAS 39. The expected credit loss model requires to the company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. It is no longer necessary for a credit event to have occurred before credit losses are recognised.

IFRS 9 requires the company to recognise a loss allowance for expected credit losses on:
- trade receivables
- debt investments measured subsequently at amortised cost or at FVOCI

In particular, IFRS 9 requires the company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit loss (ECL) if the credit risk on the financial instrument increased significantly since the initial recognition or if the financial instrument is a purchased or originated credit − impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit − impaired financial asset), the company is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables in certain circumstances.

In applying this forward-looking approach, a distinction is made between:
- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (‘stage 1’)
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('stage 2’)

Stage 3 would represent those financial assets that have objective evidence of impairment at the reporting date.

1.3 Financial instruments (continued)

Impairment of financial assets (continued)

An ECL assessment has been performed for all qualifying financial assets in accordance with IFRS 9. No impairment loss has been identified through this assessment.

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 Trade and other payables

Trade and 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.

1.8 Tax (continued)

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.

Tax expense

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 Income 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.

1.13 Significant judgements and sources of estimation uncertainty (continued)

Impairment of fair value through other comprehensive income financial assets

The company follows the guidance of IFRS 9 to determine when a fair value through other comprehensive income equity investment is impaired. This determination requires significant judgement.

In determining the need to impair the other comprehensive income equity instrument, 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 fair value through other comprehensive income equity instruments are impaired and recognised as such in other comprehensive income when there has been a significant or prolonged decline in the fair value below its cost.. 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 of the MTN Group shares held by the Company at year end.

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.

Notes to the Annual Financial Statements

For the year ended 31 December 2019

		31 December 2018 R'000	31 December 2018 R'000
2.	**Investment in equities**		
	MTN Group Limited shares	4 216 411	4 549 165
	Reconciliation of the financial asset at fair value through other comprehensive income		
	Balance at the beginning of the year	4 549 165	6 982 201
	Loss on re-measurement of the investment in equities	(332 754)	(2 433 036)
	Balance at the end of the year	**4 216 411**	**4 549 165**

The investment consists of 51 114 213 (2018: 51 114 213) MTN Group Limited shares. The total investment together with the derivative financial instrument (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 fair value of the investment is based on a quoted market price of R82,49 (2018: R89,00) per share as listed on the JSE Limited at 31 December 2019. The total loss recorded in other comprehensive income for the current financial year is R332 754 527 (2018: R2 433 036 539).

3. Derivative financial instrument

As part of the implementation of the MTN Group BBBEE scheme, MTN Zakhele Futhi obtained notional vendor finance ("NVF") to facilitate the purchase of MTN Group shares. MTN Group issued 25 721 165 NVF shares to MTN Zakhele Futhi at a total subscription price of R2 572 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.

The value of the option at year end was a liability of R1 000 774 652 (2018: R697 565 010). The significant inputs into the model were the market share price of MTN Group shares of R82,49 (2018: R89.00), volatility of 37.34% (2018: 35.16%), a dividend yield of 8.18% (2018: 6.79%) and an expected option life of eight years from inception and an annual risk-free rate of 6.91% (2018: 7.70%).

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Notes to the Annual Financial Statements

For the year ended 31 December 2019

		31 December 2019	31 December 2018
		R'000	R'000
3.	**Derivative financial instrument (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 R330 million (2018: R303 million) in interest for the year ended 31 December 2019. The notional vendor finance at year end was R4 255 million (2018: R3 924 million)		
	Financial liability at fair value through profit and loss		
	Balance at the beginning of the year	(697 565)	(36 117)
	Fair value adjustments recorded in profit and loss	(303 210)	(661 448)
	Fair value at end of the year	**(1 000 775)**	**(697 565)**
4.	**Other receivables**		
	Accrued interest income	493	361
	Prepayments	493	471
	Other receivables	174	-
		1 160	**832**
	The carrying amount of the other receivables approximates fair value.		
5.	**Cash and cash equivalents**		
	Cash and cash equivalents consist of:		
	Bank balances	18 240	36 184
	Restricted funds	3 566	3 765
		21 806	**39 949**

Cash and cash equivalents are denominated in South African Rands.

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

R3,6 million (2018: R3,8 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.

	31 December 2019 R'000	31 December 2018 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. Restricted trading of the MTN Zakhele Futhi ordinary shares will be permissible between eligible individuals and groups, between the fourth to eighth years (ending 24 November 2024).

	31 December 2019 R'000	31 December 2018 R'000
7. Reserves		
Reserves consist of:		
Investment in equities reserve	(377 097)	(44 343)
Other reserve	(1 000 778)	(697 568)
	(1 377 875)	**(741 911)**
Investment in equities reserve		
Balance at the beginning of the year	(44 343)	1 853 626
Loss on the revaluation of the investment in equities financial asset	(332 754)	(2 433 036)
Deferred tax on the revaluation of the investment in equities financial asset	-	535 067
Balance at the end of the year	**(377 097)**	**(44 343)**
Other reserve		
Balance at the beginning of the year	(697 568)	(28 029)
Transfer of loss on revaluation of the derivative financial instrument	(303 210)	(661 448)
Deferred tax on the revaluation of the derivative financial instrument	-	(8 091)
Balance at the end of the year	**(1 000 778)**	**(697 568)**

The transfer between reserves arises in respect of the loss on the remeasurement of the derivative financial instrument that is recorded in profit or loss. The amount transferred is net of deferred tax calculated at the Capital Gains Tax (CGT) rate.

		31 December 2019	31 December 2018
		R'000	R'000
8.	**Borrowings**		
	Borrowings consist of the cumulative redeemable non-participating preference shares.		
	Long-term portion	1 165 613	1 442 079
	Short-term portion	22 165	28 277
		1 187 778	**1 470 356**
	Reconciliation of the cumulative redeemable non-participating preference shares		
	Balance at the beginning of the year	1 470 356	1 785 138
	Redemption of non-participating preference shares (redeemed at a par value of R1 000)	(276 892)	(313 046)
	Interest paid on cumulative redeemable non-participating preference shares	(105 403)	(126 154)
	Accrued interest at the effective interest rate	99 717	124 418
	Balance at the end of the year	**1 187 778**	**1 470 356**

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 (financial liabilities) as they are mandatorily redeemable to the holders by no later than 23 November 2021.

	31 December 2019	31 December 2018
	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 a trigger event if the one day VWAP of the MTN shares is R50 or less and are also 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 2019	31 December 2018
	R'000	R'000

8. Borrowings (continued)

The following security and credit support are held as at 31 December 2019:

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).

Notes to the Financial Statements

For the year ended 31 December 2019

		31 December 2019 R'000	31 December 2018 R'000
9.	**Deferred tax**		
	Reconciliation of the deferred tax liability		
	Balance at the beginning of the year	-	526 976
	Loss on the revaluation of the investment in equities recorded through other comprehensive income	-	(545 000)
	Loss on revaluation of derivative financial instrument recorded through profit and loss	-	(148 164)
	De-recognition of deferred tax asset	-	166 188
	- Investment in equities	-	9 933
	- Derivative financial instrument	-	156 255
	Balance at the end of the year	**-**	**-**

Deferred tax on the revaluation of the investment in equities and the derivative financial instrument are raised at the CGT rate of 22.4%.

A deferred tax asset of R309 million (2018: R166 million) has not been recognised due to the uncertainty of future taxable income against which to utilise the deferred tax asset. Future taxable income is entirely dependent on a favourable MTN Group share price. Due to the unpredictability of the market the company has adopted a policy of not raising a deferred tax asset to which there is no predictable deferred tax liability against which to utilise it.

		31 December 2019 R'000	31 December 2018 R'000
10.	**Trade and other payables**		
	Administration costs	206	1 380
	Director's and secretarial fees	389	43
	Professional fees and other	1 942	1 309
		2 537	**2 732**

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.

	31 December 2019 R'000	31 December 2018 R'000
Balance at the end of the year	**3 566**	**3 765**

The carrying amount of the other liability approximates fair value.

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For the year ended 31 December 2019

		31 December 2019 R'000	31 December 2018 R'000
12.	**Other operating expenses**		
	Administration and preference agent fees	(7 325)	(6 643)
	Administration and preference agent fees – prior year under accrual	-	(684)
	Auditors remuneration	(760)	(636)
	Securities transfer tax	(692)	(783)
	Legal and other professional fees	(1 524)	(1 453)
	Secretarial expenses	(69)	(70)
	Annual general meeting, including printing and postage	(2 624)	(2 250)
	Expenses paid on behalf of Jabisan 04 and BFC 2 Ownership Trust	(1 171)	(1 034)
	Listing Expenses	(22 155)	-
	Other expenses	-	(1)
		(36 320)	**(13 554)**
	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	**3 364**	**2 970**
14.	**Finance costs incurred on financial liabilities measured at amortised cost**		
	Interest expense – borrowings (accrued dividends)	99 290	119 911
	Effective interest rate adjustment	427	4 507
		99 717	**124 418**
15.	**Loss on re-measurement of the derivative financial instrument**		
	Fair value losses arise on financial instruments recognised at fair value through profit or loss.		
	Loss on revaluation of the derivative financial instrument	**(303 210)**	**(661 448)**

		31 December 2019 R'000	31 December 2018 R'000
16.	**Income tax expense**		
	Major components of the tax expense include:		
	Current taxation		
	Normal taxation	(942)	(832)
	Deferred taxation		
	Fair value adjustment on the derivative financial asset	-	148 164
	Derecognition of deferred tax asset	-	(156 255)
		(942)	**(8 923)**
	Reconciliation of the tax credit		
	The income tax expenses for the year is reconciled to the effective rate of tax as follows:		
	Applicable rate	(28.00%)	(28.00%)
	Exempt dividends	(301.49%)	(42.43%)
	Expenses not deductible for tax*	103.23%	12.25%
	Difference between CGT and statutory tax on the revaluation of the derivative instrument	45.76%	11.69%
	Unrecognised deferred tax asset	183.04%	49.30%
	Effective tax rate	**2.54%**	**2.81%**
	Deferred tax on the fair value gain of the derivative financial instrument is raised at the CGT rate (22.4%). The deferred tax arising on the derivative financial instrument has not been recognised due to the uncertainty of future income against which to utilise the deferred tax asset. Refer to note 9.		
	*Detailed expenses not disclosed as all expenses are not deductible for tax purposes (IAS 12 par 81c).		
17.	**Cash used in operations**		
	Loss before taxation	(37 107)	(316 924)
	Adjusted for:		
	Interest income	(3 364)	(2 970)
	Finance costs incurred on financial liabilities measured at amortised cost	99 717	124 418
	Loss on re-measurement of the derivative financial instrument	303 210	661 448
	Dividend income	(399 544)	(480 221)
	Changes in working capital:		
	Increase in trade and other receivables	(328)	(229)
	Decrease in trade and other payables	(195)	282
		(37 611)	**(14 196)**

Notes to the Financial Statements

For the year ended 31 December 2019

		31 December 2019	31 December 2018
		R'000	R'000
18.	**Tax paid**		
	Balance at the beginning of the year	1	3
	Current tax for the year recognised in profit or loss	(942)	(832)
	Balance at the end of the year	(5)	(1)
		(946)	**(830)**

19. Related parties

Relationships

Preference shareholder:	Jabisan 04 (RF) Proprietary Limited		
Shareholder of preference shareholder:	BFC2 Owner Trust		
Provider of notional vendor finance:	MTN Group Limited		
Non-executive directors:	Sindisiwe Mabaso-Koyana		
	Sonja De Bruyn		
	Grant Gelink		
Related party balances:			
Preference share liability			
Jabisan 04 (RF) Proprietary Limited		1 187 778	1 470 356

	31 December 2019	31 December 2018
	R'000	R'000
19. Related parties (continued)		
Ordinary share capital held by related party		
MTN Group Limited	365 540	365 540
Related party transactions:		
Dividend received from related party		
MTN Group Limited	(399 544)	(480 221)
Interest paid to related parties		
Jabisan 04 (RF) Proprietary Limited	105 403	126 154
Expenses paid on behalf of related parties	**956**	**1 034**
Jabisan 04 (RF) Proprietary Limited	956	1 034
BFC2 Owner Trust	-	-
Remuneration of the board of directors – directors fees		
Sindisiwe Mabaso-Koyana	397	325
Sonja De Bruyn	165	179
Grant Gelink	206	191
	768	**695**

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

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 355 cents on 11 March 2020.

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

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

21. Events after the reporting period (continued)

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

No other significant events have occurred between the reporting date and 31 March 2020 that 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 2019	**Fair value through other comprehensive income**	**Amortised cost**	**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							
Investment in equities	4 216 411	-	-	-	-	4 216 411	4 216 411
Other receivables	-	1 160	-	-	493	667	667
Cash and cash equivalent	-	21 806	-	-	-	21 806	21 806
Current tax receivable	-	-	-	-	5	-	-
Liabilities							
Deferred tax	-	-	-	-	-	-	-
Derivative financial instrument	-	-	(1 000 775)	-	-	(1 000 775)	(1 000 775)
Borrowings	-	-	-	(1 187 778)	-	(1 187 778)	(1 187 778)
Trade and other payables	-	-	-	(2 537)	-	(2 537)	(2 537)
Other liability	-	-	-	(3 566)	-	(3 566)	(3 566)

23. Categories of financial instruments (continued)

	Financial assets			Financial liabilities	Non-financial instruments	Total financial instruments	
31 December 2018	**Fair value through other comprehensive income**	**Amortised cost**	**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							
Investment in equities	4 549 165	-	-	-	-	4 549 165	4 549 165
Other receivables	-	832	-	-	471	361	361
Cash and cash equivalents	-	39 949	-	-	-	39 949	39 949
Current tax receivable	-	-	-	-	1	-	-
Liabilities							
Deferred tax	-	-	-	-	-	-	-
Derivative financial instrument	-	-	(697 565)	-	-	(697 565)	(697 565)
Borrowings	-	-	-	(1 470 356)	-	(1 470 356)	(1 486 160)
Trade and other payables	-	-	-	(2 732)	-	(2 732)	(2 732)
Other liability	-	-	-	(3 765)	-	(3 765)	(3 765)

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).

24. Financial risk management and financial instruments (continued)

b. Fair value estimation (continued)

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

The fair value of the investment in equity financial assets is based on the MTN Group share price, as listed on the JSE Limited. The fair value of the derivative financial asset is based on a valuation model. The input to this model includes the MTN Group share price, which is an observable input in the market. Other inputs include interest rates on borrowings, which inputs are not observable in the market. The assumptions and model used are disclosed in note 3.

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

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
31 December 2019				
Recurring fair value measurement				
Investment in equities	4 216 411	-	-	4 216 411
Derivative financial instrument	-	-	(1 000 775)	(1 000 775)
Amortised cost measurement				
Borrowings	-	(1 205 318)	-	(1 205 318)
Other payables	-	(2 537)	-	(2 537)
Other liability	-	(3 566)	-	(3 566)
Other receivables	-	667	-	667
Cash and cash equivalents	-	21 806	-	21 806
31 December 2018				
Recurring fair value measurement				
Investment in equities	4 549 165	-	-	4 549 165
Derivative financial instrument	-	-	(697 565)	(697 565)
Amortised cost measurement				
Borrowings	-	(1 486 160)	-	(1 486 160)
Other payables	-	(2 732)	-	(2 732)
Other liability	-	(3 765)	-	(3 765)
Other receivables	-	361	-	361
Cash and cash equivalents	-	39 949	-	39 949

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

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For the year ended 31 December 2019

24. Financial risk management and financial instruments (continued)

c. Derivative financial instrument

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

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

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

		Impact on post-tax profit	
		31 December 2019	31 December 2018
		R'000	R'000
10%	increase	39 643	45 699
10%	decrease	(14 721)	(16 943)

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 2019	31 December 2018
		R'000	R'000
1%	increase	12 156	10 177
1%	decrease	(12 142)	(10 287)

Sensitivity analysis – impact of change in volatility

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

The analysis is based on the assumption that the volatility percentage applied in the valuation model increased/decreased by 5% with all other variables held constant. The prior year volatility percentage applied was 3%. Due to the increased volatility in the MTN share price during the year a decision was made to apply a 5% volatility percentage on the current year to better understand the sensitivities around this variable.

24. Financial risk management and financial instruments (continued)

c. Derivative financial instrument (continued)

		Impact on post-tax profit	
		31 December 2019 R'000	31 December 2018 R'000
5% (2018: 3%)	increase	331 915	129 715
5% (2018: 3%)	decrease	(202 564)	(133 738)

Sensitivity analysis – impact of dividend yield

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

		Impact on post-tax profit	
		31 December 2019 R'000	31 December 2018 R'000
1%	increase	(20 174)	(40 528)
1%	decrease	11 717	(43 711)

d. Financial assets

Price risk

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

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

24. Financial risk management and financial instruments (continued)

d. Financial assets (continued)

		Impact on other comprehensive income before tax	
		31 December 2019	31 December 2018
		R'000	R'000
10%	increase	421 641	454 916
10%	decrease	(421 641)	(454 916)

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 2018, 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 2019			
1%	movement	(11 118)	11 357
31 December 2018			
1%	movement	(14 218)	14 633

Notes to the Financial Statements

For the year ended 31 December 2019

24. Financial risk management and financial instruments (continued)

f. Liquidity risk

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

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

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

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

The cash and cash equivalents excludes the restricted funds of R3.5 million (2018: R3,8 million) due to unidentifiable applicants as this cash is not available to the Company for use.

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

	31 December 2019	31 December 2018
	R'000	R'000
Cash at bank and on hand	18 240	36 184
Other receivables	667	361
	18 907	36 545

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

	Payable more than three months but less than one year	**Payable more than one year but less than five years**	**Payable more than five years**	**Total**
	R'000	**R'000**	**R'000**	**R'000**
31 December 2019				
Borrowings	22 165	1 165 613	-	1 187 778
Other payables	2 537	-	-	2 537
Other liability	3 566	-	-	3 566
31 December 2018				
Borrowings	28 277	1 442 079	-	1 470 356
Other payables	2 732	-	-	2 732
Other Liability	3 765	-	-	3 765

24. Financial risk management and financial instruments (continued)

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.

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

MTN Zakhele Futhi holds 51 114 213 MTN Group Limited shares as a fair value through other comprehensive income financial asset (note 2) and 25 721 165 MTN Group Limited shares through 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 R399 543 966 (2018: R480 221 113).

	31 December 2019 R'000	31 December 2018 R'000
26. Basic and diluted earnings per share		
Number of ordinary shares in issue at year end ('000)	**123 417**	123 417
Weighted average number of shares ('000)	**123 417**	123 417
Loss for the year	**(38 049)**	(325 847)
Adjusted for:		
- Loss on remeasurement of the derivative financial instrument	**303 210**	661 448
Profit attributable to shareholders	**265 161**	335 601
Basic and diluted earnings per share (cents)	**215,85**	271,92

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

27. New standards and interpretations

27.1 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 2019 year end		
Standard	**Details of the development**	**Effective date**
IFRS 9, Financial Instruments	Prepayment Features with Negative Compensation	Annual periods beginning on or after 1 January 2019

IFRS 9, Financial Instruments - Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

27. New standards and interpretations (continued)

27.2 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 2020, 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
The Conceptual Framework for Financial Reporting	Amendments regarding entities who develop accounting policies based on conceptual framework	Annual periods beginning on or after 1 January 2020.
IFRS 3, Business Combinations	Amendments to Definition of a Business	Annual periods beginning on or after 1 January 2020
IAS 1, Presentation of Financial Statements & IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors	Amendments to Definition of Material	Annual periods beginning on or after 1 January 2020.
IFRS 17, Insurance Contracts	A comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure	Annual periods beginning on or after 1 January 2021

Annexure A: Shareholder information

For the year ended 31 December 2019

Shareholders holding in excess of 5% of the issued ordinary share capital of the company at 31 December 2019 are as follows:

	31 December 2019		31 December 2018	
	Number of shares	**% of issued share capital**	**Number of shares**	**% of issued share capital**
MTN Group Limited	18 277 026	14.8%	18 277 026	14.8%
Mion Securities (RF) (Pty) Ltd	10 065 658	8.2%	10 065 658	8.2%

The Company's shareholder analysis at 31 December 2019 was as follows:

Ownership Range:

	Number of shareholders	**Percentage of shareholders (%)**	**Number of shares owned**	**Percentage of issued share capital (%)**
1 – 100 shares	32 925	37.1%	3 286 484	2.7%
101 – 500 shares	38 397	43.3%	11 010 012	8.9%
501 – 1 000 shares	7 427	8.4%	6 257 261	5.1%
1 001 – 10 000 shares	9 120	10.3%	25 911 320	21.0%
10 001 – 50 000 shares	666	0.8%	13 078 099	10.6%
More than 50 000 shares	107	0.1%	63 873 642	51.8%
	88 642	**100.0%**	**123 416 818**	**100.0%**

Type of shareholder:

	Number of shareholders	**Percentage of shareholders (%)**	**Number of shares owned**	**Percentage of issued share capital (%)**
Individuals	87 847	99.1%	66 131 010	53.6%
Groups	795	0.9%	57 285 808	46.4%
	88 642	**100.0%**	**123 416 818**	**100.0%**