



MTN Zakhele Futhi (RF) Limited

Interim Financial Statements

for the six-months ended **30 June 2021**



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

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Preparer

Siphesihle Ngema

CA (SA) Trainee: Central Finance - Nedbank Limited

Supervised by

Jaynesh Padayachy CA (SA)

Senior Financial Manager: Central Finance - Nedbank Limited

Results Overview

Performance for the six months ended 30 June 2021

Financial performance

MTN Zakhele Futhi (RF) Limited's ("MTN Zakhele Futhi" or "the Company") financial performance is based entirely on the MTN Group Limited ("MTN") share price and any dividend declared and received from MTN during the year. On 10 March 2021 MTN announced that as a result of uncertainties around cash upstreaming from Nigeria, the timing of the proceeds from their asset realisation programme proceeds and the impact of Covid-19, it was suspending their dividend policy and anticipate communicating a revised medium-term dividend policy when it announces its 2021 financial results in March 2022. As MTN Zakhele Futhi's only material investment and asset consists of MTN Shares, the Company is entirely dependent on the receipt of dividends from MTN. The suspension of MTN's dividend policy has therefore had a significant impact on the ability of MTN Zakhele Futhi to continue as a going concern and created material uncertainty around this assumption.

At 30 June 2021, the Company recognised a profit after taxation of R127,7 million (30 June 2020: R395,7 million). The lower profit in for the 6-months ended 30 June 2021 is largely attributable to there being no dividend income received, which is usually a large contributor to the Company's profitability.

MTN's share price at 30 June 2021 was R103.23, representing a R50.40 increase in the share price since 30 June 2020. The increase in the MTN share price has had a direct impact on the revaluation of the derivative financial instrument which resulted in a gain of R160,4 million (30 June 2020: R167,6 million) being recognised in the statement of profit or loss. The Company's profit after taxation is entirely a result of the fair value gain recognised on the derivative financial instrument.

A fair value gain as a result of the re-measurement of the investment in MTN shares at 30 June 2021 of R2 199.9 million (30 June 2020: R1 516.0 million loss) was recognised in the statement of comprehensive income.

Repayment and refinancing of MTN Zakhele Futhi's debt

Due to MTN Zakhele Futhi receiving no dividend income from MTN during the 6-months ended 30 June 2021, the Company has not been able to redeem any further preference shares. 212 620 preference shares were redeemed in the 6-month ended 30 June 2020.

The preference shares are expected to be refinanced on 30 September 2021, subject to the approval of the Company's shareholders at the Annual General Meeting scheduled for 7 September 2021. The refinancing of the preference shares is expected to have a positive effect on the liquidity issues faced by the Company.

Review

The interim financial results for the six-months ended 30 June 2021 have been reviewed by SizweNtsalubaGobodo Grant Thornton Inc., the independent auditor of MTN Zakhele Futhi, in line with the guidance provided in the International Standard of Review Engagements (ISRE) 2410, Review Financial Statements of Interim Financial Information by the Independent Auditor of the Entity and they have expressed an unmodified review opinion.

SNG Grant Thornton

20 Morris Street East
Woodmead, 2191
P.O. Box 2939
Saxonwold, 2132
T +27 (0) 11 231 0600

**INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM FINANCIAL STATEMENTS
TO THE SHAREHOLDERS OF MTN ZAKHELE FUTHI (RF) LIMITED**

We have reviewed the Condensed financial statements of MTN Zakhele Futhi (RF) Limited (the company) that comprise the Condensed statement of financial position as at 30 June 2021 and the Condensed statement of profit or loss, Condensed statement of comprehensive income, Condensed statement of changes in equity and Condensed statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 5 to 16.

Directors' Responsibility for the interim Financial Statements

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

Auditor's Responsibility

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

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

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

Material uncertainty relating to going concern

We draw attention to note 10 in the Condensed financial statements, which indicates that MTN Group Limited, through its subsidiary Mobile Telephone Networks Holdings Limited, has agreed to advance an amount of up to R75 million to the company to enable it to meet its cash requirements until the intended announcement of their revised medium-term dividend policy in March 2022 and that the company is dependent on MTN Group Limited for liquidity thereafter. MTN Group Limited has indicated its intention to support the company should it not declare a dividend. As stated in note 10, these events or conditions, along with other matters as set forth in note 10, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Condensed financial statements of MTN Zakhele Futhi (RF) Limited for the six months ended 30 June 2021 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.



Nhlanhla Sigasa

SizweNtsalubaGobodo Grant Thornton Inc.

Director

Registered Auditor

26 August 2021

20 Morris Street East

Woodmead, Gauteng

South Africa

2191

Condensed Statement of Profit or Loss

for the 6 months ended 30 June 2021

		6 months ended 30 June 2021 Reviewed R'000	6 months ended 30 June 2020 Reviewed R'000	Year ended 31 December 2020 Audited R'000
Dividend income	5	-	272 766	272 766
Directors emoluments		(626)	(436)	(1 037)
Other operating expenses		(9 231)	(9 010)	(15 445)
Operating (loss)/profit		(9 857)	263 320	256 284
Finance income		78	646	818
Finance costs incurred on financial liabilities measured at amortised cost		(22 931)	(35 607)	(31 246)
Gain/(loss) on re-measurement of the derivative financial instrument		160 396	167 562	(79 735)
Profit before taxation		127 686	395 921	146 121
Income tax expense		(22)	(181)	(229)
Profit for the period		127 664	395 740	145 892
Basic and diluted (loss)/earnings per share (cents)	13	(26,52)	184,88	182,81

Condensed Statement of Comprehensive Income

for the 6 months ended 30 June 2021

		6 months ended 30 June 2021 Reviewed R'000	6 months ended 30 June 2020 Reviewed R'000	Year ended 31 December 2020 Audited R'000
Profit for the period		127 664	395 740	145 892
Other comprehensive income/(loss) – items that will subsequently be reclassified to profit or loss:		2 199 956	(1 516 048)	(1 139 847)
Gain/(loss) on re-measurement of the investment in equities		2 199 956	(1 516 048)	(1 139 847)
Deferred tax on gain/(loss) on re-measurement of the financial asset		-	-	-
Total comprehensive income/(loss) for the period		2 327 620	(1 120 308)	(993 955)

Condensed Statement of Financial Position

as at 30 June 2021

	Notes	30 June 2021 Reviewed R'000	30 June 2020 Reviewed R'000	31 December 2020 Audited R'000
Assets				
Non-Current Assets				
Investment in equities	6	5 276 520	2 700 364	3 076 564
		5 276 520	2 700 364	3 076 564
Current Assets				
Current tax receivable		3	-	2
Cash and cash equivalents		1 810	23 077	6 578
Cash and cash equivalents – restricted funds		3 292	3 416	3 350
Other receivables		377	1 938	879
		5 482	28 431	10 809
Total Assets		5 282 002	2 728 795	3 087 373
Equity and Liabilities				
Equity				
Share capital		2 468 336	2 468 336	2 468 336
Reserves		(237 105)	(2 874 845)	(2 597 457)
Accumulated profit		1 147 160	1 330 930	1 179 892
		3 378 391	924 421	1 050 771
Liabilities				
Non-Current Liabilities				
Borrowings	8	919 336	952 991	922 340
Derivative financial instrument	7	920 113	833 213	1 080 510
Deferred tax		-	-	-
		1 839 449	1 786 204	2 002 850
Current Liabilities				
Borrowings	8	9 388	11 237	12 702
Other liability		2 778	3 411	2 860
Advance from MTN		47 821	-	15 266
Trade and other payables		4 175	3 438	2 924
Current tax payable		-	84	-
		64 162	18 170	33 752
Total Liabilities		1 903 611	1 804 374	2 036 602
Total Equity and Liabilities		5 282 002	2 728 795	3 087 373

Condensed Statement of Changes in Equity

for the 6 months ended 30 June 2021

	6 months ended 30 June 2021 Reviewed R'000	6 months ended 30 June 2020 Reviewed R'000	Year ended 31 December 2020 Audited R'000
Share Capital	2 468 336	2 468 336	2 468 336
Balance at the beginning of the period	2 468 336	2 468 336	2 468 336
Issue of shares during the period	-	-	-
Investment in equities reserve	683 012	(1 893 145)	(1 516 944)
Balance at the beginning of the period	(1 516 944)	(377 097)	(377 097)
Other comprehensive income/(loss) for the period	2 199 956	(1 516 048)	(1 139 847)
Other reserve	(920 117)	(981 700)	(1 080 513)
Balance at the beginning of the period	(1 080 513)	(1 000 778)	(1 000 778)
Transfer between reserves *	160 396	19 078	(79 735)
Total reserves	(237 105)	(2 874 845)	(2 597 457)
Accumulated profit	1 147 160	1 330 927	1 179 892
Balance at the beginning of the period	1 179 892	954 265	954 265
Profit for the period	127 664	395 740	145 892
Transfer between reserves *	(160 396)	(19 078)	79 735
Total equity at the end of the period	3 378 391	924 418	1 050 771

* The transfer between reserves arises in respect of the (gain)/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, where applicable.

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

Condensed Statement of Cash Flows

for the 6 months ended 30 June 2021

	6 months ended 30 June 2021 Reviewed R'000	6 months ended 30 June 2020 Reviewed R'000	Year ended 31 December 2020 Audited R'000
Cash flows from operating activities			
Cash used in operations	(8 130)	(9 270)	(16 807)
Dividend received	-	272 766	272 766
Interest income received	78	646	818
Finance costs paid	(28 302)	(46 539)	(70 592)
Tax paid	(23)	(146)	(226)
Net cash from operating activities	(36 378)	217 457	185 959
Cash flows from financing activities			
Redemption of cumulative redeemable non-participating preference shares	-	(212 620)	(212 620)
Receipt of advance from MTN	31 610	-	15 000
Cash refunded to unsuccessful participants	(58)	(150)	(217)
Net cash from financing activities	31 552	(212 770)	(197 837)
Total cash at the beginning of the period	9 928	21 806	21 806
Total cash movement for the period	(4 826)	4 687	(11 878)
Total cash at the end of the period	5 102	26 493	9 928

Notes to the Condensed Financial Statements *continued*

for the 6 months ended 30 June 2021

1. General information

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's 2016 Broad Based Black Economic Empowerment ("BBBEE") transaction.

2. Basis of preparation

The condensed financial information has been prepared in accordance with and containing information required by International Financial Reporting Standards ("IFRS"), the presentation and disclosure requirements of IAS 34: Interim Financial Reporting, and the interpretation of these standards as adopted by the Independent Accounting Standards Board, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the South African Companies Act, 71 of 2008 as amended and the Listings Requirements of the JSE Limited ("JSE") relating to Asset Backed Securities.

3. Accounting policies

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

4. Contingent liabilities and commitments

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

5. Dividend income

During the period, MTN Zakhele Futhi (RF) Limited received no dividends (30 June 2020: R272 765 592) from its investment in MTN shares.

6. Investment in equities

The investment consists of 51 114 213 (30 June 2020: 51 114 213) MTN shares. The total investment, including the derivative financial instrument (refer to note 7), comprises a total of 76 835 378 MTN shares, representing approximately 4% of the MTN 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 R103,23 (30 June 2020: R52,83) per share as listed on the JSE Limited at 30 June 2021. The total gain recorded in other comprehensive income for the current financial period is R2 199 955 728 (30 June 2020: R1 516 047 558 loss).

	6 months ended 30 June 2021 Reviewed	6 months ended 30 June 2020 Reviewed	Year ended 31 December 2020 Audited
	R'000	R'000	R'000
Balance at the beginning of the period	3 076 564	4 216 411	4 216 411
Gain/(loss) on re-measurement of investment in equities	2 199 956	(1 516 047)	(1 139 847)
Balance at the end of the period	5 276 520	2 700 364	3 076 564

Notes to the Condensed Financial Statements *continued*

for the 6 months ended 30 June 2021

7. Derivative financial instrument

As part of the implementation of the MTN BBBEE scheme, MTN Zakhele Futhi obtained Notional Vendor Finance ("NVF") to facilitate the purchase of MTN shares. MTN issued 25 721 165 NVF shares to MTN Zakhele Futhi at a total subscription price of R2 572 on 23 November 2016. MTN 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 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 the standard market practice.

The valuation of the option at 30 June 2021 was a liability of R920 113 172 (30 June 2020: R833 213 126 liability).

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

- the market price of MTN shares of R103,23 (30 June 2020: R52,83);
- the NVF balance of approximately R4 658 million (30 June 2020: R4 404 million);
- volatility of 50.89% (30 June 2020: 45.59%);
- a dividend yield of 3.98% (30 June 2020: 12.47%);
- an expected option life of 8 years from inception (30 June 2020: 8 years); and
- an annual risk-free rate of 5.41% (30 June 2020: 7.80%).

	6 months ended 30 June 2021 Reviewed R'000	6 months ended 30 June 2020 Reviewed R'000	Year ended 31 December 2020 Audited R'000
Balance at the beginning of the period	(1 080 510)	(1 000 775)	(1 000 775)
Fair value adjustments recorded in profit or loss	160 396	167 562	(79 735)
Fair value at the end of the period	(920 113)	(833 213)	(1 080 510)

8. Borrowings

The below 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 were redeemable after 5 (five) years from the issue date i.e. 23 November 2021. During December 2020 the holders of the cumulative redeemable preference shares agreed to extend the scheduled redemption date by a period of 12 months i.e. to the date which is 6 (six) years from the issue date. The preference shares are now redeemable on 23 November 2022.

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 2022.

The extension to the scheduled redemption date was not considered to be a substantial modification. The original liability was therefore not derecognised and a modification gain was recognised in the profit or loss for the year ended 31 December 2020.

Notes to the Condensed Financial Statements *continued*

for the 6 months ended 30 June 2021

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 may 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 R38 or less. This trigger event was revised during the prior financial year, with the consent of the MTN Zakhele Futhi shareholders, the preference shareholders, the Company and MTN, from a one-day VWAP of R50 to a one-day VWAP of R38.

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 outbreak of Covid-19 across the world 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 impact of Covid-19, certain of these thresholds were triggered in March 2020.

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

Following further discussion with the third-party funders after the subsequent increase in the MTN share price, MTN issued a call option revocation notice prior to the scheduled priority of payments, which it was agreed to and accepted by the third-party funders.

There are no continuing trigger events and MTN Zakhele Futhi is in compliance with its debt covenant requirements for the period ended 30 June 2021.

	6 months ended 30 June 2021 Reviewed R'000	6 months ended 30 June 2020 Reviewed R'000	Year ended 31 December 2020 Audited R'000
Balance at the beginning of the period	935 042	1 187 778	1 187 778
Capitalisation of transaction costs	-	-	(504)
Redemption of non-participating preference shares at a par value of R1 000	-	(212 620)	(212 620)
Dividends paid on cumulative redeemable non-participating preference shares	(28 302)	(46 538)	(70 592)
Gain on IFRS 9 modification adjustment	-	-	(19 521)
Accrued dividends at the effective dividend rate	21 985	35 608	50 501
Balance at the end of the period	928 724	964 228	935 042

Notes to the Condensed Financial Statements *continued*

for the 6 months ended 30 June 2021

9. Related parties

Relationships:

Preference shareholder:	Jabisan 04 (RF) Proprietary Limited
Shareholder of preference shareholder:	BFC2 Owner Trust
Provider of notional vendor finance:	MTN Group Limited
Non-executive directors:	Sindisiwe Mabaso-Koyana Sonja de Bruyn ⁽¹⁾ Grant Gelink Belinda Mapongwana ⁽²⁾ Manana Nhlanhla ⁽²⁾ Edward Pitsi ⁽²⁾

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

(2) Appointed to the board of directors on 22 June 2020

	6 months ended 30 June 2021 Reviewed R'000	6 months ended 30 June 2020 Reviewed R'000	Year ended 31 December 2020 Audited R'000
Related party balances:			
Preference share liability			
Jabisan 04 (RF) Proprietary Limited	969 236	967 717	956 347
Advance received			
Mobile Telephone Network Holdings Limited	31 610	-	15 000
Ordinary share capital held by related party			
MTN Group Limited	365 540	365 540	365 540
Related party transactions:			
Dividends received from related parties			
MTN Group Limited	-	(272 766)	(272 766)
Dividends paid to related parties			
Jabisan 04 (RF) Proprietary Limited	28 302	46 538	70 592
Interest payments accrued in respect of related parties			
Mobile Telephone Network Holdings Limited	946	-	266
Expenses paid on behalf of related parties			
Jabisan 04 (RF) Proprietary Limited	-	543	1 075
BFC2 Ownership Trust	-	-	-

Notes to the Condensed Financial Statements *continued*

for the 6 months ended 30 June 2021

9. Related parties (continued)			
	6 months ended 30 June 2021 Reviewed R'000	6 months ended 30 June 2020 Reviewed R'000	Year ended 31 December 2020 Audited R'000
Related party transactions (continued)			
Remuneration of the board of directors			
– Directors' fees *	626	380	1 037
Sindisiwe Mabaso- Koyana	67	185	287
Sonja De Bruyn ⁽¹⁾	-	78	78
Grant Gelink	129	117	232
Belinda Mapongwana ⁽²⁾	199	-	159
Manana Nhlanhla ⁽²⁾	106	-	134
Edward Pitsi ⁽²⁾	125	-	147

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

(2) Appointed to the board of directors on 22 June 2020

* VAT (at a rate of 15%) is charged by the non-executive directors where applicable.

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

10. Going concern

The interim 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.

Mobile Telephone Networks Holdings Limited advanced an amount of R15,0 million to MTN Zakhele Futhi on 22 September 2020 to assist the Company in meeting its immediate liquidity shortfall. This advance was provided to assist the Company in meeting its operational obligations until the intended receipt of the next dividend from MTN, which was anticipated to be declared in March 2021.

On 10 March 2021 MTN announced that it had suspended the dividend policy and anticipates communicating a revised medium-term dividend policy when it announces its FY 2021 results in March 2022. As MTN Zakhele Futhi's only material investment and asset consists of MTN Shares this has a direct impact on the Company's liquidity including its ability to pay scheduled payments owing to the third-party funders and operational costs as they become due and payable. Subsequent to the announcement by MTN, the MTN Zakhele Futhi directors approached MTN to request additional funds to be made available to MTN Zakhele Futhi to address its immediate liquidity shortfall.

Notes to the Condensed Financial Statements *continued*

for the 6 months ended 30 June 2021

10. Going concern (continued)

The original Finance Documents did not make general provision for MTN to advance additional funds to MTN Zakhele Futhi for all its required purposes. The MTN Subordination and Undertaking Agreement also did not specifically allow for funds to be advanced to MTN Zakhele Futhi for any purpose other than to assist with the payment of operational costs. On 12 March 2021 MTN Zakhele Futhi, together with MTN, sent a request to the third-party funders to allow the MTN Subordination and Undertaking Agreement to be amended to allow the Company to receive sufficient funds from MTN to address its liquidity issues. Confirmation was subsequently received from the funders and the MTN Subordination and Undertaking Agreement was amended to allow for funds received from MTN or an MTN group company to be utilised by MTN Zakhele Futhi to pay both scheduled payments owing to the third-party funders and operational and other costs as they become due and payable.

The directors have assessed the going concern assumption after consideration of the following:

- The receipt of a letter of support from MTN indicating their intention to support MTN Zakhele Futhi in the event that it faces any further liquidity challenges. Although this letter should not in any way be construed as a guarantee of support or firm undertaking by MTN, MTN demonstrated their willingness to exercise their call option and acquire the preference share funding when the trigger events relating to the preference share funding were triggered in March 2020.
- MTN, through its subsidiary Mobile Telephone Networks Holdings Limited, has agreed to advance an amount of up to R75,0 million to MTN Zakhele Futhi to enable it to meet its cash requirements until the intended announcement of their revised medium-term dividend policy in March 2022.
- Should cash resources once again become strained, the Company's directors would consider the possibility of requesting the postponement of future preference share dividends. This would assist in providing MTN Zakhele Futhi with improved liquidity to meet its obligations.

Based on the above, the directors have concluded that a material uncertainty exists around the application of the going concern assumption for the Company over the next 12-month period. The material uncertainty arises due to the significant reliance required to be placed on MTN in order for MTN Zakhele Futhi to be considered liquid and solvent.

11. 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 measurements by level in terms of the following fair value measurement 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 (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for assets or liabilities that are not based on observable market data (i.e. unobservable inputs).

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

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

Notes to the Condensed Financial Statements *continued*

for the 6 months ended 30 June 2021

11. Fair value estimation (continued)

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
30 June 2021				
Recurring fair value measurement				
Investment in equities	5 276 520	-	-	5 276 520
Derivative financial instrument	-	-	(920 113)	(920 113)
Amortised cost measurement				
Borrowings	-	(975 876)	-	(975 876)
Advance from MTN	-	(47 821)	-	(47 821)
Other payables	-	(4 175)	-	(4 175)
Other liability	-	(2 778)	-	(2 778)
Other receivables	-	377	-	377
Cash and cash equivalents	-	5 102	-	5 102
30 June 2020				
Recurring fair value measurement				
Investment in equities	2 700 364	-	-	2 700 364
Derivative financial instrument	-	-	(833 213)	(833 213)
Amortised cost measurement				
Borrowings	-	(996 190)	-	(996 190)
Other payables	-	(3 493)	-	(3 493)
Other liability	-	(3 415)	-	(3 415)
Current tax payable	-	(84)	-	(84)
Other receivables	-	1 938	-	1 938
Cash and cash equivalents	-	26 493	-	26 493

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

12. Events after the reporting date

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

Notes to the Condensed Financial Statements *continued*

for the 6 months ended 30 June 2021

13. Basic and diluted (loss) earnings per share

	6 months ended 30 June 2021 Reviewed R'000	6 months ended 30 June 2020 Reviewed R'000	Year ended 31 December 2020 Audited R'000
Number of ordinary shares in issue at year end ('000)	123 417	123 417	123 417
Weighted average number of shares ('000)	123 417	123 417	123 417
Profit for the year	127 664	395 740	145 892
Adjusted for:			
- (Gain)/loss on remeasurement of the derivative financial instrument	(160 396)	(167 562)	79 735
Loss/(profit) attributable to shareholders	(32 732)	228 178	225 627
Basic and diluted (loss)/earnings per share (cents)	(26,52)	184,88	182,81

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

Administration

Company information

(Incorporated in the Republic of South Africa)

(Registration number: 2016/268837/06)

JSE share code: MTNZF

ISIN: ZAE000279402

LEI: 378900429C4F73B1BE74

Postal address

PO Box 1144

Johannesburg

2000

Registered address

135 Rivonia Road

Sandown, 2196

Johannesburg

Board of directors

BL Mapongwana (independent non-executive chairperson)

SN Mabaso-Koyana (non-executive director)

GG Gelink (independent non-executive director)

ET Pitsi (independent non-executive director)

MM Nhlanhla (non-executive director)

Office of the transfer secretaries

Nedbank Limited, acting through its Share Scheme

Administration business unit

(Registration number 1951/000009/06)

135 Rivonia Road

Sandton, 2196

Tel: +27 83 900 6863

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

JSE Sponsor

Tamela Holdings Proprietary Limited

Ground Floor, Golden Oak House

Ballyoaks Office Park, 35 Ballyclare Drive

Bryanston, 2021

Company secretary

Nedbank Limited, acting through its Group Secretariat

135 Rivonia Road

Sandown

Johannesburg, 2196

Auditors

SizweNtsalubaGobodo Grant Thornton Inc.

20 Morris Street East

Woodmead, 2191

PO Box 2939, Saxonwold, 2132

Attorneys

Webber Wentzel

90 Rivonia Road, Sandton, Johannesburg, 2196

PO Box 61771, Marshalltown, 2107

www.mtnzakhelefuthi.co.za