MTN Zakhele Futhi (RF) Limited
(Registration number 2016/268837/06)
Financial statements
for the 6 month period ended 31 December 2016

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(Registration number 2016/268837/06)
Financial Statements for the 6 month period ended 31 December 2016

Index

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

Preparer

Latifa Ahmed CA(SA)
Senior Financial Manager: Central Finance - Nedbank Limited

Supervised by

Vanessa Van Der Westhuizen CA(SA)
Head of Finance: Central Finance - Nedbank Limited

Board of directors

- **Sindisiwe N Mabaso-Koyana**

  (48)

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

  Chairperson

  Appointed 6 June 2017

  Directorships:

  Currently the Chairperson of The African Women Chartered Accountants Investment Holding Company, Chartered Accountancy Sector, Charter Chairperson, Chairperson of the Advisory Board of AWCA and Chairperson of the Advanced Group of Companies. Other board positions include Adcorp Holdings LTD, MTN Zakhele (RF) LTD and Toyota SA. Previous Corporate roles include Managing Director of Viamax Logistics, Group CFO of Transnet ,Executive Partner at Ernst & Young. Past board member of Transnet, SAA, South African Institute of Chartered Accountants, MTN, SANRAL, Altron Group, Broadband SA and Armscor.

  Founder Member and Former President of African Women Chartered Accountants (AWCA).Fellow of the Aspen Global Leadership Network (African Chapter).

  Skills, expertise and work experience:

  Chartered Accountant by profession with experience in financial management, auditing and governance in the public and private sector. Renowned leader and champion in growth and development of young women. Named as one of the Top 20 Most Powerful Women in South Africa, Finalist for the Business Woman Award of South Africa in 2004. In 2013 nominated by The CEO Magazine's as the most Influential Women in Business and Public Sector. Past Chairperson of the Task team of The South African Institute of Chartered Accountants which launched the paper on meaningful reporting on Broad Based Black Economic Empowerment (BBBEE).

Sonja De Bruyn Sebotsa

(45)

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

Director

Appointed 6 June 2017

Directorships:

Non-executive director of RMB/RMI Holdings, Discovery Holdings and Remgro.

Skills, expertise and work experience:

Founder and principle partner of investment, advisory and financing firm Identity Partners. Commenced career in investment banking working on mergers and acquisitions, privitisations, IPO's and financings, and ultimately becoming vice-president of Deutsche Bank. Appointed as executive director of the Women's Development Bank Investment Holdings (2002 to 2007). Previously trustee of the National Empowerment Fund and member of the Presidential Working Group on BEE. Chairman of the Ethos Mid Market Fund.

Board of directors

Grant G Gelink

(67)

CA(SA), BComm, BCompt (Hons).

Director, Chairperson of the audit, risk and compliance committee.

Appointed: 9 June 2017

Directorships:

Non-executive director of FirstRand, Grindrod, Santam and Altron

Skills, expertise and work experience:

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

Shauket Fakie

(63)

CA(SA)

Chairperson

Appointed: 21 June 2016

Resigned: 6 June 2017

Directorships:

Various MTN subsidiaries, Allianz, Banc A B C

Skills, expertise and work experience

Former Auditor- General of S.A. and Business Risk Executive at MTN

Board of directors

Simphiwe Cele

(48)

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

Director, Chairperson of the audit, risk and compliance committee.

Appointed: 21 June 2016

Resigned: 6 June 2017

Directorships:

None

Skills, expertise and work experience:

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

Sibongile Mtshali

(58)

FCIS and Higher Diploma in Company Law

Director

Appointed: 21 June 2016

Resigned: 6 June 2017

Directorships:

ATC Tower Uganda, ATC Tower Ghana, Nigeria Tower Interco B.V, Mobile Telephone Networks (Netherlands) Cooperative U.A

Skills, expertise and work experience:

Company law, Secretariat and Governance. Bongi has over 30 years of company secretarial and governance experience. Prior to joining MTN, she worked at Uthingo Management (Pty) Ltd, Telkom Limited, Anglovaal Limited and Anglo American Limited (Gold division).

Chairman's report

Introduction

2016 will be remembered as the year in which MTN Group Limited ("MTN") implemented a new Broad Based Black Economic Empowerment ("BBBEE") transaction through the newly created special purpose vehicle, MTN Zakhele Futhi (RF) Limited ("MTN Zakhele Futhi"). The purpose of the MTN Zakhele Futhi (RF), Limited transaction was to provide members of the black public with an opportunity to participate and/or continue to participate in the indirect ownership of MTN.

Since its incorporation in South Africa in 1994, MTN has been at the forefront of empowerment and remains fully committed to the principles of BBBEE. MTN also embraces the principles of BBBEE enshrined in the BBBEE Codes and relevant industry transformation charters.

The MTN Zakhele Futhi BBBEE transaction is designed to provide the black public the opportunity for long-term and sustainable benefits during the scheme's eight-year period, and to give them exposure to MTN's geographically diversified operations, earnings and growth markets.

A key pillar of BBBEE is black equity ownership. In 2010, MTN implemented the MTN Zakhele BBBEE transaction in terms of which amongst other things, MTN Zakhele (i) raised equity funding by issuing MTN Zakhele shares to qualifying members of the black public; and (ii) acquired and/or subscribed for MTN Shares, up to a maximum of 4% of the then issued share capital of MTN (using a combination of equity funding, vendor facilitation through a donation from MTN, notional vendor finance from MTN and third-party preference share funding). This prior MTN Zakhele (2010) BBBEE transaction was unwound on 24 November 2016 by way of a scheme of arrangement under section 114 of the Companies, 71 of 2008 ("Companies Act"), as part of the implementation of the new MTN Zakhele Futhi BBBEE transaction. Certain shareholders in MTN Zakhele elected to continue to participate in the MTN Zakhele Futhi transaction in terms of the re-investment option made available to MTN Zakhele shareholders under the MTN Zakhele unwinding scheme (the "the MTN Zakhele Re-investment Offer"), pursuant to which MTN Zakhele shareholders could elect to re invest all or part of the value of their shareholding in MTN Zakhele in MTN Zakhele Futhi.

The purpose of the MTN Zakhele Futhi transaction is to provide the members of the black public with the opportunity to participate in the indirect ownership of MTN, either through the "MTN Zakhele Futhi Public Offer" pursuant to which members of the black public could subscribe for shares and/or by continuing to participate therein through the MTN Zakhele Re-investment Offer.

MTN implemented the 2016 MTN BBBEE transaction, through MTN Zakhele Futhi, by means of the following core elements:

- the MTN Zakhele Futhi Public Offer;
- the MTN Zakhele Re-investment Offer,
- MTN Zakhele Futhi raising third-party finance through the MTN Zakhele Futhi preference shares;
- MTN providing MTN Zakhele Futhi with vendor facilitation through, amongst others, the Notional Vendor Finance and an effective 20% transaction discount provided by it; and
- the subscription by MTN Zakhele Futhi for approximately 4% of MTN's Shares (calculated on a fully diluted basis) using the funding raised through the above sources.

MTN Zakhele Futhi applied the money so raised through the issue of the MTN Zakhele Futhi preference shares, the money raised in the MTN Zakhele Futhi Public Offer from the black public, the re-investment value it received from MTN Zakhele pursuant to the MTN Zakhele Re-investment Offer and the Notional Vendor Finance from MTN to subscribe for new MTN Shares so issued by MTN at an effective 20% discount to the transaction share price of R128.50.

Chairman's report

Current year's activities

MTN Zakhele Futhi Ordinary Shares were allotted and issued to successful applicants on Wednesday, 23 November 2016 and Thursday, 24 November 2016. Information to this effect was communicated to all applicants prior to 23 December 2016 to inform them, inter alia, of the status of their applications, including, where applicable, the extent to which their applications were accepted and the number of MTN Zakhele Futhi Ordinary Shares that were allocated to them. A welcome pack containing, inter alia, a welcome letter, confirmation of share issuance, a token share certificate and important MTN Zakhele Futhi shareholder information was sent to all successful applicants prior to 23 December 2016. To the extent that applications were not accepted, refunds to unsuccessful applicants who have been identified were paid out. The processes to rectify various applications are underway including, firstly for applicants who deposited funds using a valid but incorrect reference number resulting in shares being allocated to the reference number provided, and secondly, for MTN Zakhele shareholders who only partially completed the process of reinvestment into MTN Zakhele Futhi. A second offer for applicants who applied for MTN Zakhele Futhi shares but did not receive them due to various reasons (including due to unidentifiable deposit references) is presently being considered.

The MTN Zakhele Futhi Public Offer raised approximately R1.094 billion from more than 81 000 applicants from across South Africa. In addition, applications were received from 11 203 qualifying MTN Zakhele Shareholders holding in aggregate 13 479 330 MTN Zakhele Shares to re-invest the value of all or part of their MTN Zakhele shares into MTN Zakhele Futhi Ordinary Shares, equating to approximately R0.817 billion.

Applications (in aggregate) from the black public and qualifying MTN Zakhele Shareholders, although exceeding the Minimum Equity Raise (being an amount of R1.234 billion), were less than the Target Equity Raise (R2.468 billion). The cash raised by MTN Zakhele Futhi under the MTN Zakhele Futhi Public Offer exceeded the minimum amount of cash required for the 2016 MTN BBBEE Transaction to proceed (being an amount of R250 million). MTN thereafter exercised the option to subscribe for 27 848 672 MTN Zakhele Futhi Ordinary Shares (the "MTN Zakhele Futhi Underwrite Shares") for an aggregate consideration of R557 million.

The total number of MTN Zakhele Futhi Ordinary Shares duly allotted and issued on 23 and 24 November 2016 were 123 416 818.

Dividends, items which will impact on the value of the MTN Zakhele Futhi shares, financing costs, Notional Vendor Finance, maturity profile of the debt and known declared risks:

MTN Zakhele Futhi's only material investment and asset consist of MTN Shares. Consequently, the value of an MTN Zakhele Futhi Share will depend primarily on the following key factors:

- the market price of the MTN Shares owned by MTN Zakhele Futhi;
- the amount and frequency of dividends received on the MTN Shares held by MTN Zakhele Futhi;
- the financing costs and related liabilities of MTN Zakhele Futhi in relation to the preference shares issued by MTN Zakhele Futhi and the Notional Vendor Finance;
- the ability to repay or refinance the initial MTN Zakhele Futhi preference shares at the end of their 5 year maturity, and the funding rate at which such refinancing occurs (or, failing such refinancing, the value of MTN Shares realised in order to raise the necessary funds to redeem all of the MTN Zakhele Futhi preference shares and pay all accrued dividends on account of the MTN Zakhele Futhi preference shares, in full, in accordance with the provisions of the MTN Zakhele Futhi preference share Terms);
- the total expenses and taxes incurred by MTN Zakhele Futhi in the day-to-day running and operation of MTN Zakhele Futhi; and
- the deferred tax liability or asset recognised within the entity related to the re-measurement of "available-for- sale" assets (i.e. MTN Shares).

Chairman's report

Directorate, governance and management

The MTN Zakhele Futhi Board recognises that, as the core of MTN Zakhele Futhi' s corporate governance system, it is ultimately accountable and responsible for the performance and affairs of MTN Zakhele Futhi and embraces the principles of good corporate governance as espoused in the guidelines of the Report on Corporate Governance for South Africa; as laid out in the King Code ("King III") and 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 for the benefit of all stakeholders.

MTN Zakhele Futhi appointed Sibongile Mtshali, Shauket Allie Fakie and Simphiwe Cele as the initial MTN Zakhele Futhi Directors. They have since been replaced by the current directors, whose details appear on page two (2), on 6 June 2017 and on 9 June 2017, respectively. The new board ensured that a full hand over meeting and brief on all past events from inception of MTN Zakhele Futhi was provided from the past directors. The board has already implemented certain necessary governance structures, including the establishment of the Audit, Risk and Compliance committee.

MTN Zakhele Futhi has no staff and the administrative functions are outsourced to external service providers. Certain day-to-day administration services are performed by a third party that is procured to perform these services for MTN Zakhele Futhi, the details of which are as follows:

Nedbank, acting through its Share Scheme Administration division, has been tasked to assist with the administration services including providing a contact center, reporting services, query handling, bank account and share account management, shareholder register, deceased estates changes, financial accounting services and transfer secretary services.

Nedbank, acting through its Company Secretarial division, provides customary company secretarial services.

Shareholder support

Effective and efficient shareholder communication is essential. The Directors will maintain communication via SMS to shareholders as their main means of communication, apart from notices for Annual General Meetings (which will be sent by post). We request that in order to enable MTN Zakhele Futhi to effectively communicate with shareholders and maintain up to date records, shareholders notify the MTN Zakhele Futhi Administrator of all changes to their SMS contact details, postal address, status and banking details by calling the designated Call Centre on 083 900 6863 between 8h00 and 16h30 Mondays to Fridays. Agents will log their call and take them through the process and documentation needed to effect such changes. MTN Zakhele Futhi has also set up a designated Webpage for Shareholders to access particulars of their shareholdings. Shareholders are encouraged to familiarise themselves with the site by visiting www.mtnzakhelefuthi.co.za

Prospects

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

Sindisiwe N Mabaso-Koyana

Chairperson

Audit, Risk and Compliance committee report

The MTN Zakhele Futhi (RF) Limited audit, risk and compliance committee presents its report in terms of section 94(7)(f) of the Companies Acts and as recommended by King III in respect of the 2016 financial period.

1. Members of the Audit, Risk and Compliance committee

The company constituted the audit, risk and compliance committee on 15 November 2016 and comprises the following independent non-executive directors of the company:

Name	
Simphiwe Cele (Chairman)	Appointed as a member of the audit committee on 15 November 2016, resigned on 6 June 2017.
Shauket Allie Fakie	Appointed as a member of the audit committee on 15 November 2016, resigned on 6 June 2017.
Sibongile Mtshali	Appointed as a member of the audit committee on 15 November 2016, resigned on 6 June 2017.
Grant G Gelink (Chairman)	Appointed as a member of the audit committee on 9 June 2017.
Sindisiwe Mabaso-Koyana	Appointed as a member of the audit committee on 9 June 2017.
Sonja De Bruyn Sebotsa	Appointed as a member of the audit committee on 9 June 2017.

The appointments are expected to be ratified by the shareholders at the next annual general meeting to be held on or about 19 October 2017.

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 71 of 2008 and Regulation 42 of the Companies Regulation, 2011.

The effectiveness of the committee as a whole and its individual members are assessed on an annual basis.

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

Members of the committee are formally nominated by the board for re-election by shareholders.

2. Meetings held by the Audit, Risk and Compliance committee

The external auditors, in their capacity as auditors to the Company had an inaugural meeting on 21 June 2017 which, was attended by all members of the audit, risk and compliance committee.

3. External auditor

The Company's external auditor is SizweNtsalubaGobodo Inc.

The committee satisfied itself through enquiry that the external auditor is independent, as defined by the Companies Act 71 of 2008 and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided by the Companies Act 71 of 2008 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.

4. 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.

Audit, Risk and Compliance committee report

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

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

5. 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 various service providers appointed by the board of directors;
- approved the external auditors' fees and engagement terms of the external auditors for the 2016 audit;
- considered the independence and objectivity of the external auditors nominated, SizweNtsalubaGobodo Inc as the auditors for 2016 and noted the appointment of A Dire as the designated auditor;
- recommended the external auditors for re-appointment;
- reviewed legal matters that could have a significant impact on the organisation's financial statements.

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

Following the review by the committee of the financial statements of the Company for the 6 months ended 31 December 2016 and based on the information provided to it, the committee considers that, in all material respects, the Company complies with the provisions of the Companies Act, International Financial Reporting Standards and that the accounting policies applied are appropriate and consistent. The committee recommended the Company's 2016 financial statements for the 6 months ended 31 December 2016 for approval by the board on 21 June 2017.

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

On behalf of the Audit, Risk and Compliance committee:

Grant G Gelink
Chairman Audit, Risk and Compliance committee

Sandton

30 June 2017

Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the 6 month period and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards and the Companies Act. The external auditor is engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and the Companies Act 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 professional 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 of the opinion, based on the information and explanations given by Nedbank Limited, in its capacity as the professional administrator of the Company, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the 12 month period to 31 December 2017 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 financial statements. The financial statements have been examined by the company's external auditor and their report is presented on pages 16 to 18.

The financial statements set out on pages 19 to 55, which have been prepared on the going concern basis, were approved by the board on 30 June 2017 and were signed on their behalf by:

Sindi Mabaso-Koyana
Chairman

Sonja De Bruyn Sebotsa

Grant G Gelink

30 June 2017

Company Secretary's Certification

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 2016 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
30 June 2017

Directors' Report

The directors have pleasure in presenting their report, for the period ending 31 December 2016, which forms part of the Inaugural audited financial statements of the public Company for the same period.

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

1. Incorporation

MTN Zakhele Futhi (RF) Limited ("the company" or "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 Limited's ("MTN Group") 2016 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.

2. Nature of business and principle activities

The principle activities of MTN Zakhele Futhi are to:

- enter into the Transaction Documents, the "BEE Transaction Documents" and (subject to the provisions of the Transaction Documents) the "Refinancing Agreements" (as such terms are defined in MTN Zakhele Futhi's Memorandum Of Incorporation ("MOI" or "Memorandum Of Incorporation")) to which it is a party;
- exercise its rights and perform its obligations under the Transaction Documents, the BBBEE Transaction Documents and (subject to the provisions of the Transaction Documents) the Refinancing Agreements to which it is a party;
- carry on the business of holding and managing the MTN Shares, cash and such other property as may be received or acquired solely by virtue of or in relation to the MTN Shares, in each case in accordance with and subject to the Transaction Documents and BBBEE Transaction Documents to which it is a party;
- receive, retain, apply, distribute and otherwise deal with any dividends and other distributions it receives in respect of its MTN Shares in each case in terms of the Transaction Documents and BBBEE Transaction Documents to which it is a party; and
- perform such other main business as may, subject to the Finance Documents to which MTN Zakhele Futhi is a party, be approved in writing by MTN in its sole and absolute discretion from time to time.

MTN Zakhele Futhi's capacity and authority (and that of the MTN Zakhele Futhi Board) is accordingly limited to these purposes. These limitations are set out in the MTN Zakhele Futhi Memorandum Of Incorporation.

3. Operating and financial review

The period of review was the Company's inaugural financial period.

MTN Zakhele Futhi is a newly incorporated company with no historical performance and no subsidiaries.

4. Share capital

The initial issued share capital consisted of 8 ordinary shares issued shortly after incorporation at no par value. In addition a total of 123 416 818 ordinary shares were issued subsequently in November 2016 as part of the BBBEE transaction. The shares were issued at R20 per share on the date of issue.

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

Refer to note 6 of the financial statements for details of the movement in authorised and issued share capital.

Directors' Report

5. Dividends

No dividends have been paid or declared for the 6 month period ended 31 December 2016.

6. Directorate

The MTN Zakhele Futhi board recognises that, as the core of MTN Zakhele Futhi's corporate governance system, it is ultimately accountable and responsible for the performance and affairs of MTN Zakhele Futhi.

The company's 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 King III Report on Corporate Governance for South Africa. Where the board has deemed that recommended practices are not in the best interest of MTN Zakhele Futhi considering the nature and purpose of the entity, the report follows King III in explaining the reasons for an alternative approach.

The company's board comprises of three non-executive directors. MTN Zakhele Futhi 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.

Two directors, Simphiwe Cele and Sibongile Mtshali, were nominated by MTN Group, in accordance with MTN Zakhele Futhi's Memorandum Of Incorporation, and waived their director's fees while in office.

The directors of the company in office at the date of this report are as follows:

Directors	Office	Designation	Nationality	Changes
Shauket Allie Fakie	Chairperson	Non-executive	South African	Appointed 21 June 2016, resigned 06 June 2017
Simphiwe Cele	Director- Chairperson of Audit, risk and compliance committee	Non-executive	South African	Appointed 21 June 2016, resigned 06 June 2017
Sibongile Mtshali	Director	Non-executive	South African	Appointed 21 June 2016, resigned 06 June 2017
Sindisiwe N Mabaso-Koyana	Chairperson	Non-executive	South African	Appointed 06 June 2017
Sonja De Bruyn Sebotsa	Director	Non-executive	South African	Appointed 06 June 2017
Grant G Gelink	Director- Chairperson of Audit, risk and compliance committee	Non-executive	South African	Appointed 09 June 2017

7. Auditors

SizweNtsalubaGobodo Inc have been appointed as auditors for the company from incorporation in 2016.

At the AGM, the shareholders will be requested to reappoint SizweNtsalubaGobodo Inc as the independent external auditors of the company.

8. Secretary

The company secretary appointed on incorporation, i.e. on the 9th of August 2016, was Maitland Group South Africa Limited, who resigned on 15 February 2017.

The new company secretary, Nedbank Limited acting through its Group Secretariat, was appointed on the 15 February 2017.

Postal and physical address:	135 Rivonia Road Sandown Johannesburg 2193

Directors' Report

9. Directors' interests in shares

As at 31 December 2016, the directors of the company held the following direct or indirect beneficial interests in the issued ordinary shares.

Interests in shares

Directors	2016 Direct	2016 Indirect
Shauket Allie Fakie	13 031	-
Simphiwe Cele	9 100	-
Sibongile Mtshali	-	39 703
Sindisiwe N Mabaso-Koyana	-	50 000
Sonja De Bruyn Sebotsa	-	-
Grant G Gelink	61 023	-
	83 154	**89 703**

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

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

10. Meetings held by the board

The board held 5 meetings during 2016 and the members attended the meetings as follows:

2016 board meetings	9 August	9 September	11 November	18 November	20 November
Shauket Allie Fakie	Yes	Yes	Yes	Yes	Yes
Simphiwe Cele	Yes	Yes	Yes	Yes	Yes
Sibongile Mtshali	Yes	Yes	Yes	Yes	Yes

11. Borrowing powers

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

12. Special resolutions

In relation to the implementation of the MTN Zakhele Futhi transaction in November 2016, no special resolutions, the nature of which might be significant to the shareholders in their appreciation of the state of affairs of the company, were made by the company during the period covered by this report.

13. Events after the reporting period

The directors are aware of the following two material events which occurred after the reporting date and up to the date of this report.

New directors of the company have been appointed on the 6 and 9 June 2017. The initial directors were appointed for an interim period to conclude the initial implementation of the new MTN Zakhele Futhi BBBEE transactional documents, and have subsequently been replaced with the current directors. The current directors are appointed in terms of the Memorandum Of Incorporation and Companies Act.

Nedbank Limited, acting through its Group Secretariat, has been appointed as the Company Secretary on the 15 February 2017. Maitland Group South Africa Limited resigned as the Company Secretary on the 15 February 2017 as they were acting as company secretariat for the initial implementation of the MTN Zakhele Futhi BBBEE transaction only.

Directors' Report

14. Going concern

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

Koyana

Sindisiwe N Mabaso-Koyana
Chairperson
30 June 2017

Sizwe Ntsaluba Gobodo

AUDIT • ADVISORY • FORENSICS

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

Opinion

We have audited the annual financial statements of MTN Zakhele Futhi (RF) Limited set out on pages 19 to 55, which comprise the statement of financial position as at 31 December 2016 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 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

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

Other Information

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

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

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

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REPORT OF THE INDEPENDENT AUDITOR'S TO THE SHAREHOLDERS OF MTN ZAKHELE FUTHI (RF) PROPRIETARY LIMITED FOR THE YEAR ENDED 31 DECEMBER 2016

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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IPM'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.

Report on Other Legal and Regulatory Requirements

REPORT OF THE INDEPENDENT AUDITOR'S TO THE SHAREHOLDERS OF MTN ZAKHELE FUTHI (RF) PROPRIETARY LIMITED FOR THE YEAR ENDED 31 DECEMBER 2016

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that SizweNtsalubaGobodo has been the auditor of MTN Zakhele Futhi (RF) Limited for 1 year.

SizweNtsalubaGobodo Inc.
Director – Agnes Dire
Registered Auditor

20 Morris Street East
Woodmead
2191
Johannesburg

30 June 2017

MTN Zakhele Futhi (RF) Limited

(Registration number 2016/268837/06)
Financial Statements for the 6 month period ended 31 December 2016

Statement of Financial Position as at 31 December 2016

	Note(s)	31 December 2016 R '000
Assets		
Non-Current Assets		
Available-for-sale financial assets	2	6 449 080
Derivative financial assets	3	887 538
		7 336 618
Current Assets		
Cash and cash equivalents	5	28 015
Cash and cash equivalents -restricted funds	5	7 836
Other receivables	4	393
		36 244
Total Assets		**7 372 862**
Equity and Liabilities		
Equity		
Share capital	6	2 468 336
Reserves	7	2 128 651
Accumulated loss		(27 705)
		4 569 282
Liabilities		
Non-Current Liabilities		
Borrowings	8	2 147 702
Deferred tax	9	614 456
		2 762 158
Current Liabilities		
Borrowings	8	17 715
Current tax payable	20	300
Other liability	11	7 836
Other payables	10	15 571
		41 422
Total Liabilities		**2 803 580**
Total Equity and Liabilities		**7 372 862**

Statement of Profit or Loss

	Note(s)	6 months ended 31 December 2016 R '000
Directors' emoluments	21	(210)
Other operating expenses	12	(16 031)
Operating loss		**(16 241)**
Finance income	13	6 889
Finance costs incurred on Financial liabilities measured at amortised cost	14	(16 424)
Gain on re-measurement of the derivative financial instrument	15	887 535
Profit before taxation		**861 759**
Income tax expense	16	(200 737)
Profit for the 6 month period		**661 022**

Statement of Comprehensive Income

	Note(s)	6 months ended 31 December 2016 R '000
Profit for the 6 month period		**661 022**
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Gain on re-measurement of the available-for-sale financial asset		1 855 572
Deferred tax on gain on re-measurement of the available-for-sale financial asset		(415 648)
Total items that may be reclassified to profit or loss		**1 439 924**
Other comprehensive income for the year net of taxation	17	**1 439 924**
Total comprehensive income		**2 100 946**

Statement of Changes in Equity

	Share capital	Available-for-sale reserve	Non-distributable reserve	Total reserves	Accumulated loss	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000
Profit for the 6 month period	-	-	-	-	661 022	661 022
Other comprehensive income	-	1 439 924	-	1 439 924	-	1 439 924
Total comprehensive income for the 6 month period	**-**	**1 439 924**	**-**	**1 439 924**	**661 022**	**2 100 946**
Issue of shares	2 468 336	-	-	-	-	2 468 336
Transfer between reserves*	-	-	688 727	688 727	(688 727)	-
Total contributions by and distributions to owners of company recognised directly in equity	**2 468 336**	**-**	**688 727**	**688 727**	**(688 727)**	**2 468 336**
Balance at 31 December 2016	**2 468 336**	**1 439 924**	**688 727**	**2 128 651**	**(27 705)**	**4 569 282**
Note(s)	6	17	18			

The accounting policies on pages 24 to 32 and the notes on pages 33 to 55 form an integral part of the financial statements.

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

MTN Zakhele Futhi (RF) Limited

(Registration number 2016/268837/06)
Financial Statements for the 6 month period ended 31 December 2016

Statement of Cash Flows

	Note(s)	6 months ended 31 December 2016 R '000
Cash flows from operating activities		
Cash used in operations	19	(1 063)
Interest income	13	6 889
Finance costs incurred on Financial liabilities measured at amortised cost	14	(16 424)
Tax paid	20	(1 629)
Net cash from operating activities		**(12 227)**
Cash flows from investing activities		
Purchase of available-for-sale financial assets		(3 776 400)
Purchase of derivative financial assets		(3)
Non-cash shareholders from MTN Zakhele reinvestment		(817 108)
Net cash from investing activities		**(4 593 511)**
Cash flows from financing activities		
Proceeds from the issuance of ordinary shares	6	2 468 336
Borrowings raised		2 165 417
Cash from unsuccessful participants		7 836
Net cash from financing activities		**4 641 589**
Total cash movement for the 6 month period		**35 851**
Total cash at end of the 6 month period	5	**35 851**

The accounting policies on pages 24 to 32 and the notes on pages 33 to 55 form an integral part of the financial statements.

Accounting Policies

1. Significant accounting policies

The principal accounting policies applied in the preparation of these 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 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 financial statements and the Companies Act 71 of 2008 of South Africa, as amended.

These 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 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 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.

1.3 Financial instruments

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

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

Accounting Policies

1.3 Financial instruments (continued)

Categories

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

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

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

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

Financial assets at fair value through profit or loss

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

Loans and other receivables

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

Available-for-sale financial assets

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

Financial liabilities

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

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

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

Accounting Policies

1.3 Financial instruments (continued)

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

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

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

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

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

De-recognition

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

Accounting Policies

1.3 Financial instruments (continued)

Fair value determination

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

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

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

Available-for-sale financial asset

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

Other receivables

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

Derivatives

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

Non-derivative financial liabilities

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

Accounting Policies

1.3 Financial instruments (continued)

Impairment of financial assets

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

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

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

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

Derivative financial instruments

Derivatives are classified at fair value through profit or loss.

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

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

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

1.4 Other receivables

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

1.5 Other payables

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

Accounting Policies

1.6 Cash and cash equivalents and restricted funds

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 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 expenses

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

Current and deferred taxes are recognised in profit or loss , except to the extent that the tax relates to items recognised:

- in other comprehensive income; or
- directly in equity.

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

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

1.9 Share capital and equity

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

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

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

1.10 Dividends payable

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

Accounting Policies

1.11 Revenue recognition

Interest income

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

Dividend income

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

1.12 Directors' emoluments

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

1.13 Significant judgements and sources of estimation uncertainty

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

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

Critical judgements in applying accounting policies

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

Income taxes

Where applicable tax legislation is subject to interpretation, management 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 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 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.

Accounting Policies

1.13 Significant judgements and sources of estimation uncertainty (continued)

Impairment of available-for-sale assets

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

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

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

Based on the assessment performed, the directors do not consider the decline in the MTN share price over the last year to be prolonged or significant. No impairment has therefore been recognised.

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

1.14 Expenses

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

Expenses for the company includes expenses of Jabisan 04 (RF) Proprietary Limited.

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 Financial Statements

	6 months ended, 31 December 2016 R '000
2. Available-for-sale financial assets	
Available-for-sale	
MTN Group Limited shares	6 449 080
Non-current assets	
Available-for-sale	6 449 080
Fair value information	
Reconciliation of Available-for-sale financial asset	
Initial measurement for additions during the year paid in cash	5 832 131
Movements during the year	616 949
Balance at the end of the period	**6 449 080**

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

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

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

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

3. Derivative financial assets

As part of the implementation of the MTN Group BBBEE scheme, MTN Zakhele Futhi obtained notional vendor finance ('NVF') to facilitate the purchase of MTN Group shares. MTN Group issued 25 721 165 NVF shares to MTN Zakhele Futhi at a total subscription price of R2 572. MTN Group has a call option against MTN Zakhele Futhi in respect of a variable number of shares.

The notional outstanding debt at a given point in time is dependent on the dividends generated by MTN Group during the life of the option. The structure therefore represents a path dependent option for MTN Zakhele Futhi. The Monte Carlo simulation was applied as the valuation technique which is in line with standard market practice.

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

The valuation was re-performed at 31 December 2016 indicating a value of R887 537 535. The significant inputs into the model were the market share price of MTN Group shares of R126.17 at closing date, being 31 December 2016, volatility of 31.98%, a dividend yield of 5.42% and an expected option life of eight years from inception and an annual risk free rate of 8.19%

In terms of the notional vendor financing agreement, the notional funding provided by the MTN Group earned notional interest at 80% of Prime (NACM).

The balance of the notional vendor finance at initial recognition was approximately R3 305 million.This notional balance accrued R26,1 million in interest from the point of initial recognition to 31 December 2016, resulting in the balance of the notional vendor finance as at 31 December 2016 approximating R3 331 million.

Financial asset at fair value through profit and loss	
Balance on initial recognition	766 433
Fair value adjustments recorded in profit and loss	121 105
Fair value at end of the period	**887 538**

4. Other receivables

Accrued interest income	38
Prepayments	355
	393

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	28 015
Restricted funds	7 836
	35 851

Cash and cash equivalents are denominated in South African Rands.

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

5. Cash and cash equivalents (continued)

R7.8 million is held by the company from unsuccessful applicants that need to be refunded as bank deposit references did not match them to their applications. Funds are being refunded as and when applicants present themselves. No interest is payable to the applicants on the amounts refundable. These funds are not available to the company for its own use and are thus classified as restricted funds.

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

6. Share capital

On 12 September 2016, MTN Zakhele Futhi opened an offer pursuant to a prospectus inviting members of the black public to subscribe for ordinary shares in MTN Zakhele Futhi (RF) Limited. In terms of the prospectus all black staff and black directors of MTN Group and its major subsidiaries and their associates were entitled to participate in the MTN Zakhele Futhi offer on the same terms as members of the black public. The MTN Zakhele Futhi Reinvestment Offer provided MTN Zakhele (RF) Limited shareholders with an opportunity to reinvest the value of a minimum of 50 MTN Zakhele (RF) Limited shares in the new MTN Zakhele Futhi scheme.

The initial issued ordinary share capital consisted of 8 ordinary shares issued shortly after incorporation. A total of 123 416 818 additional ordinary shares were issued to the members of the black public at R20 per share. 89 108 successful applicants from the ordinary share capital public offer received 95 568 146 ordinary shares on 23 and 24 November 2016. MTN Group Limited subscribed for 27 848 672 ordinary shares on 23 November 2016 in terms of the BIC2 share subscription agreement.

No preference was given to any re-investor, employee or director of MTN Group or its subsidiaries or their associates.

MTN Zakhele Futhi ordinary shares cannot be traded during the minimum investment period (i.e. the first three years following the issue date). Restricted trading of the ordinary shares is allowed during the fourth to eighth years, where MTN Zakhele Futhi ordinary shares can be sold to eligible black persons and groups. There are no special restrictions on the sale or encumbrance of MTN Zakhele Futhi ordinary shares after the empowerment period (ie after the eighth year following the issue date).

Authorised share capital

300 000 000 ordinary shares of no par value.

3 200 000 cumulative redeemable non-participating preference shares.

Issued share capital

123 416 826 ordinary shares of no par value.

Reconciliation of the number of ordinary shares issued:	
Issued at incorporation	8
Issue of shares to cash investors	54 712 713
Issue of shares to MTN Zakhele re-investors	40 855 433
Issue of shares to MTN Underwrite shares	27 848 672
	123 416 826

Unissued and unallocated ordinary shares are under the control of the directors.

Issued	**R '000**
Ordinary shares at no par value (fully paid up)	2 468 336

Issued cumulative redeemable non-participating preference shares are classified as Borrowings. Please refer to Note 8 Borrowings.

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

6. Share capital (continued)

7. Reserves

Reserves are further defined in the Statement of Changes in Equity and the notes thereto.

Reserves consist of:	
Available-for-sale reserve	1 439 924
Non-distributable reserve	688 727
	2 128 651

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

8. Borrowings

Preference shares	
Long-term portion	2 147 702
Short-term portion	17 716
	2 165 418

Cumulative redeemable non-participating preference shares	
2 160 857 cumulative redeemable non-participating preference shares	2 160 857
Issued at par value of R1 000	
Accrued interest at effective interest rate	16 424
Transaction costs capitalised	(11 863)
	2 165 418

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

Unless otherwise defined below, capitalised terms have the same meaning as terms defined in the company's Memorandum Of Incorporation (provided that in cetain instances, references to BIC2 and to BFC2 in the Memorandum Of Incorporation have, in this section below, been substituted with references to MTN Zakhele Futhi and Jabisan 04 respectively).

The transaction costs capitalised to the borrowings relate to the arrangement fees that were directly attributable to the issue of preference shares. Finance costs are calculated using the effective interest rate.

The preference shares are classified as debt instruments as they are mandatorily redeemable to the holders. The return provided to the holders of the preference shares are treated as financing costs for the company.

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

The MTN Zakhele Futhi preference shares accrue preference share dividends at the MTN Zakhele Futhi Dividend Rate of 75% of the prime rate expressed as a simple rate of interest (compounded on each MTN Zakhele Futhi scheduled preference dividend date) with the preference share dividends accrued (in arrears) being payable annually on 30 April and 30 September over the term of the MTN Zakhele Futhi 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 MTN Zakhele Futhi preference shares. All payments shall be made upon approval by the directors of MTN Zakhele Futhi.

MTN Net Debt to EBITDA	Trigger Event Share Cover Ratio	Trigger Event Top-Up Required	Volatility Protection Share Cover Ratio	Volatility Protection 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

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

8. Borrowings (continued)

The Total Share Cover is, as at any date, the ratio of A:B, where:

1) 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

2) 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, as at any date, the ratio of A:B, where:

1) A is the MTN Shares in the Subject Share Security Account multiplied by the one day VWAP of the MTN Shares; and

2) B is (a) the aggregate MTN Zakhele Futhi Redemption Amount (excluding any MTN Zakhele Futhi Margin Dividend) of the MTN Zakhele Futhi uredeemed 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 inception total share cover ratio of 4.00 times was a condition precedent to the issuance of the MTN Zakhele Futhi preference shares and this condition was met on 18 November 2016.

The following securities and pledges are held as at 31 December 2016:

<u>First Ranking Guarantee,</u> 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.

<u>MTN Zakhele Futhi Pledge and Cession</u> 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.

<u>MTN Zakhele Futhi Reversionary Pledge and Cession</u> 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.

<u>MTN Zakhele Futhi Account Cession</u> 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 (as defined is such cession) (and any other assets designated as Collateral) for its obligations under the First Ranking Guarantee.

<u>MTN Zakhele Futhi Reversionary Account Cession</u> 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 (as defined is such cession) (and any other assets designated as Collateral) for its obligations in respect of certain Transaction Documents.

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

8. Borrowings (continued)

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 Subject Shares from time to time (currently the initial 76 835 378 ordinary shares in MTN Group Limited held by MTN Zakhele Futhi) are being held at Nedbank Limited, acting through its Nedbank Investor Services division (in its capacity as Security Custodian).

9. Deferred tax

Deferred tax liability

Gain on the revaluation of the available-for-sale assets recorded through other comprehensive income	415 648
Gain on revaluation of derivative financial asset recorded through profit and loss	198 808
Total deferred tax liability	**614 456**
Deferred tax liability	614 456

Use and sales rate

Deferred tax on the revaluation of the available-for-sale assets and the derivative financial assets are raised at the capital gains tax rate of 22.4% [28% Corporate rate with an inclusion rate of 80%] as the underlying investments are capital in nature and are being held with the intention of long-term strategic growth.

10. Other payables

Administration costs	427
Director's and secretarial fees	231
Implementation costs	12 965
Professional fees and other	1 948
	15 571

11. Other liability

Other liability consists of amounts due and payable to unsuccessful or untraceable participants. No interest is payable to the applicants on the amounts refundable.

Untraceable or unsuccessful participants will be afforded the opportunity to still acquire shares from the warehouse shares if it is found that they were eligible for shares at the closing date, subject to the approval and verification by MTN Group or a designated committee.

Amounts received during the current year	7 836

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	6 months ended 31 December 2016 R '000

12. Other operating expenses

Administration fees	(1 577)
Auditor's remuneration	(550)
Bank charges	(2)
Consulting fees	(13 422)
Legal expenses	(438)
Other expenses	(21)
Secretarial fees	(21)
	(16 031)

Other operating expenses comprise mainly administration fees, consulting fees and legal fees. The company pays for all expenses of Jabisan 04 Proprietary Limited and the BFC2 ownership trust.

13. Finance income earned on Loans and receivables

Interest received	
From investments in financial assets:	
Bank and other cash	6 889

14. Finance costs incurred on Financial liabilities measured at amortised cost

Interest expense - borrowings (accrued dividends on preference shares)	17 716
Interest gain on effective interest rate adjustment	(1 292)
Total finance costs	**16 424**

15. Gain on re-measurement of the derivative financial instrument

Fair value gains	
Financial instruments at fair value through profit or loss:	
Gain on revaluation of the derivative financial asset	887 535
	887 535

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

16. Income tax expense

Major components of the tax expense

Current	
Normal tax	(1 929)
Deferred	
Fair value gain on the derivative financial asset	(198 808)
	(200 737)

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28.00 %
Expenses not deductible for tax	1.06 %
Difference between capital gains tax and statutory tax on the revaluation of the derivative asset	(5.77)%
Effective tax rate	**23.29 %**

Deferred tax on the fair value gain of the derivative financial asset is raised at the capital gains tax rate (22.4%) as the underlying investments are capital in nature and are being held with the intention of long-term strategic growth.

17. Available-for-sale reserve

Gain on revaluation of the available-for-sale assets	1 855 572
Deferred tax on gain on revaluation of the available-for-sale assets	(415 648)
Available-for-sale financial instruments	**(1 439 924)**

18. Non-distributable reserve

Transfer of the gain on revaluation of the derivative asset	887 535
Deferred tax on gain on revaluation of the derivative asset	(198 808)
	688 727

19. Cash used in operations

Profit before taxation	861 759
Adjustments for:	
Interest income	(6 889)
Finance costs incurred on Financial liabilities measured at amortised cost	16 424
Fair value gains	(887 535)
Changes in working capital:	
Other receivables	(393)
Other payables	15 571
	(1 063)

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

20. Tax paid

Current tax for the 6 month period recognised in profit or loss	(1 929)
Balance at end of the 6 month period	300
	(1 629)

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

21. Related parties

Relationships

Jabisan 04 Holding trust	BFC2 Ownership Trust
Preference shareholder	Jabisan 04 Proprietary Limited
Provider of Notional Vendor Finance, holding company*	MTN Group Limited
Members of key management	Shauket Allie Fakie Simphiwe Cele Sibongile Mtshali Sindi Mabaso-Konyana Sonja De Bruyn Sebotsa Grant G Gelink
Administrators and Company Secretary	Nedbank Limited, whose wholly owned subsidiary, Depfin Investments Proprietary Limited, is a preference shareholder in Jabisan 04 (RF) Proprietary Limited

**MTN Zakhele Futhi (RF) Limited is a structured entity, consolidated into MTN Group Limited.*

Related party balances

Preference share liability	
Jabisan 04 (RF) Proprietary Limited	2 178 573
Amounts included in Other Payables regarding related parties	
Shauket Alie Fakie in respect of Director's remuneration	210
MTN Group Limited.	12 965
Nedbank Limited	2 054
Ordinary share capital held by related party	
MTN Group Limited	556 973

Related party transactions

Interest to related parties	
Jabisan 04 (RF) Proprietary Limited	17 716
Participation fee to related party	
Jabisan 04 (RF) Proprietary Limited	11 863
Administration fees to related party	
Nedbank Limited	1 577
Expenses on behalf of	
Jabisan 04 (RF) Proprietary Limited	21
Remuneration of the board of directors - directors' fees	
Short-term employee benefits	210

Directors' Fees	
Shauket Allie Fakie (1)	210

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000
21. Related parties (continued)	
Simphiwe Cele (1)	-
Sibongile Mtshali (1)	-
Sindi Mabaso-Konyana (2)	-
Sonja De Bruyn Sebotsa (2)	-
Grant G Gelink (2)	-
(1) - The only fees charged to the company is that of Shauket Allie Fakie. Simphiwe Cele and Sibongile Mtshali have waived their directors' fees for 2016.	
(2) New directors did not receive any remuneration for the year ending 31 December 2016.	
	210

22. Going concern

The 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 should be able to operate within the level of its current funding. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in existence for the foreseeable future. The company therefore has thus adopted the going concern basis in preparing its financial statements.

The company is a limited purpose company and has a limited life of 8 years, expected to dissolved in November 2024.

23. Events after the reporting period

MTN Group Limited declared a final dividend of 450 cents in March 2017.

The directors are aware of the following 2 material events which occurred after the reporting date and up to the date of this report.

New directors of the company have been appointed on the 6 and 9 June 2017. The initial directors were appointed for an interim period to conclude the initial implementation of the funding transaction of the MTN Zakhele Futhi BBBEE transaction, and have subsequently been replaced with the current directors. The current directors are appointed in terms of the Memorandum Of Incorporation and Companies Act

Nedbank Group Limited, acting through its Group Secretariat has been appointed as the Company Secretary on the 15 February 2017. Maitland Group South Africa Limited resigned as the Company Secretary on the 15 February 2017 as they were acting as company secretariat for the initial implementation of the MTN Zakhele Futhi BBBEE transaction.

24. 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.

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

25. Categories of financial instruments

The financial instruments of the company has been classified as follows:

Categories of Financial Instruments- 2016

Assets Non-Current Assets	Note(s)	Available for sale financial assets	Loans and receivables	Financial assets at fair value through profit or loss	Financial liabilities at amortised cost	Non-financial instruments	Total carrying amount	Fair value
Available for sale financial assets	2	6 449 080	-	-	-	-	6 449 080	6 449 080
Derivative financial assets	3	-	-	887 538	-	-	887 538	887 538
Current Assets								
Current Assets								
Other receivables	4	-	38	-	-	355	393	393
Cash and cash equivalents	5	-	35 851	-	-	-	35 851	35 851

Liabilities								
Non- Current Liabilities								
Deferred tax	9	-	-	-	-	614 456	-	-
Borrowings	8	-	-	-	2 147 702	-	2 147 702	1 992 565
Current Liabilities								
Trade and other payables	10	-	-	-	15 569	-	15 569	15 569
Current tax payable		-	-	-	-	300	-	-
Borrowings	8	-	-	-	17 715	-	17 715	16 435
Other liability	11	-	-	-	7 836	-	7 836	7 836

26. Financial risk management and financial instruments

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 financial statements.

Fair value estimation

	6 months ended 31 December 2016 R '000

26. **Financial risk management and financial instruments (continued)**

The table below analyses financial instruments carried at fair by the level of the fair value hierarchy and those measured at amortised cost whose fair value is disclosed. The fair value hierarchy depends on the extent to which quoted prices are used in determining the fair value of the specific instruments. The different levels are defined as follows:

Level 1: Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available and obtainable from multiple sources;

Level 2: Fair value is based on input other than quoted prices included within Level 1 that is observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value is based on input for the asset or liability that is not based on observable market data (i.e. unobservable inputs).

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

(a) Valuation techniques used to derive Level 1 fair values

The fair value of the financial instruments traded in active markets is based on quoted market prices as obtained from the custodians at the balance sheet date. A market is regarded as active if quoted prices are regularly available from an exchange, dealer broker or pricing services, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of the available-for-sale financial assets is based on the MTN Group share price, as listed on the JSE Limited.

(b) Valuation techniques used to derive Level 2 fair values

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Specific valuation techniques used by the custodians to value financial instruments include the following:
- Quoted market prices or dealer quotes for similar instruments
- Other techniques, such as discounted cash flow analysis are used to determine fair value for remaining financial instruments.

(c) Valuation techniques used to derive Level 3 fair values

The derivative financial asset is classified as Level 3. The fair value of the derivative financial asset is based on a valuation model. The inputs to this model includes the MTN Group share price, which is an observable input in the market. Other inputs include interest rates on the borrowings, annual risk-free rate, volatility and dividend yield rates, which inputs are not observable in the market.

Refer to note 3 for a reconciliation of the level 3 derivative financial assets.

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurement				
Available-for-sale financial asset	6 449 080	-	-	6 449 080
Derivative financial asset	-	-	887 538	887 538

Notes to the Financial Statements

				6 months ended 31 December 2016 R '000

26. Financial risk management and financial instruments (continued)

Amortised cost measurement				
Other receivables	-	38	-	38
Cash and cash equivalents	-	35 851	-	35 851
Borrowings	-	(2 165 418)	-	(2 165 418)
Other payables	-	15 571	-	15 571
Other liability	-	(7 836)	-	(7 836)

Notes to the Financial Statements

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26. Financial risk management and financial instruments (continued)

Derivative financial assets

Sensitivity Analysis

- Impact of change in 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.

MTN Group Limited share price	**Impact on post-tax profit**
10% increase	230 264
10% decrease	(220 386)

- 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.

Interest rate	**Impact on post-tax profit**
1% increase	59 644
1% decrease	(58 999)

- Impact of change in volatility

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

The analysis is based on the assumption that the volatility increased/decreased by 3% with all other variables held constant.

Volatility	**Impact on post-tax profit**
3% increase	82 337
3% decrease	(88 830)

Notes to the Financial Statements

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26. Financial risk management and financial instruments (continued)
- Impact of change in dividend yield

The table below summarises the impact of increases/(decreases) in the dividend yield of the MTN Group shares on the profit or loss.

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

Dividend yield	Impact on post-tax profit
1% increase	30 234
1% decrease	(46 376)

Available-for-sale financial assets

Price risk

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

Sensitivity analysis

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.

MTN Group Limited share price	Impact on other comprehensive income before tax
10% increase	644 908
10% decrease	(644 908)

Notes to the Financial Statements

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26. Financial risk management and financial instruments (continued)

Borrowings

Cash flow and fair value interest rate risk

The entity's interest rate risk arises from long-term borrowings by means of preference shares which are partly based on floating 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 2016, 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.

Interest rate	**Increase /decrease in profit before tax**
1% increase	(3 055)
1% decrease	273

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

26. Financial risk management and financial instruments (continued)

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 due to unidentifiable applicants as this cash is not available to the company for use. Other receivables only includes interest income receivable that is a liquid resource to the company for use.

Available liquid resources, subject to security package described in note 8, are as follows:	
Cash at bank and on hand	28 015
Other receivables	38
	28 053

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

At 31 December 2016		**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**
Non-current liabilities					
Borrowings	-	-	2 147 702	-	2 147 702
Current liabilities					
Current portion of borrowings	-	17 716	-	-	17 716
Other payables	-	15 571	-	-	15 571
Other Liability	-	7 836	-	-	7 836
	-	**41 123**	**2 147 702**	**-**	**2 188 825**

Notes to the Financial Statements

	6 months ended 31 December 2016 R '000

26. Financial risk management and financial instruments (continued)

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 pledged and guarantees disclosed in note 8 have a remaining contractual period of 5 years.

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. Standard & Poor's rating for Nedbank Limited is zaAA- for long-term deposits and zaA-1 for short-term deposits. This is consistent with the sovereign South African rating.

Notes to the Financial Statements

27. New Standards and Interpretations

27.1 Standards and interpretations effective and adopted in the current 6 month period

The following standards have been issued but are still not effective at year end:

Disclosure Initiative: Amendment to IAS 1: Presentation of Financial Statements

Materiality, disaggregation and subtotals.

The amendment clarifies that an entity should not aggregate or disaggregate information in a manner that obscures useful information, for example, by aggregating items that have different characteristics or disclosing a large amount of immaterial detail. It further clarifies that it may be necessary to disaggregate some of the line items specified in IAS 1 where it is relevant to an understanding of the entity's financial position or performance.

The revised standard will be applied retrospectively and will not have a material impact on the Company's financial statements.

The effective date are annual periods beginning on or after 1 January 2016.

IFRS 9 Financial Instruments

The standard requires financial assets to be measured either at amortised cost or fair value depending on the business model under which they are held and the cash flow characteristics of the instrument.

The standard contains new hedge accounting requirements aimed at better aligning the accounting treatment with the risk management strategy. In addition, the standard replaces the incurred loss impairment model in IAS 39 with an expected loss model. It will no longer be necessary for a credit event to have occurred before credit losses are recognised.

The new standard will be applied retrospectively and could have a material impact on the Company's financial statements. The Group has not yet quantified the potential impact of the new standard on the Company.

The effective date of the amendment is for years beginning on or after 1 January 2018.

Amendments to IAS 7: Disclosure initiative

The amendment requires entities to provide additional disclosures for changes in liabilities arising from financing activities. Specifically, entities are now required to provide disclosure of the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchanges;
- changes in fair values; and
- other changes.

The effective date of the amendment is for years beginning on or after 1 January 2017.

The company expects to adopt the amendment for the first time in the 2017 financial statements.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements and at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. It further clarifies that; (i) the carrying amount of an asset does not limit the estimation of probable future taxable profits, (ii) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences, and (iii) an entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

27. New Standards and Interpretations (continued)

The amendments will be applied retrospectively; however an entity may recognise the change in the opening retained earnings of the earliest comparative period presented. The amendment will not have a material impact on the Company's financial statements.

The effective date of the amendment is for years beginning on or after 1 January 2017.

The company expects to adopt the amendment for the first time in the 2017 financial statements.

It is unlikely that the amendment will have a material impact on the company's financial statements.

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after 1 January 2018.

The company expects to adopt the amendment for the first time in the 2018 financial statements.

It is unlikely that the amendment will have a material impact on the company's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the amendment is for years beginning on or after 1 January 2018.

The company expects to adopt the standard for the first time in the 2018 financial statements.

It is unlikely that the standard will have a material impact on the company's financial statements.