MALAWI TOWERS LIMITED

Annual Report and Financial Statements
for the year ended 31 December 2018

MALAWI TOWERS LIMITED
FINANCIAL STATEMENTS
For the year ended 31 December 2018

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The directors have pleasure in presenting to members audited financial statements for the year ended 31 December 2018 and report thereon as follows:

1. REVIEW OF ACTIVITIES

Main Business and Operations

Malawi Towers Limited is a company incorporated in Malawi and its main business consists of provision of passive infrastructure shared services

The company is owned by Bharti Airtel Malawi Holdings B.V. The company's registered office is at Airtel Malawi premises in City Centre, Airtel Complex, City Centre, Off Convention Drive, P.O. Box 57, Lilongwe, Malawi.

2. AUTHORISED AND ISSUED SHARE CAPITAL

The company has authorised ordinary shares of 10, 000,000 (2017: 10,000,000) of K1 each. The issued and fully paid capital is K10 million (2017: K10 million) divided into 10,000,000 (2017: 10,000,000) fully paid Ordinary Shares of K1 each. Details of these are shown in the statement of changes in equity on page 9.

3. DIRECTORS

The following directors appointed in terms of the Articles of Association of the company served office during the year.

Name	Residence	Period
1. Charles Kamoto	Malawian	(All year)
2. Hlupekire Chalamba	Malawian	(All year)

4. COMPANY SECRETARY

The secretary of the company is Hlupekire Chalamba

5. INCOME STATEMENT

The directors report a net profit after tax of K16.85 billion (2017: loss of K2.959 billion). Refer to page 8 for more details.

6. RESERVES

Details of the reserves of the company are shown in the statement of changes in equity on page 9.

7. EVENTS AFTER THE REPORTING PERIOD

There have been no material events after the reporting date which would require disclosure in or adjustment to the financial statements for the year ended 31 December 2018.

8. GOING CONCERN

In accordance with their responsibilities, the directors considered the appropriateness of the going concern basis for the preparation of the financial statements, as detailed in note 17 to the financial statements.

9. AUDITORS

The auditors, Deloitte, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ended 31 December 2019.

Chairman: ____________________ Director: ____________________

MALAWI TOWERS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2018

The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Malawi Towers Limited as at the end of the financial year and of the operating results for that year.

The directors also acknowledge their duty to ensure the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act.

In preparing the financial statements the directors accept responsibility for the following:

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and consistent application thereof;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with International Financial Reporting Standards, when preparing financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for establishing internal controls that ensure the propriety of transactions and accuracy and reliability of the accounting records and to safeguard the assets of the company against loss by theft, fraud, defalcation or otherwise.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results and cash flows for the year ended 31 December 2018.

....) **CHAIRMAN**
)
)
)
)
)
....) **DIRECTOR**

.... **DATE**

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
MALAWI TOWERS LIMITED

Report on the Financial Statements
Opinion
We have audited the accompanying financial statements of Malawi Towers Limited set out on pages 7 to 44, which comprise the statement of financial position as at 31 December 2018, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Malawi Towers limited as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of financial statements in Malawi. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern
We draw attention to note 17 to the financial statements which indicates that the Company made a profit of K16.85 billion for the year ended 31 December 2018 against a loss of K2.959 billion for the year ended 31 December 2017. As on 31 December 2018, accumulated losses amounted to K3.166 billion (2017: K20.016 billion) and the company was in net liability position of K15.128 billion (2017: K34.180 billion).

As stated in note 17, these conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter

Partners: NT Uka VW Beza CA Kapenda MC Mwenelupembe (Mrs)
Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

Other Information
The directors are responsible for the other information. The other information comprises the directors' report and the statement of directors' responsibilities, as required by the Companies Act, which we obtained prior to the date of this auditor's 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Statements
The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, and for such internal control as the 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, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have 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 judgement and maintain professional scepticism 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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- 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 the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the 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 the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Deloitte

Chartered Accountants
Vilengo Beza
Partner
9 July 2019

MALAWI TOWERS LIMITED
STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	2018 K	2017 K
ASSETS			
Non-current assets			
Plant and equipment	5	12 771 193 272	14 908 061 497
Current assets			
Trade and other receivables	6	1 766 928 873	128 288 817
Amount due from related company	7.2	-	39 394 463 081
Cash and Cash equivalents	8	6 380 496	11 626 833
Income tax recoverable		437 040 991	437 040 991
Total current assets		2 210 350 360	39 971 419 722
Total assets		14 981 543 632	54 879 481 219
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		10 000 000	10 000 000
Accumulated loss		(3 166 803 989)	(20 016 880 200)
Total shareholders' deficit		(3 156 803 989)	(20 006 880 200)
Non-current liabilities			
Provisions	9	790 611 147	366 513 877
Deferred tax liability	10	9 528 201	367 582 914
		800 139 348	734 096 791
Current liabilities			
Amounts due to related companies	7.1	16 531 005 295	73 672 784 739
Trade and other payables	11	807 202 978	479 479 889
Total current liabilities		17 338 208 273	74 152 264 628
Total equity and liabilities		14 981 543 632	54 879 481 219

The financial statements were approved and authorised for issue by the Board of Directors on

4th day of July 2019 and signed on its behalf by:

………………………………………
Director

………………………………………
Director

MALAWI TOWERS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	2018 K	2017 K
Operating revenue	12	7 888 240 839	7 629 881 124
Operating costs	13	(4 300 016 914)	(4 119 457 853)
Operating profit		3 588 223 925	3 510 423 271
Depreciation charge	5	(2 551 031 540)	(2 465 371 556)
Net exchange gain / (loss)		18 853 361 219	(158 847 882)
Profit on disposal of assets		394 433 112	-
Interest expenses		(4 127 733 970)	(5 032 228 529)
Other income	14	147 977 058	-
Interest income		186 791 694	45 851
Profit/ (loss) before taxation		16 492 021 498	(4 145 978 845)
Taxation credit	15	358 054 713	1 186 745 113
Total comprehensive profit/ (loss) for the year		16 850 076 211	(2 959 233 732)

There was no items of other comprehensive income during the year (2017: Nil)

MALAWI TOWERS LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital K	Retained earnings K	Total K
Year ended 31 December 2018			
At beginning of the year	10 000 000	(20 016 880 200)	(20 006 880 200)
Total comprehensive income for the year	-	16 850 076 211	16 850 076 211
At end of the year 2018	10 000 000	(3 166 803 989)	(3 156 803 989)
Year ended 31 December 2017			
At beginning of the year	10 000 000	(17 057 646 468)	(17 047 646 468)
Total comprehensive income for the year	-	(2 959 233 732)	(2 959 233 732)
At end of the year 2017	10 000 000	(20 016 880 200)	(20 006 880 200)

SHARE CAPITAL

	2018 K	2017 K
Authorised, issued and fully paid		
10 000 000 Ordinary shares of K1 each	10 000 000	10 000 000

MALAWI TOWERS LIMITED

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 K	2017 K
Cash flows from operating activities			
Profit / (loss) before tax		16 492 021 498	(4 145 978 845)
Adjustments for:			
Depreciation	5	2 551 031 540	2 465 371 556
Profit on disposal		(394 433 112)	-
Increase in provisions		424 097 270	9 092 480
Interest expense		4 127 733 970	5 032 228 529
Operating loss before working capital changes		23 200 451 167	3 360 713 720
(Increase) /decrease in trade and other receivables		(1 741 339 823)	1 711 810
Decrease / (increase) in amount due from related parties		32 361 383 095	(9 699 914 154)
Increase in trade and other payables		430 541 570	154 392 378
Increase / (decrease) in amount due to related parties		(50 108 818 171)	12 271 838 453
Cash generated from operations		4 142 217 837	6 088 742 207
Income tax paid		-	-
Net cash generated from operating activities		**4 142 217 837**	**6 088 742 207**
Cash flows from investing activities			
Purchase of plant and equipment	5	(1 313 627 908)	(1 056 467 826)
Proceeds from sale of assets		1 293 897 705	-
Net cash flow from investing activities		**(19 730 203)**	**(1 056 467 826)**
Cash flows from financing activities			
Movement in Interest payable		(4 127 733 970)	(5 032 228 529)
Net cash flow from financing activities		**(4 127 733 970)**	**(5 032 228 529)**
(Decrease)/increase in cash and cash equivalents		(5 246 337)	45 852
Cash and cash equivalents at beginning of the year		11 626 833	11 580 981
Cash and cash equivalents at end of the year *(note 8)*		**6 380 496**	**11 626 833**

1. General information

Malawi Towers Limited was incorporated on 15 December 2010 to provide passive infrastructure shared services. The company deploys, owns and manages telecommunication towers and communication infrastructures for wireless telephone operators.

The holding company is Bharti Airtel Malawi Holdings BV which is incorporated in the Netherlands.

2. Adoption of new and revised International Financial Reporting Standards

2.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements

In the current year, the entity has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2018.

Impact of initial application of IFRS 9 Financial Instruments
In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Company has elected not to restate comparatives in respect of the classification and measurement of financial instruments. The company adopted the new standard on the required effective date and did not restate comparative information.

(a) Classification and measurement
Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal. The company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment
IFRS 9 requires the company to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The company has applied the simplified approach and record lifetime expected losses on all trade receivables.

Impact of application of IFRS 15 Revenue from Contracts with Customers
In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

Details of the new requirements as well as their impact on the Company's financial statements are described below.

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position.

The Company's accounting policies for its revenue streams are disclosed in detail in note 3 below. Apart from providing more extensive disclosures for the Company's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Company.

2.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after *1 January 2019*, and have not been applied in preparing these financial statements. Those which may be relevant to the company are set out below. The company does not plan to adopt these standards early *or describe the impact where there is early adoption*). These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective Date	Standard, Amendment or Interpretation
Annual periods beginning on or after 1 January 2019	IFRS 16 Leases IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guide including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

Effective Date	Standard, Amendment or Interpretation
Annual periods beginning on or after 1 January 2019	IFRS 16 Leases (Continued) The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are aid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion that will be presented as financing and operating cash flows respectively. In contracts to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.
Annual periods beginning on or after 1 January 2019	Prepayment Features with Negative Compensation (Amendments to IFRS 9) Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
Annual periods beginning on or after 1 January 2019	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28). Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
Annual periods beginning on or after 1 January 2019	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are: • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. • In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

Annual periods beginning on or after 1 January 2020

Amendments to References to the Conceptual Framework in IFRS Standards

The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Annual reporting periods beginning on or after 1 January 2020

Definition of a Business (Amendments to IFRS 3)

The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Annual reporting periods beginning on or after 1 January 2020

Definition of Material (Amendments to IAS 1 and IAS 8)

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

Annual reporting periods beginning on or after 1 January 2021

IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

Annual reporting periods beginning on or after 1 January 2019	IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.

The directors anticipate that, other than IFRS 16 *Leases*, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the company. IFRS 16 leases will impact the recognition, measurement, presentation and disclosures of the leases.

3. Significant accounting policies

The following is a summary of the significant accounting policies adopted by the company. These policies have been consistently applied to all year presented, unless otherwise stated.

3.1 Statement of compliance

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are accounted for as in note 3.15 below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 measured date regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or a liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised in Level 1, 2 or 3 based on the degree to which the inputs to their fair value measurements are observable and the significance of the inputs to fair value measurements in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies of the company, which are set out below, have been consistently followed in all material respects.

3.3 Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements made by management in the application of IFRS's that have significant effect on the amounts recognised in the financial statements are discussed in note 4 to these financial statements.

3. Significant accounting policies (Continued)

3.4 Accounting convention

The financial statements are prepared in terms of the historical cost convention with the exception of financial instruments which are accounted for as in note 3.15 below. No other procedures have been adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices.

3.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or given; taking into account contractually defined terms of payment and excluding value added tax or duty.
The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principle or agent.

Rendering of services
Revenue from a contract to provide services is recognised by reference to leasing terms of the towers, principally based on time period over the lease period.

Interest income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3.6 Property Plant and Equipment

Property Plant and Equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

All repairs and maintenance expenditure is expensed as incurred unless it is deemed probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the company, in which case it is added to the carrying amount of the asset.

Depreciation is calculated on a straight line basis at a rate that will reduce book amounts to estimated residual values over the estimated useful lives of the assets as follows:

- Network equipment 3-20 years
- Office furniture and equipment 5 years
- Leasehold improvements Remaining period of lease or 5 years whichever is less

The company re-assesses both the useful lives and residual lives of the assets annually. Any future changes in either useful lives or estimated residual values are accounted for prospectively as a change in accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

3. Significant accounting policies (Continued)

3.6 Property Plant and Equipment (Continued)

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Work in progress is not depreciated.

3.7 Asset Retirement Obligation

Asset Retirement Obligations (ARO) are provided for those operating lease arrangements where the Company has a binding obligation at the end of the lease period to restore the leased premises in a condition similar to inception of lease. ARO are provided at the present value of expected costs to settle the obligation using discounted cash flows and are recognised as part of that particular asset. The cash flows are discounted at current pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is expensed as incurred and recognised in the income statement as a finance cost.

The estimated future costs of restoration are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

3.8 Impairment of non-financial assets

At the end of each reporting period, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or-cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating units) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss. Unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

3. Significant accounting policies (Continued)

3.8 Impairment of non-financial assets (Continued)

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss. Unless the relevant asset is carried at a revalued amount in which case the reversal of impairment loss is treated as a revaluation increase.

3.9 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the entity's general policy on borrowing costs (see 3.10 below). Other expenses due to the leasing are recognised as expenses in the periods in which they are incurred.

3.10 Borrowing Costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method;

When calculating the effective interest rate, the entity estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest rate.

3.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. Significant accounting policies (Continued)

3.11 Taxation (Continued)

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the company's financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year
Current and deferred tax are recognised as an expense or income in the statement of comprehensive income, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

3.12 Functional currency translations

(a) Functional and presentation currency
Items included in the financial statements of the company are measured using Malawi Kwacha, the functional currency of the primary economic environment in which the entity operates. The financial statements are presented in Malawi Kwacha, which is the entity's functional and presentation currency.

3. **Significant accounting policies** (Continued)

3.12 **Functional currency translations** (Continued)

(b) Transactions and balances

Transactions in currencies other than Malawi Kwacha are initially recorded at the rates of exchange ruling on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.13 **Share capital and share premium**

Issued ordinary shares are classified as 'share capital' in equity when the Company has an unconditional right to avoid delivery of cash or another financial asset, that is, when the dividend and repayment of capital are at the sole and absolute discretion of the Company and there is no contractual obligation whatsoever to that effect. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

3.14 **Statement of cash flows**

Cash flows are reported using the indirect method as per IAS-7 'Statement of cash flows', whereby profit for the period is adjusted for the effect of transactions of a non-cash nature, any deferral or accrual of past or future cash operating receipts or payments and item of income or expenses associated with investing or financing cash flows. The cash flows from operating, investing and financing activities are segregated.

3.15 **Financial instruments**

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.1. Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.
All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

3.15.2. Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. Significant accounting policies (Continued)

3.15 <u>Financial instruments</u> (Continued)

3.15.3. Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired. Interest income is recognised in profit or loss.

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.4 Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss:
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

3.15.5 Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

3. Significant accounting policies (Continued)

3.15.5.1. Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.5.1. Significant increase in credit risk (Continued)

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3.15.5.2. Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3.15.5.3. Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

3.15.5.4. Write off Policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner.

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.5.4. Write-off of policy (Continued)

Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

3.15.5.5. Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

3.15.5.6. Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.5.6. Derecognition of financial assets (Continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

3.16 Financial liabilities and equity instruments

3.16.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.16.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3.16.3 Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

3.16.4 Financial liabilities at FVTPL

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the company's documented risk management or

3. Significant accounting policies (Continued)

3.16 Financial liabilities and equity instruments (Continued)

3.16.4 Financial liabilities at FVTPL (Continued)

investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 *Financial Instruments* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and losses line item in other comprehensive income.

3.16.5 Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in profit or loss.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

3.16.6 Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.17 Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Company has both legal right and intention to offset.

3.18 Hedge accounting

The Company designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

3. Significant accounting policies (Continued)

3.18 Hedge accounting (Continued)

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

3.18.1 Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in other comprehensive income.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains or losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

3.18.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Company expects that some or all of the loss accumulated in the cash flow hedging

3. Significant accounting policies (Continued)

3.18 <u>Hedge accounting</u> (Continued)

3.18.2 <u>Cash flow hedges</u> (Continued)

reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss. The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

3.19 <u>Provisions</u>

Provisions are recognised when the branch has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3.20 <u>Contingencies</u>

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised and disclosed only where an inflow of economic benefits is probable.

3.21 <u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

4. Critical accounting judgements and key sources of estimation uncertainty

4.1 <u>Critical accounting judgements made by management</u>

In the application of the company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

4.1 Critical accounting judgements made by management (Continued)

4.1.1 Impairment of non current assets

In making its judgement, management has assessed at each reporting date whether there is an indication that items of property, plant and equipment and other assets may be impaired. If any such indication exists, the recoverable amount of the asset is assessed in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use.

4.2 Key sources of estimation uncertainty

4.2.1 Plant and equipment residual values and useful lives

These assets are written down to their estimated residual values over their anticipated lives using the straight line basis. Management reviews the residual values annually considering market conditions and projected disposal values. In assessing useful lives and residual values, maintenance programmes and technological innovations are considered. The carrying value of plant and equipment is disclosed in note 5 to the financial statements.

4.2.2 Loss allowance for trade and other receivables

The company provides credit terms to customers on post-paid services and selected dealers. Management is aware that certain debts due to the company may not be recoverable either in part or in full. The company always recognises lifetime ECL for trade receivables and other receivables The expected credit losses on these financial assets are estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and;

An assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Malawi economy, financial difficulties of the debtors, or financial reorganisation and delinquency in paying, amongst others, are also taken into account.

4.2.3 Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4.2.4 Provisions and contingent liabilities

The Company exercises judgement in measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary to assess the likelihood to quantify the possible range of any financial settlement. The inherent uncertainty of such matters means that actual losses may materially differ from estimates.

5. Plant and equipment

	Freehold Land	Plant and Equipment	ARO P/M	Capital Work in Progress	Total
	K	K	K	K	K
For the year ended 31 December 2018					
Cost					
At beginning of the year	18 298 413	23 932 936 106	41 995 624	3 108 508	23 996 338 651
Additions	-	967 203 229	346 424 679	-	1 313 627 908
Disposals	-	(1 293 897 705)	-	-	(1 293 897 705)
At the end of the year	18 298 413	23 606 241 630	388 420 303	3 108 508	24 016 068 854
Depreciation					
At beginning of the year	-	9 046 281 530	41 995 624	-	9 088 277 154
Charge for the year	-	2 208162 195	342 869 345	-	2 551 031 540
Disposals	-	(394 433 112)	-	-	(394 433 112)
At the end of the year	-	10 860 010 613	384 864 969	-	11 244 875 582
Net book value					
At end of the year	**18 298 413**	**12 746 231 017**	**3 555 334**	**3 108 508**	**12 771 193 272**

	Freehold Land	Plant and Equipment	ARO P/M	Capital Work in Progress	Total
	K	K	K	K	K
For the year ended 31 December 2017					
Cost					
At beginning of the year	18 298 413	22 876 468 280	41 995 624	3 108 508	22 939 870 825
Additions	-	1 056 467 826	-	-	1 056 467 826
At the end of the year	18 298 413	23 932 936 106	41 995 624	3 108 508	23 996 338 651
Depreciation					
At beginning of the year	-	6 580 909 974	41 995 624	-	6 622 905 598
Charge for the year	-	2 465 371 556	-	-	2 465 371 556
At the end of the year	-	9 046 281 530	41 995 624	-	9 088 277 154
Net book value					
At end of the year	**18 298 413**	**14 886 654 576**	**-**	**3 108 508**	**14 908 061 497**

6. Trade and other receivables

	2018 K'	2017 K'
Prepayments (site rentals)	57 892 899	64 092 207
Prepayments (electricity)	79 216 000	-
Value added tax	37 152 401	85 171 200
Advance against statutory liabilities	123 718	-
Trade receivables	1 686 641 106	-
Other receivables	8 602 516	-
Provision for bad debts	(102 699 767)	(20 974 590)
	1 766 928 873	128 288 817

Prepayments relate to amounts that Company paid in advance for various tower rentals.
No interest is charged on other receivables.
The directors consider that the carrying amount of other receivables approximates to their fair value.

Trade receivable relates to amount outstanding to third party telecommunication infrastructure service provider i.e. MTL, TNM, Business Solution Limited and Nitel.

The Company has adopted to measure the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The following table details the risk profile of trade receivables based on the Company's provision matrix. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Company's different customers.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables to customers in accordance with the simplified approach set out in IFRS 9

6. Trade and other receivables (Continued)

At 31 December 2018 the lifetime expected loss provision for trade receivables is as follows:

	Current	60 Days	90 Days	180 Days	>180 Days	Total
	K	K	K	K'	K	K
Expected credit loss rate	-%	-%	-%	0.96%	16.42%	
Gross carrying amount default	4 106 502	4 104 964	598 536 592	482 425 073	597 467 975	**1 686 641 106**
Allowance for doubtful receivables	-	-	-	4 619 487	98 080 280	**102 699 767**

Note that for the company to arrive at the ECL rate, both historical and forward-looking information were considered. It is also important to note that the significant receivable balances are from TNM, MTL and ACL whose total balances is K 1.54 billion, out of which no impairment loss has been recognised as the sister company to Malawi Towers (Airtel Malawi Limited) owes significant liability to pay TNM, MTL and ACL . The amount Airtel Malawi Limited is to pay the mentioned above entities is more than the amount Malawi Towers is supposed to receive from them hence no provision for doubtful debt has been recognised from these customers.

All balances that are within, 30days, 60 days and 90 days are mainly from the mentioned above customers.

	2018	**2017**
	K	**K**
Movement in the allowance for doubtful receivables		
At beginning of the year	20 974 590	-
Impairment losses arising in the year	81 725 177	20 974 590
At end of the year	102 699 767	20 974 590

7. Related party disclosures

7.1 *Amount due to related parties*

Name of related party	Relationship	2018 K	2017 K
Bharti Airtel International (Netherlands) B.V.	Step up parent	423 121 086	543 078 838
Africa Towers NV	Step up parent	388 260 668	383 988 632
Airtel Malawi Limited	Fellow subsidiary	15 719 623 541	72 745 717 269
		16 531 005 295	73 672 784 739

Amount due to Bharti Airtel International (Netherlands) B.V. and Africa Towers B.V. is related to outstanding expenses of management fees on the reporting date.

7.2 *Amount due from related parties*

Name of related party	Relationship	2018 K	2017 K
Airtel Malawi Limited	Fellow subsidiary	-	39 394 463 081

Detailed below are amounts of transactions that have been entered into with Airtel Malawi Limited during the year.

	2018 K	2017 K
Interest payable to Airtel Malawi Limited	4 127 733 971	5 032 228 529
Revenue from tower rentals collected through Airtel Malawi Limited	5 975 503 161	6 008 982 053
Expenses paid through Airtel Malawi Limited	4 218 183 736	3 964 801 085
	14 321 420 868	15 006 011 667

In the month of January 2018, there was a revision in the rates charged for telecommunications maintenance and service charges of sites shared by Airtel Malawi Limited from Malawi Towers Limited, hence the reduction in revenues from Airtel Malawi.

Due to current market rates, rates from Jan 18 were adjusted downwards. The rates have been adjusted from US$ 3,120 to US$ 1,250 per Grid site and from US$ 4,040 to US$ 2,600 per Non grid site per month

The amount K 14.6 billion relates to balance that Airtel Malawi Limited waived Malawi Towers Limited, which accrued on account of revaluation of the unpaid balances that Malawi Towers, owed Airtel Malawi Limited on sale of the asset and revaluation of Interest thereon. This was done following a letter that Malawi Towers wrote to Airtel Malawi Limited on 10 December 2018 requesting for such waiver.

8. Cash and cash equivalents

	2018 K	2017 K
Bank balance	6 380 496	11 626 833

9. Provisions

	2018 K	2017 K
Asset retirement obligation	790 611 147	366 513 877

This relates to costs of obligations for dismantling, removing the rented on which towers are built.

10. Deferred tax

	2018 K	2017 K
At beginning of the year	367 582 914	1 554 328 027
(Credited) /Charge to income statement (note 15)	(358 054 713)	(1 186 745 113)
At end of the year	9 528 201	367 582 914

Deferred tax asset at 31 December 2018 is analysed as follows:

	2018 K	2017 K
Accelerated depreciation for tax purposes	2 524 969 400	2 708 506 217
Tax losses carried forward	(2 515 441 199)	(2 340 923 303)
Deferred tax liability	9 528 201	367 582 914

The Company reported accumulated unrealised exchange gains losses of K 233 million (2017: unrealised exchange losses of K18.6 billion) whose deferred tax liability / asset could have been K70 million (2017: an asset of K 5.6 billion). These deferred tax liabilities / assets have not been recognised as it is not expected that it will be fully utilised. The Company also reported asset retirement obligation of K790 million (2017: K366 million) whose deferred tax asset could have been K237 million (2017: K117 million) these too have not been recognised into an asset.

11. Trade and other payables

	2018 K	2017 K
Accruals and provisions	750 387 237	303 457 019
Value Added Tax	53 706 810	172 227 113
Other provision	3 108 508	1 243 403
Deferred income	423	2 552 354
	807 202 978	479 479 889

Deferred income relates to rentals received in advance from customers.
The average credit period on purchases of goods and services is 30 days. The Company has financial risk management policies in place to ensure that all payables are settled within the credit time frame.
The accrued expense comprises other accruals, provision for security expenses, withholding tax deducted from suppliers, provision for audit fees, Tevet levies and payables clearing account balances.
No interest is charged on the other payables.
The directors consider that the carrying amount of payables approximates to their fair value.

12. Operating revenue

	2018 K	2017 K
Site rent sharing – Airtel Malawi Limited (fellow subsidiary)	5 975 503 161	6 008 982 053
Site rent sharing – others	1 912 737 678	1 620 899 071
	7 888 240 839	7 629 881 124

13. Operating cost

	2018 K	2017 K
Network diesel expenses	1 852 691 426	1 590 127 584
Passive expenses non shared	756 867 281	879 697 727
Network electricity site non shared	636 932 921	670 728 828
Network rent non shared	618 651 022	386 622 380
Network security expenses	209 790 000	237 460 000
Audit fees	5 996 431	13 090 832
Legal and professional charges	3 881 604	120 483 742
Network stores and spare	72 346 958	86 809 413
Network vehicle repair and maintenance charges	32 081 724	35 614 952
AMC others	-	33 012 090
Network rent warehouse rent	14 413 286	30 175 102
Bad debt provision	81 725 177	20 974 590
Network rent shared	12 665 979	13 417 110
Provision for assets (CWIP)	1 865 105	1 243 403
Bank charges	108 000	-
	4 300 016 914	4 119 457 853

14. Other Income

Other income of K 147 million (2017: K Nil) relates to management fees that Africa Towers NV charged in the previous years and the amount have been waived (reversed).

15. Income tax

	2018 K	2017 K
Deferred taxation credit	(358 054 713)	(1 186 745 113)

The company has accumulated losses carried forward amounting to K8.4 billion as at 31 December 2018 (2017 K7.8 billion). These losses arose in 2014 and will expire in 2020. The company however is profitable and it is probable that sufficient taxable profits will be available against which the unused tax losses can be utilised by the entity.

On this basis, the company has determined that it can recognise deferred tax assets on the tax losses carried forward.

16. Operating lease commitments – as a lessor

The company has entered into operating leases on its passive network infrastructure. Future minimum rentals receivable under non-cancellable operating leases as at 31 December 2018 are as follows:

	2018	2017
	K	K
Tower rentals		
Within one year	5 975 503 000	6 536 652 000
After one year not more than five years	26 006 948 000	34 710 438 000
More than five years	38 596 624 000	41 812 405 000
At the end of the year	70 579 075 000	83 059 495 000

17. Going Concern

The company made a profit of K16.85 billion for the year ended 31 December 2018 against a loss of K2.959 billion for the year ended 31 December 2017. As on 31 December 2018, accumulated losses amounted to K3.166 billion (2017: K20.016 billion) and the company was in net liability position of K15.128 billion (2017: K34.180 billion).
Though there were significant profit during the current year, this profit was as a result of one off waiver of the debt that the company was supposed to pay its related party (Airtel Malawi Limited), otherwise the business operations continue to be in loss making position. These conditions may result in company's inability to realise its assets and discharge its liabilities in the normal course of business, consequently it may not able to maintain its going concern status.

However, the directors are of the opinion that the company is going concern on the basis that the company: -

a. Will generate cash inflows from operations of at least the amount projected in the management's annual operating plan. The generation of sufficient cash flows from operations is dependent on management achieving operational targets on average revenue per site and average operating expenses per site;

b. Will obtain some funding from the third parties; and

c. The company will be able to obtain from the shareholders any additional funding required to meet its obligations as and when they fall due. A commitment to this effect from the shareholders has been obtained by the company.

The directors are confident that the funds described above will be available to the company to support its obligations as required and that it is therefore appropriate to prepare the financial statements on a going concern basis.

18. Financial risk management

18.1 Categorisation of financial instruments

The analysis below sets out the Company's classification of financial assets and liabilities and their fair values including accrued interest:

	2018 K	2017 K
Financial assets at amortised cost		
Trade and other receivables	2 306 907 060	128 288 817
Amount due from related parties	-	39 394 463 081
Cash and cash equivalent	6 380 496	11 626 833
Total financial assets	2 313 287 556	39 534 378 731
Financial liabilities at amortised cost		
Trade and other payables	807 202 978	479 479 889
Provisions	790 611 147	366 513 877
Amounts due to related parties	16 531 005 295	73 672 784 739
Total financial liabilities	18 128 819 420	74 518 778 505

Fair value of financial assets and financial liabilities approximate to their carrying amount as on 31 December 2018 and 31 December 2017 on account of their current nature and they are recognised at amortised cost as on 31 December 2018 and 31 December 2017.

The Company has exposure to the following risks arising from its transactions in financial instruments:

- Capital risk
- Foreign currency risk
- Interest rate risk
- Credit risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for identification, measurement, monitoring and controlling risk, and the Company's management of capital. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to financial statements.

18. Financial risk management (Continued)

18.2 Risk Management

(a) *Capital risk management*

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of mainly equity attributable to its equity holders, comprising issued capital, and retained earnings as disclosed in the statement of changes in equity. Though is in capital deficit, the shareholders assured the Company that they will continue to support the operations of the entity.

(b) *Foreign currency risk management*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company primarily transacts business with local parties and in local currency. The Company has not been exposed to foreign exchange risk from any other currency exposures.

The company's policy to manage the foreign currency risk is to settle all its foreign liabilities as they fall due for payment in order to mitigate the risk associated with the Malawi Kwacha depreciating significantly in value against the respective currencies of the suppliers.

At year-end, the Company does not have foreign currency balances.

(c) *Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties.

The Company does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of receivables and cash and cash equivalents recorded in the financial statements, grossed up for any allowances for losses, represents the Company's maximum exposure to credit risk

(d) *Management liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities as they fall due.

Management of liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the entity's short, medium and long term funding and liquidity management requirements. The entity manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

19. Events after reporting period

There have been no material events after the reporting date which would require disclosure in or adjustment to the financial statements for the year ended 31 December 2018.

20. Economy factors

The average of the year-end buying and selling rates of the foreign currencies most affecting the performance of the fund is stated below, together with the increase in the National Consumer Price Index of the year, which represents an official measure of inflation.

	2018	2017
Kwacha/ US Dollar	727.0	734.0
Inflation	9.9%	7.1%

Subsequent to year-end, on 5 July 2019, the above economic factors had moved as follows:

Kwacha/ US Dollar	770.37
Inflation (May 2019)	9.3%

No adjustment arising from the movement of the exchange rates after the year-end have been made in the financial statements.

21. Comparatives

Wherever necessary, certain comparative figures have been reclassified to conform with changes in the presentation in the current year.