

**AIRTEL MALAWI PLC**

Annual Report and Financial Statements for the year ended  
31 December 2019

### ***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.



**Chartered Accountants**

Vilengo Beza

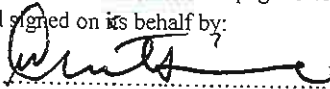
Partner

29 May 2020

AIRTEL MALAWI PLC  
STATEMENT OF FINANCIAL POSITION

	<u>Notes</u>	As at 31 December 2019 K'000	As at 31 December 2018 K'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	61 677 982	50 736 876
Intangible assets	6	735 216	3 471 638
Right of use asset	7	11 177 466	-
Deferred tax asset	9	1 042 996	4 503 265
Other non-current assets	10	7 453 317	45 000
Investment	11	<u>81 000</u>	<u>81 000</u>
<b>Total non-current assets</b>		<u>82 167 977</u>	<u>58 837 779</u>
<b>Current assets</b>			
Inventories	12	50 196	97 581
Trade and other receivables	14.1	20 303 282	28 600 999
Other current assets	14.2	4 204 367	3 974 720
Income tax recoverable	15	1 990 444	6 092 747
Cash and cash equivalents	16	<u>5 674 632</u>	<u>2 478 458</u>
<b>Total current assets</b>		<u>32 222 921</u>	<u>41 244 505</u>
<b>Total assets</b>		<u>114 390 898</u>	<u>100 082 284</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		1 000	1 000
Share premium		398 375	398 375
Retained earnings		<u>15 351 123</u>	<u>3 398 567</u>
<b>Total shareholders' equity</b>		<u>15 750 498</u>	<u>3 797 942</u>
<b>Non-current liabilities</b>			
Borrowings	17	1 029 712	43 040 139
Lease liabilities	18	<u>13 482 604</u>	-
<b>Total non-current liabilities</b>		<u>14 512 316</u>	<u>43 040 139</u>
<b>Current liabilities</b>			
Borrowings	17	29 682 578	354 167
Lease Liabilities	18	2 673 099	-
Trade and other payables	19	45 670 749	40 314 684
Deferred Revenue		5 381 171	3 790 348
Provisions	20	720 487	516 148
Dividends payable	21	<u>-</u>	<u>8 268 856</u>
<b>Total current liabilities</b>		<u>84 128 084</u>	<u>53 244 203</u>
<b>Total liabilities</b>		<u>98 640 400</u>	<u>96 284 342</u>
<b>Total equity &amp; liabilities</b>		<u>114 390 898</u>	<u>100 082 284</u>

The financial statements on pages 9 to 66 were approved and authorised for issue by the Board of Directors on 29 May 2020 and signed on its behalf by:

  
.....  
Chairperson

  
.....  
Director

AIRTEL MALAWI PLC  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
For the year ended 31 December 2019

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**AIRTEL MALAWI PLC**  
**DIRECTORS' REPORT**  
For the year ended 31 December 2019

The directors have pleasure in presenting to members audited financial statements for the year ended 31 December 2019 and report thereon as follows:

**1. REVIEW OF ACTIVITIES**

**Main Business and Operations**

Airtel Malawi Limited was incorporated in Malawi under the Malawi Companies Act 1984 as repealed by the Companies Act 2013 as a private company limited by shares. It was subsequently re-registered as Airtel Malawi Plc ("the company") on 18 November 2019.

The holding company is Bharti Airtel Malawi Holdings BV, incorporated in Netherlands. The shareholders of the company as at 31 December 2019 are Bharti Airtel Malawi Holdings BV, Bharti Airtel Africa BV and J.C. Uneken –va de Vreede. The company was subsequently listed on 24<sup>th</sup> Feb'20.

The registered office of the company is located at Airtel Malawi premises, Airtel Complex, City Centre, Off Convention Drive, P.O. Box 57, Lilongwe, Malawi. The main business of the company consists of the provision of telecommunication services.

**Operations**

Effective 1st January 2019, in accordance with Reserve Bank of Malawi regulation, the Shareholders and Board of Directors of Airtel Malawi Plc & Airtel Mobile Commerce Limited resolved that provision of mobile commerce services, including Airtel Money, shall be operated and provided through Airtel Mobile Commerce Limited (AMCL). Accordingly, the Financial Statements of Airtel Malawi Plc for the year ended 31 December 2019 have been prepared without Airtel Money operational activities. The previous year's figures of 2018 consists of both telecommunication and mobile money services, whereas figures of 2019 include telecommunication services only.

**2. AUTHORISED AND ISSUED SHARE CAPITAL**

The Authorised share Capital of the company as at 31 December 2019 comprises of 11 000 000 000 (2018: 1 000 000) Ordinary shares. The issued and fully paid capital of the company comprises of 11 000 000 000 (2018: 1 000 000) Ordinary shares of K 0.0001 each (2018: K 1 each), total amounting to K1 000 000 (2018: K1 000 000). The company during the year sub divided the ordinary shares in the ratio of 1:11000.

**3. DIRECTORS**

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

<u>Name</u>	<u>Residence</u>	<u>Nationality</u>	<u>Effective Date</u>
1. Alex Chitsime	Malawi	Malawian	13 June 2012
2. Charles Kamoto	Malawi	Malawian	27 July 2015
3. Alok Bafna	Kenya	Indian	4 January 2017
4. Ian Ferrao	Kenya	British	15 October 2019
5. Neelesh Singh	Kenya	Indian	3 May 2019
6. Kayisi Sadala	Malawi	Malawian	12 September 2019
7. Rajeev Sethi	Kenya	Indian	From 27 November 2017 to 13 May 2019
8. Rama Krishna	Kenya	Indian	From 20 March 2019 to 17 September 2019

AIRTEL MALAWI PLC  
**DIRECTORS' REPORT** (Continued)  
For the year ended 31 December 2019

4. **COMPANY SECRETARY**

The secretary of the company is Mrs Hlupekire Chalamba.

5. **FINANCIAL PERFORMANCE**

The results and state of affairs of the company are set out in the accompanying statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes to financial statements, which include a summary of significant accounting policies:

	<u>2019</u> K'000	<u>2018</u> K'000
Revenue	92 823 564	92 921 729
Profit before tax	25 230 502	10 051 141
Income tax expense	9 322 220	7 741 205
Profit for the year	15 908 282	2 309 936

6. **RESERVES**

Details of the reserves of the company are shown in the statement of changes in equity on page 11.


7. **DIVIDENDS**

No dividends has been declared during the year ended 31 December 2019. (For the year ended 31 December 2018: K16 000 million at K16 000 per share).

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. The company recorded a profit after taxation for the year ended 31 December 2019 of K15.9 billion (2018: K2.3 billion) and, as at that date, it had current liabilities of K84.1 billion (2018: K53.2 billion) against current assets of K32.2 billion (2018: K41.2 billion). The company as at 31 December 2019 was in net current liabilities position of K52 billion (2018: K12 billion). Nevertheless, the directors determined that the financial statements should be prepared on a going concern basis (Refer Note 34 of the Financial Statement).

Chairperson: \_\_\_\_\_



Director: \_\_\_\_\_



**AIRTEL MALAWI PLC**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
For the year ended 31 December 2019

The Malawi Companies Act, 2013 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 company as at the end of the financial year and of the operating results for that period.

The Act also requires the directors to ensure that 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 Malawi Companies Act, 2013.

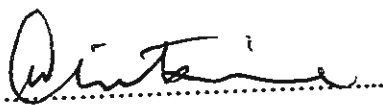
In preparing the financial statements, the directors accept responsibility for the following:


- 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 have made an assessment of the company's ability to continue as a going concern and have no reason to believe that the company is not a going concern in the near future from the date of this statement.

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 2019.

  
.....) CHAIRPERSON

  
.....) DIRECTOR

29<sup>th</sup> MAY 2020



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AIRTEL MALAWI PLC

### *Report on the Financial Statements*

#### *Opinion*

We have audited the accompanying financial statements of Airtel Malawi Plc set out on pages 9 to 66, which comprise the statement of financial position as at 31 December 2019, and statement of comprehensive income, statement of changes in equity and the statement of cash flows for the period 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 Airtel Malawi Plc as at 31 December 2019, and of its financial performance and cash flows for the period 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 sections 290 and 291 of the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (Revised July 2016)*, parts 1 and 3 of the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards) (Revised July 2018)* and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

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

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>Recognition of revenue</b></p> <p>The company's billing systems for voice and data operate on dedicated computer platforms. These systems process millions of pieces of data to electronic records which enables the company to charge their customers, in real time, based on service usage.</p> <p>The operations of these systems are fairly complex with dynamic and intelligent tariffs regimes which provide for various promotions and discounts that are dependent on demand and individual usage profiles. Income is determined taking into account the profile and usage of each individual customer.</p> <p>In addition, prepaid phone units are used over periods that can straddle more than one accounting period. The determination of the correct cut off between what has been used and can be included in income and what has not be used and should be contract liabilities (creditor) is also a key audit consideration.</p> <p>The nature of the systems and billing profiles make this a complex audit area in relation to the auditor assessing completeness and accuracy of income. Accordingly, we consider this a key audit matter.</p> <p>The revenue recognition policy of the company has been disclosed in note 3.5 and the revenue streams analysis is in note 22 to the financial statements.</p>	<p>We assessed the revenue recognition policy and ensured the policy is in line with International Financial reporting Standards and industry practice.</p> <p>We involved our Information Technology (IT) risk specialists in the engagement and:</p> <ul style="list-style-type: none"> <li>• We assessed the general computer controls around the significant revenue and billing systems;</li> <li>• We assessed the design and implementation of the relevant controls;</li> <li>• We evaluated the process for capturing the tariff plans, combined with testing of a sample of related transactions. A key aspect of this exercise was to ensure that tariffs were properly approved;</li> <li>• We obtained downloads of information recorded in the company's billing system and by using advanced data analytics mirror the dynamic, intelligent tariff regimes to independently compute the income for the selected months of the year and thus assess the completeness and accuracy of the figures in the revenue reports;</li> <li>• We also performed analytical reviews for the other months of the year by developing an expectation using total revenue for the recalculated period;</li> <li>• We also performed call testing data / airtime used is similar to the value captured in the system;</li> <li>• We obtained a contract liabilities reconciliation for the expected contract liabilities as at period end and tested the accuracy and completeness of the reconciling items;</li> <li>• We re-computed contract liabilities from Intelligent Network data using Computer Assisted Audit Techniques (CAATS); and</li> <li>• We checked that the contract liabilities in the billing system was being reconciled to the records.</li> </ul> <p>Based on the work performed, we concluded that revenue was properly recorded. We have also assessed the policy and found it to be in line with International Financial reporting Standards and industry practice.</p>

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>Depreciation and capitalisation of property, plant and equipment</b></p> <p>Depreciation of property, plant and equipment requires management estimation. Key judgments relate to the use of appropriate residual values for assets without a ready secondary market and determining appropriate useful lives.</p> <p>The company also continued to invest in significant capital expenditure during the year ended 31 December 2019. The determination of when the asset has been commissioned and brought into use has an impact on the depreciation charged during the year.</p> <p>Further, the significant level of capital expenditure requires consideration of the nature of costs incurred to ensure that capitalisation of property, plant and equipment meets the specific recognition criteria in IAS 16 <i>Property, Plant and Equipment</i>, specifically in relation to constructed assets and the application of the directors' judgement in assigning appropriate useful economic lives.</p> <p>The company's assessment of impairment of assets require the use of judgement to ascertain the economic condition of the assets.</p> <p>As a result, this was noted as a key audit matter.</p> <p>The company's accounting policy in relation to property, plant and equipment is disclosed in note 3.6 to the financial statements.</p>	<p>We assessed the reasonableness of residual values and useful lives in line with our understanding of the business and industry practice. We made a sample of assets and performed the following:</p> <ul style="list-style-type: none"> <li>• We ensured that the residual values and useful lives were correctly determined in line with company policy and industry practice;</li> <li>• We also ensured that depreciation was correctly computed;</li> <li>• Our audit work also included assessing the nature of property, plant and equipment capitalised by the company to test the validity of amounts capitalised and evaluating whether assets capitalised meet the recognition criteria set out in IAS 16 and note 3.6;</li> <li>• Our audit work assessed if capitalisation of assets occurred when the asset was in the location and condition necessary for it to be capable of operating in the manner intended by the company and that a consistent approach was applied by the company across all significant operations. In this regard, we examined compliance to the commission and project completion acceptance processes used by the company;</li> <li>• Furthermore, we challenged the useful economic lives assigned with reference to the company's historical experience, our understanding of the future utilisation of assets by the company and by reference to the depreciation policies applied by third parties operating similar assets; and</li> <li>• For impairment, we assessed the assumptions management applied and reviewed if they are in line with the nature of the industry.</li> </ul> <p>The capitalisation of assets was assessed to be appropriate. We concluded that the useful economic lives assigned to these assets are appropriate.</p>

AIRTEL MALAWI PLC  
STATEMENT OF COMPREHENSIVE INCOME

	<u>Notes</u>	For the year ended 31 December <u>2019</u> K'000	For the year ended 31 December <u>2018</u> K'000
<b>Income</b>			
Operating revenue	22	92 823 564	92 921 729
Other income	26	<u>2 573 942</u>	<u>4 066 048</u>
		95 397 506	96 987 777
<b>Expenses</b>			
Operating expenses	23	(54 263 712)	(55 684 547)
Depreciation and amortization	5, 6&7	<u>(11 299 785)</u>	<u>(8 719 911)</u>
		(65 563 497)	(64 404 458)
<b>Operating profit</b>		<b>29 834 009</b>	<b>32 583 319</b>
Finance cost	25	(3 246 009)	(2 795 555)
Foreign exchange loss	24	(1 357 498)	(650 121)
Waiver of the loan	27	<u>-</u>	<u>(19 086 502)</u>
<b>Profit before tax</b>		<b>25 230 502</b>	<b>10 051 141</b>
Income tax expense	28	<u>(9 322 220)</u>	<u>(7 741 205)</u>
<b>Profit and total comprehensive income for the year</b>		<b><u>15 908 282</u></b>	<b><u>2 309 936</u></b>
Basic and diluted earnings per share (K)	32	<u><u>1.45</u></u>	<u><u>0.21</u></u>

There were no items of other comprehensive income for the year (2018: Nil)

AIRTEL MALAWI PLC  
STATEMENT OF CHANGES IN EQUITY

	Share capital K'000	Share premium K'000	Retained earnings K'000	Total K'000
<b>Year ended 31 December 2019</b>				
At beginning of the year	1 000	398 375	3 398 567	3 797 942
*Adjustments for IFRS 15	-	-	151 415	151 415
**IFRS 16 transition adjustment	-	-	(4 107 141)	(4 107 141)
Total comprehensive income for the year	-	-	15 908 282	15 908 282
<b>At end of the year</b>	<b>1 000</b>	<b>398 375</b>	<b>15 351 123</b>	<b>15 750 498</b>
<b>Year ended 31 December 2018</b>				
At beginning of the year	1 000	398 375	17 088 631	17 488 006
Total comprehensive income for the year	-	-	2 309 936	2 309 936
Dividend declared for 2017 profit	-	-	(16 000 000)	(16 000 000)
<b>At end of the year</b>	<b>1 000</b>	<b>398 375</b>	<b>3 398 567</b>	<b>3 797 942</b>

\* IFRS 15 adjustment

This adjustment relates to a transition of IAS 18 Revenue to IFRS 15 Revenue from contracts with customers.

\*\* IFRS 16 transition adjustment

The company has applied IFRS 16 Leases using the modified retrospective approach on transition from IAS 17 leases to IFRS 16 Leases adoption as at 1 January 2019. The company has recognised the impact as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019) with the impact of deferred tax thereof.

	<u>2019</u> K'000	<u>2018</u> K'000
<b>SHARE CAPITAL</b>		
<b>Authorised Share Capital</b>	<u>1 000</u>	<u>1 000</u>
11 000 000 000 (2018: 1 000 000) Ordinary shares		
<b>Issued and fully paid share Capital</b>	<u>1 000</u>	<u>1 000</u>
11 000 000 000 (2018: 1 000 000) Ordinary shares		

The company during the year ended 31 December 2019 subdivided the ordinary shares in the ratio of 1 to 11 000 hence as at 31 December 2019 the company had 11 000 000 000 ordinary shares (2018: 1 000 000 ordinary shares).

AIRTEL MALAWI PLC  
STATEMENT OF CASH FLOWS

	Notes	For the year ended 31 December <u>2019</u> K'000	For the year ended 31 December <u>2018</u> K'000
<b>Cash flows from operating activities</b>		25 230 502	10 051 141
Profit before taxation			
Adjustments for:			
Depreciation	5&7	11 119 801 (156 978)	8 250 965 (4 090 863)
Interest income	6	179 984	468 946
Amortisation of intangible assets		509 155	532 591
Unrealised exchange losses	25	-	(131 888)
Fair value loss on other financial assets/liability		204 339	(74 812)
Movement in provisions	26	(2 088 517)	31 476
(Profit)/Loss on disposal of plant and equipment	25	<u>3 199 700</u>	<u>2 909 447</u>
Finance cost			
		<u>38 197 986</u>	<u>17 947 003</u>
<b>Operating cash flow before working capital changes</b>			
Decrease in trade and other receivables		16 690 552	26 291 059
Decrease / (increase) in inventories		47 385	(97 581)
Increase in other assets		(7 727 964)	(2 699 468)
Increase in trade and other payables		3 998 496	16 523 098
Increase in deferred revenue		<u>1 590 823</u>	<u>863 133</u>
		<u>52 797 278</u>	<u>58 826 244</u>
<b>Cash generated from operations before tax</b>			
Income tax paid	15	<u>(60 818)</u>	<u>(8 980 644)</u>
		<u>52 736 460</u>	<u>49 845 600</u>
<b>Net cash generated from operating activities</b>			
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment and intangibles	5 & 6 11	(29 147 576) -	(26 608 460) (81 000)
Long term investment in Natswitch		156 978	4 090 863
Interest received		<u>6 480 785</u>	<u>1 365 654</u>
Proceeds from sale of property, plant and equipment			
		<u>(22 509 813)</u>	<u>(21 232 943)</u>
<b>Net cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
Repayment of borrowings	13.2 & 17	(15 077 688)	(46 931 599)
Interest payment		(1 185 864)	(2 909 447)
Dividends paid	21	(8 268 856)	(10 296 144)
Interest on borrowings capitalised	13.2 & 17	-	2 547 952
Principal repayment on lease liability	18	(2 498 065)	-
Borrowings proceeds	13.2 & 17	<u>-</u>	<u>28 828 300</u>
		<u>(27 030 473)</u>	<u>(28 760 938)</u>
<b>Net cash used in financing activities</b>			
		<u>3 196 174</u>	<u>(148 281)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		<u>2 478 458</u>	<u>2 626 739</u>
<b>Cash and cash equivalents at the beginning of the year</b>			
	16	<u>5 674 632</u>	<u>2 478 458</u>
<b>Cash and cash equivalents at the end of the year</b>			

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2019

**1. Corporate information**

Airtel Malawi Limited was incorporated in Malawi under the Malawi Companies Act 1984 as repealed by the Companies Act 2013 as a private company limited by shares. It was subsequently re-registered as Airtel Malawi Plc (“the company”) on 18 November 2019. The registered office of the company is located at Airtel Complex, City Centre, Off Convention Drive, P.O. Box 57, Lilongwe, Malawi.

The holding company is Bharti Airtel Malawi Holdings B.V incorporated in the Netherlands. The main business of the company consists of the provision of telecommunication services.

**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 2019.

**Impact of initial application of IFRS 16 Leases**

The Company has applied IFRS 16 using the modified retrospective approach with effect from January 1, 2019. The company elected to apply the practical expedient included in IFRS 16 and therefore retained its existent assessment under IAS 17 and IFRIC 4 as to whether a contract entered or modified before January 1, 2019 contains a lease.

At inception of a contract, the company assesses a contract as, or containing, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company assesses whether the contract involves the use of an identified asset, the company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and the company has the right to direct the use of the asset.

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.

**Impact of Adopting IFRS 16 Leases**

The impact of this change in accounting policy as at 1 January 2019 has been to decrease retained earnings by K5 879 million. The amount has been adjusted by deferred tax credit of K 1 763 million.

Below are notes relating to the impact of adoption of IFRS 16 leases:

	<u><b>1 Jan 2019</b></u>
	<b>K'000</b>
Right of Use assets IFRS 16- Gross Block Building	175 244
Right of Use assets IFRS 16- Gross Block Plant and Machinery	7 037 583
Right of Use assets IFRS 16- Gross Block Vehicles	171 948
Finance Lease obligation IFRS 16 - Building	(187 925)
Finance Lease obligation IFRS 16 – Plant and Machinery	(12 881 881)
Finance Lease obligation IFRS 16 – Vehicles	<u>(194 041)</u>
<b>Adjustments - retained earnings</b>	<b><u>(5 879 072)</u></b>
Lease rental equalization	8 209
Deferred tax credit IFRS 16 impact (note 9)	<u>1 763 722</u>
<b>Total – retained earnings (transition adjustment)</b>	<b><u><u>(4 107 141)</u></u></b>

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

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 2020, 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:

<b>Effective date</b>	<b>Standard, Amendment or Interpretation</b>
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: <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;</li> <li>• remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and</li> <li>• add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.</li> </ul>
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 <i>Insurance Contracts</i>  IFRS 17 requires insurance liabilities to be measured at a current fulfilment 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 <i>Insurance Contracts</i> 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)**

The directors anticipate that, these Standards and Interpretations in future periods, if applicable, will have no significant impact on the financial statements of the company.

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 3.19 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. Significant accounting policies (Continued)

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 disclosed in note 4 to these financial statements.

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 3.19 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

Company's revenue arises from billing customers for monthly subscription, airtime usage, connections, reconnection fees and sale of simcards, handsets and accessories and interconnection revenue.

Revenue is measured at the fair value of the consideration received or receivable for the sale/provision of goods and services in the ordinary course of the company's activities. Revenue is shown net of value-added tax (VAT), excise duties, discount and rebates.

Revenue is recognised upon transfer of control of promised products or services to the customer at the consideration which the Company has received or expects to receive in exchange of those products or services, net of any taxes / duties, discounts and process waivers. In order to determine if it is acting as a principal or as an agent, the Company assesses whether it is primarily responsible for fulfilling the performance obligation.

In prior years, based on the then available information, the company considered that the average life of customers across its network was less than 12 months and had taken the practical expedient available under IFRS15 not to defer customer acquisition costs on recognition and amortize over the average anticipated customer life, but to expense customer acquisition costs as incurred. With increased and more reliable data the company now estimates that the historic average customer life is longer than 12 months and believes that its churn rate provides the best indicator of anticipated average customer life and has updated its policy on cost deferral recognition in these financial statements.

Service revenues include amounts invoiced for usage charges, fixed monthly subscription charges and very small aperture terminal ('VSAT')/internet usage charges, bandwidth services, roaming charges, activation fees, processing fees and fees for value added services ('VAS'). Service revenues also include revenues associated with access and interconnection for usage of the telephone network of other operators for local, domestic long distance and international calls and data messaging services.

AIRTEL MALAWI PLC  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
For the year ended 31 December 2019

3. Significant accounting policies (Continued)

3.5 Revenue (Continued)

Service revenues are recognised as the services are rendered and are stated net of discounts, waivers and taxes. Revenues from pre-paid cards are recognised based on actual usage. Subscription charges is being recognised over the estimated customer relationship period or subscription pack validity period, whichever is lower. Activation revenue is recognized upfront.

Service revenues from the internet and VSAT business comprise revenues from registration, installation and provision of internet and VSAT services. Registration fee and installation charges is recognized upfront. Service revenue is recognised from the date of satisfactory installation of equipment and software at the customer site and provisioning of internet and VSAT services.

Revenues from national and international long distance operations comprise revenue from voice services which are recognised on provision of services while revenue from bandwidth services (including installation) is recognised over the period of arrangement.

Deferred revenue includes amount received in advance from customers which would be recognised over the periods when the related services are expected to be rendered. Unbilled revenue represent revenues recognised from the bill cycle date to the end of each month. These are billed in subsequent periods based on the terms of the billing plans.

Equipment sales mainly pertain to sale of telecommunication equipment and related accessories for which revenue is recognised when the control of equipment is transferred to the customer i.e. transferred at a point in time.

Revenue from mobile money services arises from billing customers for P2P (person to person offnet) transactions; cash out (withdrawal) transactions, Airtel Money to bank transactions, collections of funds for customers purchasing goods and services using Airtel Money and commissions on sale of airtime and business revenue arising from bulk payment transactions.

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.

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

3.6 **Property Plant and equipment** (Continued)

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:

	<b>Years</b>
Buildings	20
Network equipment	3-25
Computer equipment	3
Furniture and equipment	5
Vehicles	5

The company re-assesses both the useful lives and residual values 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*.

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.

Property plant and equipment in the course of construction is carried at cost, less any accumulated impairment and presented separately as capital work-in-progress ('CWIP') including capital advances in the statement of financial position until capitalized

3.7 **Intangible assets**

The company's intangible asset comprise of computer software and licenses. These are recognised as an asset when it is probable that future economic benefits from the asset will flow to the entity and the cost of the license can be reliably measured.

Licenses are initially measured at cost and subsequently amortised on a straight-line basis over their useful lives. Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation periods are reviewed annually and adjusted prospectively as required. Gains or losses arising from derecognition of licenses are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised. Licenses are amortised over a period of the licence (10 years).

Computer software acquired by the company is recognised initially at cost. Cost includes all directly attributable costs in order to bring the asset into a state for its intended use. Computer software is measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Amortisation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful life for current and comparative periods for acquired computer software is 5 years

3. Significant accounting policies (Continued)

3.8 Impairment of non-financial assets

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible 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 unit) 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.

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 Leases

The company has applied IFRS 16 using the modified retrospective approach with effect from 1 January 2019. The company elected to apply the practical expedient included in IFRS 16 and therefore retained its existent assessment under IAS 17 and IFRIC 4 as to whether a contract entered or modified before January 1, 2019 contains a lease.

At inception of a contract, the company assesses a contract as, or containing, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company assesses whether the contract involves the use of an identified asset, the company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and the Company has the right to direct the use of the asset.

3. Significant accounting policies (Continued)

3.9 Leases (Continued)

a. Company as a lessee

On initial application of IFRS 16, the company recognised a lease liability measured at the present value of all the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January, 2019 whereas the company has elected to measure right-of-use asset at its carrying amount as if IFRS 16 had been applied since the lease commencement date, but discounted using the lessee's incremental borrowing rate at 1 January, 2019. The company has elected not to recognise a lease liability and a right-of-use asset for leases for which the lease term ends within twelve months of 1 January, 2019 and has accounted for these leases as short-term leases.

For new lease contracts, the company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee in the statement of financial position. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments) and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate.

Subsequently, the lease liability is measured at amortised cost using the effective interest method. The corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the related right-of-use asset has been reduced to zero.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs.

Subsequent to initial recognition, right-of-use asset are stated at cost less accumulated depreciation and any impairment losses and adjusted for certain remeasurements of the lease liability. Depreciation is computed using the straight-line method from the commencement date to the end of the useful life of the underlying asset or the end of the lease term, whichever is shorter. The estimated useful lives of right-of-use assets are determined on the same basis as those of the underlying property and equipment.

In the statement of financial position, the right-of-use assets and lease liabilities are presented separately.

When a contract includes lease and non-lease components, the Company allocates the consideration in the contract on the basis of the relative stand-alone prices of each lease component and the aggregate stand-alone price of the non-lease components.

3. Significant accounting policies (Continued)

a. Company as a lessee (Continued)

**Short-term leases and leases of low-value assets**

The Company has elected not to recognise right-of-use assets and lease liabilities for short term leases of machinery that have a lease term of 12 months or less and leases of low value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

b. Company as a lessor

Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under a finance lease are recognised as receivables at an amount equal to the net investment in the leased assets. Finance lease income is allocated to the periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the finance lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

The Company enters into 'Indefeasible right to use' ('IRU') arrangements wherein the right to use the assets is given over the substantial part of the asset life. However, as the title to the assets and the significant risks associated with the operation and maintenance of these assets remains with the Company, such arrangements are recognised as operating lease. The contracted price is recognised as revenue during the tenure of the agreement. Unearned IRU revenue received in advance is presented as deferred revenue within liabilities in the statement of financial position.

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. Significant accounting policies (Continued)

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.

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. Significant accounting policies (Continued)

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.

(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.

All exchange differences are taken to profit and loss.

3.13 Retirement benefits

Pension are provided for local employees under a defined contribution pension scheme to which both the company and employees contribute. The company has no further obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The company contributes to a defined contribution pension scheme that is administered by NICO pension fund.

3.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first in first out method (FIFO), and includes all expenditure incurred in bringing the inventories to their present value and condition, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

The amount of any write down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write down or loss occurs.

3.15 Dividend

Dividends payable to the company's shareholders are charged to equity in the period in which they are declared.

3. Significant accounting policies (Continued)

3.16 Earnings per share

The Company presents the Basic and Diluted EPS data. Basic EPS is computed by dividing the profit for the period attributable to the shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted EPS is computed by adjusting, the profit for the year attributable to the shareholders and the weighted average number of shares considered for deriving Basic EPS, for the effects of all the shares that could have been issued upon conversion of all dilutive potential shares. The dilutive potential shares are adjusted for the proceeds receivable had the shares been actually issued at fair value. Further, the dilutive potential shares are deemed converted as at beginning of the period, unless issued at a later date during the period.

3.17 Share capital and share premium

Issued ordinary shares are classified as 'share capital' in equity when the Company has an un-conditional 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.

3.18 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

3.19 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.

3.19.1. 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. Significant accounting policies (Continued)

3.19 *Financial instruments* (Continued)

3.19.2. 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.

3.19.3 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,

3. Significant accounting policies (Continued)

3.19 Financial instruments (Continued)

3.19.3 Amortised cost and effective interest method (Continued)

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.

3.19.4 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.

3.19.5 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.

3. Significant accounting policies (Continued)

3.19 Financial instruments (Continued)

3.19.5 Impairment of financial assets (Continued)

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.

3.19.5.1. 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.

3. Significant accounting policies (Continued)

3.19 Financial instruments (Continued)

3.19.5 Impairment of financial assets (Continued)

3.19.5.1. Significant increase in credit risk (Continued)

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.

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 is 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.

3.19.5.2. 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. Significant accounting policies (Continued)

3.19 *Financial instruments* (Continued)

3.19.5 Impairment of financial assets (Continued)

3.19.5.3. **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.

3.19.5.4. **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. 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.

3.19.5.5. **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.

3. Significant accounting policies (Continued)

3.19 Financial instruments (Continued)

3.19.5 Impairment of financial assets (Continued)

3.19.5.5. Measurement and recognition of expected credit losses (Continued)

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.

3.19.5.6. 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.

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.

3.20. Cash and cash equivalents

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.

3.21 Financial liabilities and equity instruments

3.21.1 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.

3.21.2 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.



3. Significant accounting policies (Continued)

3.21 Financial liabilities and equity instruments (Continued)

3.21.2 Equity instruments (Continued)

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.

3.21.3 **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.

3.21.4 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.

3.21.5 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 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. Significant accounting policies (Continued)

3.21 Financial liabilities and equity instruments (Continued)

3.21.6 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.

3.22 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.

3.23 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.

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.

3.23.1 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.

3. Significant accounting policies (Continued)

3.23 Hedge accounting (Continued)

3.23.1 Fair value hedges (Continued)

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.

3.23.2 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 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.

3.24 Provisions

Provisions are recognised when the company 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.

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

3.24 **Provisions** (Continued)

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.

3.25 **Contingencies**

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.

4. **Critical accounting judgements and key sources of estimation uncertainty**

4.1 **Critical accounting judgements made by management**

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.

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

4.2 **Key sources of estimation uncertainty (Continued)**

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 (see note 33 "Contingent liabilities" to the financial statements). Judgement is necessary to assess the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of any financial settlement. The inherent uncertainty of such matters means that actual losses may materially differ from estimates.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

**5. Property, plant and equipment**

	Network equipment K'000	Office equipment K'000	Land and buildings K'000	Motor vehicles K'000	Leaschold improvements K'000	Capital work in progress K'000	Total K'000
<b>For the year ended 31 December 2019</b>							
<b>Cost</b>							
At the beginning of the year	69 016 142	17 857 571	4 633 956	341 812	437 113	11 369 446	103 656 040
Airtel Mobile Commerce Limited	-	(332 483)	-	-	-	-	(332 483)
Additions	17 366 835	2 291 559	18 012	286	300	5 165 631	24 842 623
Transfers to Malawi Towers Limited	-	-	-	-	-	(1 359 456)	(1 359 456)
Sale of 90 Towers to Malawi Towers Limited	(3 322 102)	-	(239 526)	-	-	-	(3 322 102)
Reclassification with ROU asset	(7)	-	-	-	-	-	(7)
Reclassifications with intangible assets	1 189 505	-	-	-	-	-	1 189 505
Reclassifications	(557 252)	557 252	-	-	-	-	-
	<u>83 693 121</u>	<u>20 373 899</u>	<u>4 412 442</u>	<u>342 098</u>	<u>437 413</u>	<u>15 175 621</u>	<u>124 434 594</u>
At the end of the year							
<b>Accumulated depreciation</b>							
At the beginning of the year	35 479 771	15 232 507	1 560 204	323 845	322 837	-	52 919 164
Airtel Mobile Commerce Limited	-	(238 611)	-	-	-	-	(238 611)
Charge for the period	7 705 769	1 435 291	207 117	13 148	49 039	-	9 410 364
Sale of 90 towers to Malawi Towers Limited	(383 161)	-	-	-	-	-	(383 161)
Reclassifications with intangible assets	(331 194)	1 353 025	5 485	4 857	16 683	-	1 048 856
	<u>42 471 185</u>	<u>17 782 212</u>	<u>1 772 806</u>	<u>341 850</u>	<u>388 559</u>	<u>-</u>	<u>62 756 612</u>
At end of the year							
<b>NBV for 31 December 2019</b>	<u>41 221 936</u>	<u>2 591 687</u>	<u>2 639 636</u>	<u>248</u>	<u>48 854</u>	<u>15 175 621</u>	<u>61 677 982</u>
<b>NBV 31 December 2018</b>	<u>33 536 371</u>	<u>2 625 064</u>	<u>3 073 752</u>	<u>17 967</u>	<u>114 276</u>	<u>11 369 446</u>	<u>50 736 876</u>

A register of land and buildings giving details required under the Companies Act 2013, Schedule 3, and Section 16 is maintained at the registered office of the company and is open for inspection by members or their duly authorized agents.

\*Addition in CWIP are shown net of capitalization.

**AIRTEL MALAWI PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

5. Property, plant and equipment (Continued)	Network equipment K'000	Office equipment K'000	Land and buildings K'000	Motor vehicles K'000	Leasehold improvements K'000	Capital work in progress K'000	Total K'000
<b>For the year ended 31 December 2018</b>							
<b>Cost</b>							
At the beginning of the year	54 059 909	16 676 150	4 633 956	341 812	437 112	2 877 783	79 026 722
Additions	15 037 573	1 194 726	-	-	-	(1 313 628)	26 443 245
Transfers to Malawi Tower Limited	-	(13 305)	-	-	-	(94 644)	(1 313 628)
Disposals	(81 339)	-	-	-	-	-	(94 644)
Elimination of non-existing assets	(1)	-	-	-	-	(405 655)	(405 655)
At the end of the year	<u>69 016 142</u>	<u>17 857 571</u>	<u>4 633 956</u>	<u>341 812</u>	<u>437 113</u>	<u>11 369 446</u>	<u>103 656 040</u>
<b>Accumulated depreciation</b>							
At the beginning of the year	28 763 031	14 014 645	1 318 694	270 423	267 220	450 982	45 084 995
Charge for the year	6 671 406	1 228 994	241 411	53 538	55 616	-	8 250 965
Disposal	-	(11 132)	-	-	-	-	(11 132)
Reclassification and elimination	45 334	-	99	(116)	-	(450 982)	(405 664)
Of non-existing	<u>35 479 771</u>	<u>15 232 507</u>	<u>1 560 204</u>	<u>323 845</u>	<u>322 837</u>	<u>-</u>	<u>52 919 164</u>
At end of the year	<u>33 536 371</u>	<u>2 625 064</u>	<u>3 073 752</u>	<u>17 967</u>	<u>114 276</u>	<u>11 369 446</u>	<u>50 736 876</u>
<b>NBV 31 December 2018</b>							

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

	<u>2019</u> K'000	<u>2018</u> K'000
<b>6. Intangible assets</b>		
<b>Cost</b>		
At the beginning of the year	6 654 777	6 489 562
Transfer to Airtel mobile commerce Limited	(835 696)	-
Additions	-	165 215
Reclassification to Network equipment	(1 189 505)	-
Reclassification to prepaid expense	<u>(2 829 576)</u>	<u>-</u>
	<u>1 800 000</u>	<u>6 654 777</u>
<b>Amortisation</b>		
At the beginning of the year	3 183 139	2 714 193
Transfer to Airtel mobile commerce Limited	(835 696)	-
Charge for the year	179 984	468 946
Reclassification to prepaid expense	(413 787)	-
Reclassification to network equipment	<u>(1 048 856)</u>	<u>-</u>
	<u>1 064 784</u>	<u>3 183 139</u>
	<u>735 216</u>	<u>3 471 638</u>
Net book value		

Included in the intangible assets are the software for the billing system that as at year-end were fully depreciated.

Macra Telecom License fee covers a period of 10 years from March 2014. Cost of the fee was K1.8 billion.

The company's intangible asset of indefeasible right of use (IRU) of K 2 830 million with its related amortisation of K413 million that were in prior year recognised as intangible assets and that have a long term period have been reclassified to prepaid expenses. Refer to note 10 and 14 to the financial statements.



AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

7. **Right of use assets**

	<u>2019</u> K'000	<u>2018</u> K'000
<b>Costs</b>		
Gross block Plant and Machinery	12 300 185	-
Gross block- Leasehold land	239 526	-
Gross block – Buildings	175 244	-
Gross block - Vehicles	<u>171 948</u>	<u>-</u>
	<u>12 886 903</u>	<u>-</u>
<b>Amortisation</b>		
Gross block Plant and Machinery	1 393 444	-
Gross block- Leasehold land	28 640	-
Gross block – Buildings	115 405	-
Gross block - vehicles	<u>171 948</u>	<u>-</u>
	<u>1 709 437</u>	<u>-</u>
<b>Net right of use assets</b>	<u><u>11 177 466</u></u>	<u><u>-</u></u>

The company leases several offices, vehicles, network equipments and tools. The Company assesses a contract as, or containing, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. When a contract includes lease and non-lease components, the company allocates the consideration in the contract on the basis of the relative stand-alone prices of each lease component and the aggregate stand-alone price of the non-lease components. Detailed policies have been stated on note 3.9 to the financial statements.

8. **Regulatory costs**

	<u>2019</u> K'000	<u>2018</u> K'000
Net operating revenue	81 260 370	80 970 918
MACRA levy at 5%	4 063 019	4 048 546
Spectrum & frequency fees	<u>3 514 054</u>	<u>3 240 308</u>
<b>Total regulatory cost (Note 23)</b>	<u><u>7 577 073</u></u>	<u><u>7 288 854</u></u>

As part of the licensing agreement, the company pays the Malawi Government, through the Malawi Communication Regulatory Authority (MACRA), a levy at 5% of Net Operating Revenue per annum as a royalty.

	<u>2019</u> K'000	<u>2018</u> K'000
<b>Interconnect Call Termination Rate Cost (8 cents)</b>	<u><u>1 488 184</u></u>	<u><u>2 336 875</u></u>

The company collects interconnection fees on behalf of the Government at rate of 8 Cents per minute

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

9. Deferred tax asset

For the year ended	Asset (liability)	(Charged)/ credited to income statement / equity	Closing balance
31 December 2019	<u>Opening balance</u> K'000	<u>K'000</u>	<u>K'000</u>
Property, plant and equipment	(4 229 276)	(880 795)	(5 110 071)
Provision and fair value loss	2 141 471	1 977 122	4 118 593
Carry forward tax losses	948 078	(948 078)	-
Unrealised exchange losses and deferred revenue	<u>5 642 992</u>	<u>(3 608 518)</u>	<u>2 034 474</u>
	<u>4 503 265</u>	<u>(3 460 269)</u>	<u>1 042 996</u>
<u>Deferred tax movement analysis</u>		1 763 722	
Transition adjustment IFRS 16		(64 892)	
Transition adjustment IFRS 15		<u>(5 159 099)</u>	
Charged to income statement (note 28)		<u>(3 460 269)</u>	
Total movement as above			
For the year ended	Asset (liability)	(Charged)/ credited to income statement / equity	Closing balance
31 December 2018	<u>Opening balance</u> K'000	<u>K'000</u>	<u>K'000</u>
Property, plant and equipment	(2 630 890)	(1 598 386)	(4 229 276)
Provision and fair value loss	1 728 074	413 397	2 141 471
Carry forward tax losses	-	948 078	948 078
Unrealised exchange losses and deferred revenue	<u>13 147 286</u>	<u>(7 504 294)</u>	<u>5 642 992</u>
	<u>12 244 470</u>	<u>(7 741 205)</u>	<u>4 503 265</u>

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
 For the year ended 31 December 2019

10. **Other non-current assets**

	<u>2019</u> K'000	<u>2018</u> K'000
Security deposit *	45 000	45 000
Prepayments (Bandwidth and customer acquisition costs)	<u>7 408 317</u>	<u>-</u>
Total other non-current assets	<u>7 453 317</u>	<u>45 000</u>

\*In February 2014, as part of the licensing agreement, the company provided a guarantee to the Authority (MACRA) at the amount of K 45 million (US\$100,000) to secure the performance of the obligations contained in the Licence. In the event that the Authority imposes a penalty upon the company for any breach of the Licence conditions, the Authority shall have the right to draw upon the performance guarantee.

11. **Long term investment in National Switch Limited**

Long-term investment relate to shares in National Switch Limited. In 2018, the company invested by acquiring 30 million shares (8.33%) of National Switch Limited at price of K2.70 per share. In addition, the company also paid a joining fee of USD 50,000 that was expensed off in the year of payment.

12. **Inventories**

	<u>2019</u> K'000	<u>2018</u> K'000
Handsets	74 432	170 800
Phone accessories	162 606	91 645
Provision	<u>(186 842)</u>	<u>(164 864)</u>
	<u>50 196</u>	<u>97 581</u>

The company has provided fully for all handsets and accessory inventories over 180 days.

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

**13. Related party disclosures**

**13.1 Amount due from other related parties**

<u>Name of the related party</u>	<u>Relationship</u>	<u>2019</u> K'000	<u>2018</u> K'000
Airtel Money Trust (Mw)	Fellow subsidiary	71 776	2 216 217
Malawi Towers Limited	Fellow subsidiary	9 152 079	15 719 623
Airtel Tanzania Plc	Fellow subsidiary	1 892 262	2 056 972
Bharti Airtel (UK) Limited	Fellow subsidiary	949 136	298 574
Airtel Gabon S.A	Fellow subsidiary	2	-
Airtel Networks Limited	Fellow subsidiary	46 334	250 078
	Joint Venture of		2
Airtel (Ghana) Limited	Fellow subsidiary	58 828	58 739
NXTRA Data Limited	Fellow subsidiary	-	738
Airtel Tchad S.A.	Fellow subsidiary	761	9 911
Airtel (Seychelles) Limited	Fellow subsidiary	<u>10 299</u>	<u>9 911</u>
		<u>12 181 477</u>	<u>20 610 854</u>

Amount due from Malawi Towers Limited arose on sale of passive network equipment to Malawi Towers in September 2014 for K 20,570 million. Interest up to 2016 was charged at 10% per annum on the amount due and effective January 2017, the interest is charged at commercial lending rates by the banks less 2%. Prior to 2018, Malawi Towers Limited had cumulative loan balance of which Airtel Malawi Plc in the year ended 31 December 2018 waived K.19 billion as further disclosed in note 27 to the financial statements.

**13.2 Bharti Airtel Malawi Holdings B.V. borrowings**

The movement is analysed as follows: -

	<u>2019</u> K'000	<u>2018</u> K'000
At the beginning of the year	14 127 688	58 417 062
Interest charges	991 631	1 939 546
Repayments	(14 020 288)	(32 115 890)
Credit notes and other adjustments	-	(14 314 226)
Exchange difference	<u>162 040</u>	<u>201 196</u>
<b>Refer to note 17</b>	<u>1 261 071</u>	<u>14 127 688</u>
Current portion	231 359	246 384
Non-current portion	<u>1 029 712</u>	<u>13 881 304</u>

As at 31 December 2019, the debt denominated in US Dollars amounted to USD 2 million (2018: USD 19 million) is unsecured and interest is charged at Libor plus 450 bps. The loan drawn at inception was USD 74,397,260 which was repayable by 31 December 2020. On 29th August 2017 the agreement was amended with revised loan amount of USD 78,046,865. The loan is repayable by 31 December 2021.

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
For the year ended 31 December 2019

**13. Related party disclosures** (Continued)

**13.3 Amount due to other related parties**

<u>Name of related party</u>	<u>Relationship</u>	<u>2019</u> <u>K'000</u>	<u>2018</u> <u>K'000</u>
Bharti Airtel (France) SAS	Fellow subsidiary	783 083	174 537
Airtel Gabon S.A.	Fellow subsidiary	4	12
Network i2i Ltd.	Step up Parent	763 303	368 462
Bharti Airtel Limited	Step up Parent	11 524	126 088
Bharti Airtel Services Limited	Fellow subsidiary	45 153	53 492
Centum Learning Limited	Other related party	30 582	52 167
Nxtra Data Limited	Fellow subsidiary	30 030	-
Emtel Mauritius	Other related party	23	-
Bharti Airtel Sri Lanka (Private) Limited	Fellow subsidiary	13	7
Bharti Airtel Malawi Holdings B.V.	Holding Company	2 838 829	2 576 458
Airtel Mobile Commerce Limited	Fellow subsidiary	4 774 357	-
Bharti Airtel International (Netherlands) B.V.	Step up Parent	2 303 453	1 430 161
Airtel Networks Kenya Limited	Fellow subsidiary	189 353	1 047 156
Airtel Networks Zambia Plc	Fellow subsidiary	673 837	760 078
Airtel Uganda Limited	Fellow subsidiary	114 575	113 538
Airtel Rwanda Limited	Fellow subsidiary	107 807	107 328
Airtel Congo S.A.	Fellow subsidiary	84 282	55 212
Airtel Madagascar S.A.	Fellow subsidiary	21 483	26 245
Airtel Congo (RDC) S.A.	Fellow subsidiary	2 560	2 120
Celtel Niger S.A.	Fellow subsidiary	83	16
Airtel Mobile Commerce Zambia Limited	Fellow subsidiary	-	49 433
Airtel Mobile Commerce Rawanda Limited	Fellow subsidiary	-	23 226
Airtel Mobile Commerce Tanzania Limited	Fellow subsidiary	-	118 134
		<u>12 774 334</u>	<u>7 083 870</u>

Other related parties' though not 'Related Parties' as per the definition under IAS 24, 'Related party disclosures', have been included by way of a voluntary disclosure, following the best corporate governance practices.

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

**13. Related party disclosures (Continued)**

**13.4 Related party transactions**

	<u>2019</u> K'000	<u>2018</u> K'000
Management fees (note 23)	2 479 786	2 115 152
Interest expense on related party borrowings (note 13.2)	991 631	1 939 546
Interest income on related party receivables	-	1 574 028
Expense paid by related party	182 362	292 412
Other payments made to the related party	7 723 152	-
Payments received from related party	17 580 962	-
Loan repayment (note 13.2)	14 020 288	32 115 890
Executive directors and senior management earnings (note 23)	1 335 073	1 310 269
Sales of assets to related party	5 947 006	-
Sales of services to related party	12 232 080	-
Purchase of services from related party	18 754 377	-
Dividend paid to shareholders (note 21)	8 268 856	10 296 144
Rent expenses on sites owned by related party	<u>6 078 352</u>	<u>5 975 503</u>

**14. Trade and other receivables and other current assets**

**14.1 Trade and other receivables**

	<u>2019</u> K'000	<u>2018</u> K'000
Trade receivables	13 997 321	13 147 322
Less: provision for impairment losses	<u>(5 883 214)</u>	<u>(5 173 955)</u>
	8 114 107	7 973 367
Amount due from related parties (Note 13.1)	12 181 477	20 610 854
Other receivables	<u>7 698</u>	<u>16 778</u>
	<u>20 303 282</u>	<u>28 600 999</u>

**14.2 Other current assets**

Prepayment	3 827 065	3 974 720
Prepayment - Bandwidth	<u>377 302</u>	<u>-</u>
	<u>4 204 367</u>	<u>3 974 720</u>

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
 For the year ended 31 December 2019

**14. Trade and other receivables (Continued)**

Prepayments relate to amounts that the company paid in advance for various services while other receivables relate to staff advances and other advances

In prior years, based on the then available information, the company considered that the average life of customers across its network was less than 12 months and had taken the practical expedient available under IFRS15 not to defer customer acquisition costs on recognition and amortize over the average anticipated customer life, but to expense customer acquisition costs as incurred. With increased and more reliable data the company now estimates that the historic average customer life is longer than 12 months and believes that its churn rate provides the best indicator of anticipated average customer life and has updated its policy on cost deferral recognition in these financial statements.

The prepaid- related to customer acquisition costs amounted to K 763 million (2018 K Nil)

No interest is charged on trade and other receivables.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value due to their short term nature.

Expected credit losses of receivables is further analysed as follows:-

	<u>2019</u> K'000	<u>2018</u> K'000
At the beginning of the year	5 173 955	4 369 241
Loss allowance recovered	(328 447)	-
Change in loss allowances	<u>1 037 706</u>	<u>804 714</u>
Total	<u>5 883 214</u>	<u>5 173 955</u>

The company's credit risk is primarily in respect of its trade receivables. The company's credit period is 60 days.

The expected credit loss (ECL) is mainly based on the ageing of the receivable balances and historical experience. The receivables are assessed on an individual basis or grouped into homogeneous groups and assessed for impairment collectively, depending on their significance. Moreover, trade receivables are written off on a case to case basis if deemed not to be collectible on the assessment of the underlying facts and circumstances.

**14. Trade and other receivables (Continued)**

The company uses a provision matrix to measure the expected credit loss of trade receivables. Refer below note for details on the impairment of trade receivables. Based on the industry practices and the business environment in which the entity operates, management considers that the trade receivables are credit impaired if the payments are more than 90 days past due (Interconnect more than 9 months).

The company performs on-going credit evaluations of its customers' financial condition and monitors the credit-worthiness of its customers to which it grants credit in its ordinary course of business.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amount due. Where the financial asset has been written-off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit and loss.

The entity writes off a trade receivable 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 when the trade receivables has crossed the law of limitation period past due, whichever occurs earlier.

As the entity'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 Entity's different customer base.

For the purposes of grouping, Airtel's receivables are grouped based on the shared credit risk characteristics. Airtel identified nine (9) groups of debtors as follows:

1. Airtel shops; 2. Channel partner; 3. Enterprise; 4. Interconnect; 5. Lease line;
6. Postpaid; 7. Roaming; 8. Site sharing and
9. All other remaining receivables.

\* Due to past experience, Interconnect, Receivables have zero default rates up to 360days and only 45% allowance rate is applied above 360days due to the nature of the agreements.

At 31 December 2019, the lifetime expected loss provision for trade receivables is as follows:

Expected credit loss rate	1-30days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	>360 days
Airtel shops	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Channel partner	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%
Enterprise	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Interconnect*	0.0%	0.0%	0.0%	0.0%	0.0%	60.0%
Lease line	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Postpaid	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Roaming	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Site sharing	0.0%	0.0%	0.0%	39.0%	3.0%	2.0%
Other receivables**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

\*\* Other receivables mainly include unapplied receipts hence since the amounts have been received and mostly in credit, as such they have zero default rates. The company expects no change to this in the foreseeable future hence no expected credit losses for the same is determined.



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**14. Trade and other receivables (Continued)**

Gross carrying amount	1-30days K'000	31 to 60 days K'000	61 to 90 days K'000	91 to 180 days K'000	181 to 360 days K'000	> 360 days K'000	Totals K'000
Airtel shops	72	32	2 438	(9 336)	3 783	58 289	55 278
Channel partner	347 425	(2 586)	(1 735)	(2 271)	(2 918)	363 749	701 664
Enterprise	297 468	92 926	79 840	489 331	116 483	542 944	1 618 992
Interconnect*	588 628	229 180	221 320	905 982	648 493	1 451 726	4 045 329
Lease line	150 973	121 089	334 944	246 466	292 387	333 570	1 479 429
Postpaid	127 062	259 404	78 682	210 903	149 726	1 590 763	2 416 540
Roaming	70 215	28 502	33 303	7 357	8 279	221 524	369 180
Site sharing	-	-	72 926	130 338	41 884	2 939 725	3 184 873
Other receivables**	126 036	-	-	-	-	-	126 036
<b>Total</b>	<b>1 707 879</b>	<b>728 547</b>	<b>821 718</b>	<b>1 978 770</b>	<b>1 258 117</b>	<b>7 502 290</b>	<b>13 997 321</b>

Expected credit losses	1-30days K'000	31 to 60 days K'000	61 to 90 days K'000	91 to 180 days K'000	181 to 360 days K'000	>360 days K'000	Totals K'000
Airtel shops	-	-	-	4 756	3 783	58 289	66 828
Channel partner	-	-	-	-	-	363 749	363 749
Enterprise	-	-	-	489 331	116 483	542 944	1 148 758
Interconnect*	-	-	-	-	-	1 172 808	1 172 808
Lease line	-	-	-	246 466	292 387	333 570	872 423
Postpaid	-	-	-	210 903	149 726	1 590 763	1 951 392
Roaming*	-	-	-	7 357	8 279	221 527	237 163
Site sharing	-	-	-	1 568	2 283	66 242	70 093
Other receivables	-	-	-	-	-	-	-
<b>Totals</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>960 381</b>	<b>572 941</b>	<b>4 349 892</b>	<b>5 883 214</b>

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

Expected credit loss rate	1-30days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	>360 days
Airtel shops	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Channel partner	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Enterprise	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Interconnect*	0.0%	0.0%	0.0%	0.0%	0.0%	45.0%
Lease line	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Postpaid	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Roaming	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
Site sharing	0.0%	0.0%	0.0%	39.0%	3.0%	2.0%
Other receivables**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019  
**14. Trade and other receivables (Continued)**

\*\* Other receivables mainly include unapplied receipts hence since the amounts have been received and mostly in credit as such they have zero default rates. The company expects no change to this in the foreseeable future hence no expected credit losses for the same is determined.

Gross carrying amount	1-30days K'000	31 to	61 to	91 to	181 to	> 360	Totals K'000
		60 days K'000	90 days K'000	180 days K'000	360 days K'000	days K'000	
Airtel shops	43 188	90 729	80 131	116 313	38 306	498	369 165
Channel partner	509 670	(76)	-	-	11	363 749	873 354
Enterprise	56 366	115 594	48 335	185 056	250 969	519 828	1 176 148
Interconnect*	1 136 814	724 915	242 113	139 560	127 360	2 979 566	5 350 328
Lease line	106 226	98 755	117 437	191 529	291 442	228 943	1 034 332
Postpaid	359 959	80 283	329 752	103 208	112 631	1 152 854	2 138 687
Roaming	2 252	26 582	81 646	23 523	11 830	167 287	313 120
Site sharing	-	-	25 381	27 242	564 782	2 339 482	2 956 887
Other receivables**	(1 014 778)	(22 876)	(21 036)	(6 009)	-	-	(1 064 699)
<b>Total</b>	<u>1 199 697</u>	<u>1 113 906</u>	<u>903 759</u>	<u>780 422</u>	<u>1 397 331</u>	<u>7 752 207</u>	<u>13 147 322</u>
Expected credit losses	1-30days K'000	31 to	61 to	91 to	181 to	>360	Totals K'000
		60 days K'000	90 days K'000	180 days K'000	360 days K'000	days K'000	
Airtel shops	-	-	-	116 313	38 306	498	155 117
Channel partner	-	-	-	-	11	363 749	363 760
Enterprise	-	-	-	185 056	250 969	519 828	955 853
Interconnect*	-	-	-	-	-	1 340 805	1 340 805
Lease line	-	-	-	191 529	291 442	228 943	711 914
Postpaid	-	-	-	103 208	112 631	1 152 854	1 368 693
Roaming*	-	-	-	23 523	11 830	167 287	202 640
Site sharing	-	-	-	10 624	16 944	47 605	75 173
Other receivables	-	-	-	-	-	-	-
<b>Totals</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>630 253</u>	<u>722 133</u>	<u>3 821 569</u>	<u>5 173 955</u>

**15. Income Tax (recoverable) / payable**

	<u>2019</u> K'000	<u>2018</u> K'000
Balance at the beginning of the year	(6 092 747)	2 887 897
Withholding tax paid during the year	(60 818)	(2 280 644)
Provisional tax paid during the year	-	(6 700 000)
Charge for the year (note 28)	<u>4 163 121</u>	<u>-</u>
Income tax recoverable	<u>(1 990 444)</u>	<u>(6 092 747)</u>

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

	<u>2019</u> K'000	<u>2018</u> K'000
<b>16. Cash and cash equivalents</b>		
Short term deposit accounts	-	10 205
Current bank accounts	3 196 406	1 516 157
FCDA account	1 220 960	78 521
Cash in hand	1 257 266	109 066
Airtel money E-value	-	<u>764 509</u>
	<u>5 674 632</u>	<u>2 478 458</u>
Totals		

Included in bank balances and cash are foreign currency denominated balances valued at K 1 220 million (2018: K78.5 million) at 31 December 2019. The balances were earning nil % in 2019 (2018: nil %) per annum. The rest of the bank balances are denominated in Malawi Kwacha and were earning interest between 5-10% per annum (2018: 5 -10%).  
The carrying amount of K5 674 million (2018: K2 478 million) is a reasonable approximation of fair value.

	<u>2019</u> K'000	<u>2018</u> K'000
<b>17. Borrowings</b>		
Borrowings – Bharti Airtel Malawi Holdings BV (Note 13.2)	1 261 071	14 127 688
Borrowings – Bank of America (refer below)	<u>29 451 219</u>	<u>29 266 618</u>
	<u>30 712 290</u>	<u>43 394 306</u>
The maturity of the borrowings is as follows:		
Current portion	29 682 578	354 167
Non-current portion	<u>1 029 712</u>	<u>43 040 139</u>
	<u>30 712 290</u>	<u>43 394 306</u>
<b>Borrowings - Bank of America</b>		
At the beginning of the year	29 266 618	-
Addition	-	28 828 300
Interest charges capitalised	1 027 459	608 406
Exchange difference	214 541	331 395
Repayment of interest	<u>(1 057 400)</u>	<u>(501 483)</u>
	<u>29 451 219</u>	<u>29 266 618</u>
Current portion	29 421 219	107 783
Non-current portion	-	<u>29 158 835</u>

In 2018, the company had taken an external loan of USD 40 million from Bank of America NA, Hong Kong Branch. The original Tenor of the loan was for 2 years. Interest rate was at 3 months Libor plus 105 bps. The facility is uncommitted and unsecured revolving credit facility in USD and principal repayment is at the end of two years on 14 March 2020. Subsequent to year-end, on 12 March 2020, the loan facility was extended to expire on 13 September 2021. The renewed loan attracts an interest of 3 months Libor plus 120 bps.

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

**18. Lease liabilities**

As at 31 December 2019, the company had the following lease liabilities:-

	<u>2019</u> K'000	<u>2018</u> K'000
Current portion of Leases liabilities	2 673 099	-
Non-current portion of leases liabilities	<u>13 482 604</u>	<u>-</u>
Total lease liabilities	<u>16 155 703</u>	<u>-</u>

Lease details are as below:-

	<u>2019</u> K'000	<u>2018</u> K'000
Opening lease liability	-	-
Additional lease during the year (including transition adjustment)	18 526 449	-
Interest on lease liability	834 892	-
Principal repayment	(2 498 065)	-
Interest repayment	(840 145)	-
Unrealised exchange movement	<u>132 574</u>	<u>-</u>
	<u>16 155 703</u>	<u>-</u>

**Incremental borrowing rate used for IFRS 16 application (IBR)**

IFRS 16 requires a lessee to measure a right of use asset and a lease liability, with the liability being established at the present value of the lease payments that are to be paid over the life of the lease, at the commencement date. A key input into the same calculation is the discount rate. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

**Definition of Incremental Borrowing Rate**

The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

**Determination of Incremental Borrowing Rate (IBR)**

The incremental borrowing rate (IBR) has been determined considering the following three key components applying practical expedients from the standard and various IBR determination approach guidelines –

**a) Currency**

The company has transactions that operate in multi currencies. The IBR should be the rate that reflects how the contract is priced. Hence, the IBR is determined so that it matches to the currency in which the major lease cash flows are denominated in the contract and adjusted for the differential rate in which it is paid by the entity.

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**18. Lease liabilities (Continued)**

**b) Economic environment**

The company operates under complex and dynamic economic environment altogether in comparison to Indian entities of Airtel. The volatility in economies with factors like interest rates, inflation rates and currency fluctuations impact the earnings and operations of the entity. The company has borrowings outside its base hence the IBR should consider that effect.

**c) Term**

A lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with similar remaining lease term for a similar class of underlying asset in a similar economic environment). Maturity analysis of all leases have been done to understand the remaining maturity of the existing leases as on the date of transition.

The company has arrived at the below IBR which has been applied to all the leases as at the date of transition:-

Entity	Local Currency leases	USD Leases
Airtel Malawi Plc	9.13%	6.30%

**Undiscounted Maturity Schedule**

Maturity analysis of lease liabilities

Lease liability Aging	Totals K'000
Less than one year	3 630 494
One to two years	3 443 534
Two to three years	3 274 018
Three to four years	3 268 019
Four to five years	2 589 306
More than five years	<u>3 302 584</u>

**19. Trade and other payables**

	<u>2019</u> K'000	<u>2018</u> K'000
Trade payable	10 339 515	11 148 238
Amount due to related parties (Note 13.3)	12 774 334	7 083 870
Other payables	<u>22 556 900</u>	<u>22 082 576</u>
	<u>45 670 749</u>	<u>40 314 684</u>

Trade payables are represented by amounts payable both to local and foreign suppliers.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

19. Trade and other payables (Continued)

The other payables comprise accrued expense, PAYE, provision for security expenses, withholding tax deducted from suppliers, provision for audit fees, levies and payables clearing account balances.

No interest is charged on outstanding balances.

The directors consider that the carrying amount of payables approximates their fair value due to their short term nature.

20. Provisions

For the year ended and as at 31 December 2019

	At the beginning the period K'000	Addition in the period K'000	Reversed/ transferred in the period K'000	Utilised in the period K'000	At the end of the period K'000
Bonus provision	283 153	412 764	(10 523)	(398 156)	287 238
Tevet provision	17 030	45 455	(6 144)	(37 617)	18 724
Asset retirement obligation	9 093	-	-	-	9 093
Provision for MACRA	100 000	947 143	-	(820 000)	227 143
Provision for leave	106 872	81 570	-	(10 153)	178 289
	<u>516 148</u>	<u>1 486 932</u>	<u>(16 667)</u>	<u>(1 265 926)</u>	<u>720 487</u>
Current amount payable within 12 months	<u>516 148</u>	<u>1 486 932</u>	<u>(16 667)</u>	<u>(1 265 926)</u>	<u>720 487</u>

For the year ended and as at 31 December 2018

	At the beginning the year K'000	Addition in the year K'000	Reversed/ transferred in the year K'000	Utilised in the year K'000	At the end of the year K'000
Bonus provision	279 245	372 007	(118 814)	(249 285)	283 153
Tevet provision	18 238	36 936	(767)	(37 377)	17 030
Asset retirement obligation	29 292	-	(20 199)	-	9 093
Provision for MACRA	-	100 000	-	-	100 000
Provision for leave	164 185	-	-	(57 313)	106 872
	<u>490 960</u>	<u>508 943</u>	<u>(139 780)</u>	<u>(343 975)</u>	<u>516 148</u>
Current amount payable within 12 months	<u>490 960</u>	<u>508 943</u>	<u>(139 780)</u>	<u>(343 975)</u>	<u>516 148</u>

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

**21. Dividend payable**

	<u>2019</u> K'000	<u>2018</u> K'000
At beginning of the year	8 268 856	2 565 000
Dividend declared	-	16 000 000
Dividend paid	<u>(8 268 856)</u>	<u>(10 296 144)</u>
At the end of the year	<u>-</u>	<u>8 268 856</u>

**22. Operating Revenue**

	<u>2019</u> K'000	<u>2018</u> K'000
Prepaid	49 951 104	44 546 315
Internet	26 226 551	18 454 921
Interconnect	7 364 129	10 803 032
Airtel money	-	10 603 935
VAS	5 544 059	4 518 953
Post-paid	1 234 374	1 330 938
Outroaming	579 193	713 952
Roaming	652 889	591 519
Activation revenue	429 279	697 736
Site sharing	585 422	492 981
Other fees and charges	34 441	-
Handset & accessories	<u>222 123</u>	<u>167 447</u>
Total	<u>92 823 564</u>	<u>92 921 729</u>

Performance obligations that are unsatisfied (or partially unsatisfied) amounting to K 5 381 million at 31 December 2019 and K 3790 million as at 31 December 2018 will be satisfied within a period of next one year respectively.

Revenue recognised that was included in the deferred revenue balance at the beginning of the year is K 3790 million for 2019 (2018: K 2 928 million). Transfers from unbilled revenue recognized at the beginning of the period to receivables is K 896 million for 2019 (2018: K 1602 million).

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

<b>23. Operating expenses</b>	<u>2019</u> K'000	<u>2018</u> K'000
Network operation & maintenance	14 750 031	14 138 543
Regulatory costs – MACRA Levy (Note 8)	7 577 073	7 288 854
Interconnect & roaming charges	5 007 175	5 848 734
VAS & content charges	4 581 780	1 008 526
Sales and distribution	4 074 801	3 219 332
Mobile money expense	-	8 026 735
Staff cost	3 868 345	3 385 682
IT cost	2 357 923	2 379 281
Management fees (Note 13.4)	2 479 786	2 115 152
Administrative expenses	1 703 964	1 327 995
Travel expenses	1 490 353	998 144
Rates & taxes	1 360 961	1 016 296
Directors' remuneration – for managerial services	1 335 073	1 310 269
- For services as Director	28 718	28 681
Marketing expenses	1 048 074	1 733 720
Change in loss allowances (Note 14)	1 037 706	804 714
Customer services expenses	875 435	699 466
Billing and collection expenses	568 429	97 019
Auditors' remuneration	71 928	198 536
Airtel Money Nat switch expenses	-	37 500
Corporate social responsibility	<u>46 157</u>	<u>21 368</u>
Total	<u>54 263 712</u>	<u>55 684 547</u>
<b>24. Net foreign exchange gains and losses</b>		
	<u>2019</u> K'000	<u>2018</u> K'000
Realised exchange gain	(1 553 256)	(42 299)
Realised exchange loss	12 891 562	23 294 421
Unrealised exchange gain	1 478 892	(1 690 682)
Unrealised exchange loss	<u>(1 149 700)</u>	<u>(20 911 319)</u>
Net foreign exchange loss	<u>1 357 498</u>	<u>650 121</u>
<b>25. Finance cost</b>		
	<u>2019</u> K'000	<u>2018</u> K'000
Interest expenses	2 364 808	2 909 447
Bank charges	46 309	17 996
Interest on lease liability	834 892	-
Fair value gain on embedded derivative	<u>-</u>	<u>(131 888)</u>
Total finance cost	<u>3 246 009</u>	<u>2 795 555</u>



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

	<u>2019</u> K'000	<u>2018</u> K'000
<b>26. Other income</b>		
Interest income	156 978	4 090 863
Profit/(loss) on disposal of assets	2 088 517	(31 476)
Other income	-	6 661
Loss allowance recovered (note 14)	<u>328 447</u>	<u>-</u>
	<u>2 573 942</u>	<u>4 066 048</u>

	<u>2019</u> K'000	<u>2018</u> K'000
<b>27. Waiver of the loan</b>		
Waiver of the unrealised exchange gains	<u>-</u>	<u>19 086 502</u>

The amount of K19 billion in prior year relates to an amount that was receivable from Malawi Towers Limited and that Airtel Malawi Plc waived. This amount accrued on account of revaluation of the unrealized exchange gain on unpaid balances that Malawi Towers, owed Airtel Malawi Plc on sale of the asset and revaluation of interest thereon.

	<u>2019</u> K'000	<u>2018</u> K'000
<b>28. Income tax expenses</b>		
Income tax expense	4 163 121	-
Current income – note 15	<u>5 159 099</u>	<u>7 741 205</u>
Deferred tax – note 9	<u>9 322 220</u>	<u>7 741 205</u>

**A reconciliation between tax expense and accounting profit is as follows**

Profit before tax	25 230 502	10 051 141
Income tax at 30%	7 569 151	3 015 342
Expenses not deductible for tax purposes	<u>1 753 069</u>	<u>4 725 863</u>
	<u>9 322 220</u>	<u>7 741 205</u>

<b>29. Compensation of key management personnel.</b>		
Salaries	714 874	633 798
Benefits	467 279	432 870
Bonuses	<u>192 401</u>	<u>243 601</u>
	<u>1 374 554</u>	<u>1 310 269</u>

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**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
For the year ended 31 December 2019

**29. Compensation of key management personnel** (Continued)

The remuneration of the key management personnel of the company set out above is in aggregate for each of the category.

Key management personnel are:

	<b>EMPLOYEE NAME</b>	<b>DESIGNATION</b>
1	Mr. Charles Kamoto	Managing Director
2	Mr. Indradip Mazumdar	Finance Director
3	Ms. Hlupekire Chalamba	Legal & Regulatory Director
4	Mr. Alick Sikelo	Human Resource & Administration Director
5	Mr. Aashish Dutt	Sales & Distribution Director
6	Mr. Allan Banda	IT Director
7	Mr. Frank Magombo	Marketing Director
8	Mr. Beston Ndhlovu	Supply Chain Management Director
9	Ms. Sibusiso Twea Nyasulu	Customer Experience Director
10	Mr. Bruce Masamba	Network Director
11	Ms. Stella Hara	Enterprise Director

	<u>2019</u> K'000	<u>2018</u> K'000
<b>30. Defined contribution plan expenses</b>	<u>339 582</u>	<u>273 441</u>

**31. Capital Commitments**

**Capital expenditure**

Estimate amount of contract expenditure to be incurred	<u>15 879 439</u>	<u>11 381 185</u>
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The expenditure will be financed from internal resources. The amount is net capital advances.

**32. Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the period. There were no potentially dilutive shares outstanding at 31 December 2019 and 31 December 2018. Dilutive earnings per share is therefore the same as basic earnings per share.

	<u>2019</u> K'000	<u>2018</u> K'000
Profit attributable to ordinary shareholders for the year (K'000)	<u>15 908 282</u>	<u>2 309 936</u>
Weighted average number of shares	<u>11 000 000 000</u>	<u>11 000 000 000</u>

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
 For the year ended 31 December 2019

32. **Earnings per share (Continued)**

Basic earnings per share (MK)	<u>1.45</u>	<u>0.21</u>
Diluted earnings per share (MK)	<u>1.45</u>	<u>0.21</u>

33. **Contingent liabilities**

	<u>2019</u>	<u>2018</u>
	<u>K'000</u>	<u>K'000</u>
Contingent liabilities	<u>-</u>	<u>-</u>

34. **Going Concern**

During the year ended 31 December 2019, the Company made a profit of K15.9 billion (2018: K 2.3 billion). The company as at that date, had current liabilities of K 84.1 billion (2018: K53 billion) against current assets of K32.2 billion (2018: K41 billion). The company as on 31 December 2019 was in net liability position of K 52 billion (2018: K12 billion). The operations of the Company continue to depend heavily on sources of financing from its direct and indirect parent companies

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 driven by and is dependent on management achieving operational targets on subscriber numbers, churn rate and average revenue per user;
- b. Will obtain some funding from the third parties; and
- c. Will be able to obtain from the shareholders any additional funding required to meet its obligations as and when they fall due.

On the basis above 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.

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

**35 Financial risk management**

**35.1 Categorisation of financial instruments**

The analysis below sets out the company's classification of financial assets and liabilities and their fair value including accrued interest.

	<u>2019</u> K'000	<u>2018</u> K'000
<b><u>Financial assets held at amortised cost</u></b>		
Trade and other receivables	8 114 107	7 973 367
Amount due from related parties	12 181 477	20 610 854
Cash and cash equivalents	<u>5 674 632</u>	<u>2 478 458</u>
	<u>25 970 216</u>	<u>31 062 679</u>
<b><u>Financial assets at FVTPL</u></b>		
Investment – long term	<u>81 000</u>	<u>81 000</u>
Total financial assets	<u>26 051 216</u>	<u>31 143 679</u>
	<u>2019</u> K'000	<u>2018</u> K'000
<b><u>Financial liabilities held at amortised cost</u></b>		
Loan due to bank of America	29 451 219	29 266 618
Loan due to holding company	1 261 071	14 127 688
Amount due to related parties	12 774 334	7 083 870
Trade and other payables	<u>38 277 586</u>	<u>33 230 814</u>
Total	<u>81 764 200</u>	<u>83 708 990</u>

The company's principal financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finances for the company's operations. The company has trade and other receivables, and cash and short-term deposits that are derived directly from its operations.

The company is exposed to the following risks;

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

**35. Financial risk management (Continued)**  
**35.2 Financial risk management objectives and policies**

The company's senior management oversees the management of these risks. The company's senior management is supported by the board of directors who advise on financial risks and the appropriate financial risk governance framework for the company.

The board provides assurance to the company's senior management that the company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Bharti Company policies and company risk appetite. All risk management procedures are carried out by specialist teams that have the appropriate skills, experience and supervision.

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 the financial statements.

**(a) Capital risk management**

Capital includes equity attributable to the equity holders of the company. The primary objective of the company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the period ended 31 December, 2019.

**(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 in U.S. dollars with parties of other countries. The Company has obtained foreign currency loans and imports equipment and services; and is therefore, exposed to foreign exchange risk arising from various currency exposures primarily with respect to United States dollar.

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.

As at 31 December 2019, if the Kwacha had weakened/strengthened by 5% against the US dollar with all other variables held constant, profit before tax for the year would have been K 1 939 million (2018: K 2 365 million) lower/higher, mainly as a result of US dollar denominated borrowings.

**35. Financial risk management (Continued)**

**35.2 Financial risk management objectives and policies (Continued)**

**(c) Interest rate risk management**

The company is exposed to interest rate risk as it borrows funds from related party at variable i.e. Libor +450 bps. The risk is managed by the group's global treasury function. Any adverse changes in the Libor rate are adjusted in the structure of the loan in terms of the interest repayments since it is intercompany. In addition the company has borrowed from Bank of America a USD denominated loan during the year at variable interest rate of 3 month Libor plus 105 bps. The Libor is a stable rate derived from stable environment, thus any changes are unlikely to have a significant impact on the company's operations.

As at 31 December 2019, if effective interest rates on borrowings had been 1% higher/lower with all other variables held constant, profit before tax would have been K 335 million (2018: K 457 million) lower/higher.

**(d) Credit risk management**

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The company is exposed to credit risk from its operating activities (primarily for trade receivables and other receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The company does not hold collateral as security on all the balances receivable.

The requirement for impairment is analyzed at each reporting date. Additionally, a large number of minor receivables is grouped into homogenous groups and assessed for impairment collectively. Refer note 14 for details on the impairment of trade receivables.

Credit risk from balances with banks and financial institutions is managed by company's treasury in accordance with the company's policy. Investments of surplus funds are made only with approved counterparties who meet the minimum threshold requirements under the counterparty risk assessment process. The company monitors ratings, credit spreads and financial strength on at least a quarterly basis. Based on its on-going assessment of counterparty risk, the company adjusts its exposure to various counterparties. The company's maximum exposure to credit risk for the components of the statement of financial position at December 31, 2019 and December 31, 2018 is the carrying amounts as reflected in Note 14.

**(e) Liquidity risk**

The company monitors its risk to a shortage of funds using a recurring liquidity planning tool. The company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and short-term borrowings. In addition, the company is converting some foreign denominated debt into local currency as a means of addressing excessive cash outflows following devaluation of the local currency.

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

**35. Financial risk management (Continued)**

**35.2 Financial risk management objectives and policies (Continued)**

The table below summarises the maturity profile of the company's financial liabilities based on contractual undiscounted payments:-

	<u>0 to3</u> <u>Months</u> K'000	<u>4 -12</u> <u>Months</u> K'000	<u>Over 1 year</u> K'000	<u>Carrying</u> <u>amount and</u> <u>fair value</u> K'000
<b><u>As at 31 December 2019</u></b>				
<b>Liabilities</b>				
Loan due to Bank of America	29 451 219	-	-	29 451 219
Loan due to holding company	-	231 359	1 029 713	1 261 072
Amounts due to related parties	12 774 334	-	-	12 774 334
Trade and other payables	<u>38 277 586</u>	<u>-</u>	<u>-</u>	<u>38 277 586</u>
<b>Total liabilities</b>	<b><u>80 503 139</u></b>	<b><u>231 359</u></b>	<b><u>1 029 713</u></b>	<b><u>81 764 211</u></b>
<b><u>At 31st December 2018</u></b>				
<b>Liabilities</b>				
Loan due to Bank of America	-	107 783	29 158 835	29 266 618
Loan due to holding company	-	246 384	13 881 304	14 127 688
Amounts due to related parties	7 083 870	-	-	7 083 870
Trade and other payables	<u>33 230 814</u>	<u>-</u>	<u>-</u>	<u>33 230 814</u>
<b>Total liabilities</b>	<b><u>40 314 684</u></b>	<b><u>354 167</u></b>	<b><u>43 040 139</u></b>	<b><u>83 708 990</u></b>

### 36. Fair value measurements

*IFRS 13 Fair Value Measurement* establishes a single source of guidance for fair value measurement and disclosure and this applies to both financial and non-financial instruments items which either IFRS require or permit fair value measurements except for share based payments that are within the scope of *IFRS 2 Share-Based Payment*, leasing transactions that are within the scope of *IFRS 16 Leases* and other measurements that have similarities to fair value but are not fair value such as Net Realisable Value (NRV) for measuring of inventories and value in use for impairment assessment purposes.

This note provides information about how the company determines fair values of various financial assets and financial liabilities.

#### 36.1 Valuation techniques and assumptions applied for the purposes of measuring fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate fair values.

The fair values of financial assets and financial liabilities are determined as follows;

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes); and

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

#### 36.2 Fair value measurements recognized in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those that are derived from inputs of other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### 36.3 Fair value of company's assets and financial liabilities that are measured at fair value on recurring-basis (but fair value disclosures are required).

The company has investments as part of financial assets and derivatives as financial liabilities that are measured at fair value at the end of each reporting period.



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended 31 December 2019

**36. Fair value measurements (Continued)**

**36.3 Fair value of financial assets and financial liabilities that are not measured at fair value on recurring basis (but fair value disclosures are required) (Continued)**

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	<u>2019</u> Carrying amount	<u>2019</u> Fair value	<u>2018</u> Carrying amount	<u>2018</u> Fair value
<b><u>Financial assets classified at amortized cost</u></b>				
Trade and other receivables	8 114 107	8 114 107	7 973 368	7 973 368
Amount due from related parties	<u>12 181 477</u>	<u>12 181 477</u>	<u>20 610 854</u>	<u>20 610 854</u>
<b>Total</b>	<u><u>20 295 584</u></u>	<u><u>20 295 584</u></u>	<u><u>28 584 222</u></u>	<u><u>28 584 222</u></u>
<b><u>Financial assets classified at FVTPL</u></b>				
Investment	<u>81 000</u>	<u>81 000</u>	<u>81 000</u>	<u>81 000</u>
<b><u>Financial liabilities at amortized cost</u></b>				
Loan due to Bank of America	29 451 219	29 451 219	29 266 618	29 266 618
Loan due to holding company	1 261 071	1 261 071	14 127 688	14 127 688
Amounts due to related parties	12 774 334	12 805 638	7 083 870	7 083 870
Trade and other payables	<u>38 277 586</u>	<u>31 283 023</u>	<u>33 230 814</u>	<u>33 230 814</u>
<b>Total</b>	<u><u>81 764 210</u></u>	<u><u>81 764 210</u></u>	<u><u>83 708 990</u></u>	<u><u>83 708 990</u></u>

**Fair value hierarchy as at 31 December 2019**

	<u>Level 1</u> K'000	<u>Level 2</u> K'000	<u>Total</u> K'000
<b><u>Financial assets classified at FVTPL</u></b>			
Investments	-	<u>81 000</u>	<u>81 000</u>
<b>Total</b>	<u>-</u>	<u><u>81 000</u></u>	<u><u>81 000</u></u>

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
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36. **Fair value measurements** (Continued)

36.3 Fair value of company's assets and financial liabilities that are measured at fair value on recurring-basis (but fair value disclosures are required) (Continued).

**Fair value hierarchy as at 31 December 2018:**

	<u>Level 1</u> K'000	<u>Level 2</u> K'000	<u>Total</u> K'000
<b><u>Financial assets classified at FVTPL</u></b>			
Investments	-	81 000	81 000
<b>Total</b>	<u>-</u>	<u>81 000</u>	<u>81 000</u>

37. **Economic factors**

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

	<b>31 December</b> <u>2019</u>	<b>31 December</b> <u>2018</u>
Kwacha/US Dollar	736.66	727.0
Inflation	11.5%	9.9%

Subsequent to report period-end, on 29 May 2020, the above economic factors had moved as follows:

Kwacha/US Dollar	744.12
Inflation (April 2020)	9.4%

No adjustments arising from the movement of the exchange rates after the reporting period- end have been made in the financial statements.

38. **Comparatives**

Where necessary, certain comparative figures have been reclassified to conform to changes in the presentation in the current period.

39. **Subsequent events**

Subsequent to the year-end on 24 February 2020, the company was officially listed on Malawi Stock Exchange. Below are the details;

AIRTEL MALAWI PLC  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
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**39. Subsequent events** (Continued)

Following the Malawi Communications Regulatory Authority's (MACRA) Act, which recommends that shares be allocated to Malawians first, followed by companies owned by Malawians and then Pension Funds.

Airtel Malawi Plc Shareholding before and after the IPO is as outlined below:

<b>Before the IPO</b>			
	Number of shares	Value	%
Bharti Airtel Malawi Holdings BV	10,999,879,000	139,588,464,510.00	99.9989%
J.C. Uneken-van de Vreede	110,000	1,395,900.00	0.0010%
Bharti Airtel Africa BV	11,000	139,590.00	<0.0001%
<b>Total</b>	<b>11,000,000,000</b>	<b>139,590,000,000.00</b>	<b>100%</b>
<b>After the IPO</b>			
	Number of shares	Value	%
Bharti Airtel Malawi Holdings BV	8,799,879,000	111,670,464,510.00	79.9989%
J.C. Uneken-van de Vreede	110,000	1,395,900.00	0.0010%
Bharti Airtel Africa BV	11,000	139,590.00	<0.0001%
Old Mutual Life Assurance	1,041,767,257	13,220,026,491.33	9.47%
Rest of the Public	1,158,232,743	14,697,973,508.67	10.53%
<b>Total</b>	<b>11,000,000,000</b>	<b>139,590,000,000.00</b>	<b>100.00%</b>

At the date of listing on 24 February 2020, the share price rose from the initial IPO price of K12.69 per share to K 17.99 per share representing 42% price increase.

Subsequent to the year end as at 31 March 2020, the share price moved to K 17.50 per share representing a decrease of 2.7% from K 17.99 per share.

**Renewal of Bank of America Loan**

In 2018, the company had taken an external loan of USD 40 million from Bank of America NA, Hong Kong Branch. The original Tenor of the loan was for 2 years. Interest rate was at 3 months Libor plus 105 bps. The facility is uncommitted and unsecured revolving credit facility in USD and principal repayment is at the end of two years on 14 March 2020. Subsequent to year-end, on 12 March 2020, the loan facility was extended to expire on 13 September 2021. The renewed loan attracts an interest of 3 months Libor plus 120 bps.

**Impact of the Covid -19**

In December 2019, there was an outbreak of Corona Virus in China. This, however, became widespread in a number of countries after the reporting date and was subsequently declared a pandemic by the World Health Organisation (WHO) in March 2020.

World Health Organization (WHO) called on every sector and every individual to be involved in fighting against it. Airtel Malawi Plc knows that at the core of its business are the customers, the employees, other stakeholders that hold it together and the broader communities that the company serves.

In this regard, a response team was set up in the Company to ensure preparedness and implement safety measures to contain the spread of the COVID-19. Staff are being provided with relevant information and tools to help ensure safety as they carry out their day to day duties. Both internal and external physical large meetings have been stopped with virtual meetings being made instead. Travel to high risk destinations has been suspended. Staff returning from high risk destinations are adopting a 14-day self-quarantine. All customers and staff are now being requested to wash their hands prior to entering the Service Centre or Head Office premises.

39. **Subsequent events** (Continued)

**Impact of the Covid -19 (Continued)**

The Company has also implemented social distancing when managing its queues across the Country to protect our customers.

The company will continue to review the fast-changing situation and implement stringent procedures in line with Ministry of Health and World Health Organization guidelines to ensure that the health and safety of all our key stakeholders is not compromised. The COVID-19 has no impact on the financial operations as most customers are now using more data and airtime as a means of communication hence there is no impact on going concern of the company.