

AIRTEL MALAWI PLC

Annual Report and Financial Statements for the year ended
31 December 2020

AIRTEL MALAWI PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2020

Index

	<u>Page</u>
Directors' report	1 - 4
Statement of directors' responsibilities	5
Independent auditor's report	6 - 10
Statement of financial position	11
Statement of comprehensive income	12
Statement of changes in equity	13
Statement of cash flows	14
Notes to the financial statements	15 - 79

AIRTEL MALAWI PLC
DIRECTORS' REPORT
For the year ended 31 December 2020

The directors have pleasure in presenting to members audited financial statements for the year ended 31 December 2020 and report thereon as follows:

1. REVIEW OF ACTIVITIES

Airtel Malawi Limited was incorporated in Malawi under the Malawi Companies Act 1984 as repealed by the Companies Act 2013 as a private company limited by shares.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 company was listed on the Malawi Stock Exchange on 24th February 2020.

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

The company is the leading provider of mobile telecommunication services (GSM mobile cellular telephone services) in Malawi, connecting millions of Malawians to the world through our voice telephony, messaging, data, international and national long-distance telecommunications services and value adding services.

The company continues to show strong growth in its customer with 25.1% year on year growth and ending and total 5 million customers. During the year the company added 1 million customers into its network. Data Customers grew by 24.4% on year to reach total customers of 1.6 million.

The company's revenue grew by 18.8% on the back of strong customer base growth and usage growth both in outgoing voice and data. The company generated 4.8 billion minutes on its network in the year 2020 as compared to 2.6 billion in previous year, a growth of 82% in minutes. However the OG voice rate declined from K 19 per minute in 2019 to K 12 in 2020, thus a year on year drop of 40%. The data revenue increase was supported by base and usage growth. In the year 2020, the company clocked 26 billion Mbs against 17 billion Mbs in 2019, a growth of 52% on yearly basis. Data realization dropped from K 1.46 per MB in year 2019 to K 1.41 per MB in the year 2020, thus a drop of 3.5% on yearly basis.

During the year company expanded its network with roll out of additional 107 sites. The company acquired spectrum of 10 MHz in 2600 band and 5 MHz in 1800 band within the year. The company further rolled out its own fibre during the year covering total distance of 1,355 Kms across the country and reaching the three key exits for the country of Songwe, Mchinji and Mwanza borders. The roll out will provide best in class data experience to the mobile and broadband customers of Airtel Malawi Plc.

2. SHARE CAPITAL

The Authorised Share Capital of the company as at 31 December 2020 comprises of 11 000 000 000 (2019: 11 000 000 000) Ordinary shares. The issued and fully paid capital of the company comprises of 11 000 000 000 (2019: 11 000 000 000) Ordinary shares of K 0.0001 each (2019: K 0.0001 each), total amounting to K1 000 000 (2019: K1 000 000).

The shareholders and their respective shareholding as at year-end were:

	<u>2020</u>	<u>2019</u>
	%	%
Bharti Airtel Malawi Holdings BV	80.0	100.0
General Public	10.53	0.00
Old Mutual Life Assurance	<u>9.47</u>	<u>0.00</u>
	<u>100.00</u>	<u>100.00</u>

AIRTEL MALAWI PLC
DIRECTORS' REPORT (Continued)
For the year ended 31 December 2020

3. 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>2020</u> K'000	<u>2019</u> K'000
Revenue	110 233 321	92 823 564
Profit before tax	31 738 895	25 230 502
Income tax expense	9 646 194	9 322 220
Profit for the year	22 092 701	15 908 282

4. DIRECTORS

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

<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. Mark Mikwamba*	Malawi	Malawian	17 July 2020
8. Olivier Pognon*	Kenya	French	17 July 2020
9. Mrs. Rogany Ramiah*	Kenya	South African	17 July 2020

* Non-executive Director

** Executive Director

5. COMPANY SECRETARY

The secretary of the company is Mrs Hlupekire Chalamba.

6. DIRECTORS' INTERESTS

The directors noted below hold the following ordinary shares in the company at the year-end.

Mr. Alex Chitsime	788,000 shares
Mr. Charles Kamoto	5,000,000 shares
Mr. Mark Mikwamba	197,005 shares
Mr. Kayisi Sadala	197,003 shares

7. CORPORATE GOVERNANCE

Airtel Malawi Plc takes the issue of corporate governance seriously. The Company's focus is to have a sound corporate governance framework that contributes to improved corporate performance and accountability in creating long term shareholder value.

The company continues to embrace and abide by the main principles of modern corporate governance as contained in the Malawi Code II (Code of Best Practice for Corporate Governance in Malawi). In this regard, the company has at Board level, comprise of Non-Executive Directors and one Executive Director.

The Board meets at least four times a year and concerns itself with key matters and the responsibilities for implementing the Company's strategy is delegated to management. The Board of Directors continues to provide considerable depth of knowledge and experience to the business.

There is strong focus by the Audit Committee on matters relating to financial operations, fraud, application of accounting and control standards and results. The Audit Committee also meets at least four times a year.

The Company has put in place a Code of Conduct and Anti- Bribery and Anti-Corruption Policy that sets out the standards on how staff should behave with all stakeholders. An effective monitoring mechanism to support management's objective of enforcing the Code of Conduct and Anti- Bribery and Anti-Corruption has been developed and is being used across the Company.

7. DONATIONS

During the year the Company made donations of K 149 million (2019: K46 million). A donation of K 104 Mn was done towards the fight against the Covid-19 pandemic.

8. HEALTH AND SAFETY

The Company has policies and procedures to safeguard the occupational health, safety and welfare of its employees. To safeguard its employees against the Covid-19 pandemic, the Company has measures in place in line with the country's health guidelines which are monitored regularly.

9. COVID-19

The Covid-19 pandemic has interrupted business growth across the world; however, the telecom sector remained a pivot sector amidst tough times providing unabated connectivity of network and data. Our network response team was quick to respond to customers' demand across the country to ensure uninterrupted service for our customers while ensuring complete safety for our field staff. Partnering with our strategic and operational partners, we continuously worked to keep the network running to provide essential telecom service across Malawi. Based on the Company's assessment, no material impact has been noted due to the pandemic. Refer to note 41 to the financial statements for further disclosures relating to impact of COVID -19.

10. RESERVES

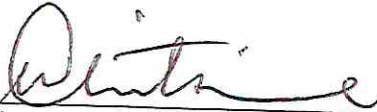
Details of the reserves of the company are shown in the statement of changes in equity on page 13.


11. DIVIDENDS

The company paid a final dividend of K1.25 per share amounting to K13.75 billion during the year in respect of the year ended 31 December 2019. Further directors propose a final dividend of K 23.1 billion of K 2.10 per share for the year ended 31 December 2020 (2019: K13.75 billion of K1.25 per share)

12. 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 2020 of K22.1 billion (2019: K15.9 billion) and, as at that date, it had current liabilities of K89.8 billion (2019: K84.1 billion) against current assets of K43.4 billion (2019: K32.2 billion). The company as at 31 December 2020 was in net current liabilities position of K42.5 billion (2019: K51.9 billion). Nevertheless, the directors determined that the financial statements should be prepared on a going concern basis (Refer to note 2 of the Financial Statements).


Chairperson (Mr Alex Chitsime)


Director (Mr Charles Kamoto)

AIRTEL MALAWI PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 December 2020

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.

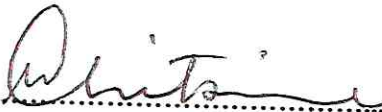
In preparing the financial statements, the directors accept responsibility for the following:

- 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 2020.


.....) **CHAIRPERSON (MR ALEX CHITSIME)**
)
)
)
)
)
)
)
.....) **DIRECTOR (MR CHARLES KAMOTO)**

.....30 March 2021.....) **DATE**

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 11 to 79, which comprise the statement of financial position as at 31 December 2020, and statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Airtel Malawi Plc as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statements section of our report. We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA code. 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 year. 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>Recognition of revenue</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 4.5 and the revenue streams analysis is in note 25 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"> • We assessed the general computer controls around the significant revenue and billing systems; • We assessed the design and implementation of the relevant controls; • 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; • 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; • We also performed analytical reviews for the other months of the year by developing an expectation using total revenue for the recalculated period; • We also performed call testing data / airtime used is similar to the value captured in the system; • 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; • We re-computed contract liabilities from Intelligent Network data using Computer Assisted Audit Techniques (CAATS); and • We checked that the contract liabilities in the billing system were being reconciled to the records. <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>Depreciation and capitalisation of property, plant and equipment</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 2020. 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 4.6 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"> • We ensured that the residual values and useful lives were correctly determined in line with company policy and industry practice; • We also ensured that depreciation was correctly computed; • 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 4.6; • 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; • 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 • For impairment, we assessed the assumptions management applied and reviewed if they are in line with the nature of the industry. <p>The capitalisation of assets was assessed to be appropriate. We concluded that the useful economic lives assigned to these assets are appropriate.</p>

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.

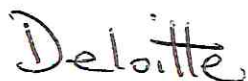
Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- 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.

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

The logo for Deloitte, featuring the word "Deloitte" in a stylized, cursive script font.

Chartered Accountants

Vilengo Beza


Partner


30 March 2021

AIRTEL MALAWI PLC
STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2020

	<u>Notes</u>	As at 31 December <u>2020</u> K'000	As at 31 December <u>2019</u> K'000
ASSETS			
Non-current assets			
Property, plant and equipment	6a	65 933 192	61 677 982
Intangible assets	7	963 108	735 216
Right of use asset	8	16 379 678	11 177 466
Deferred tax asset	9	962 582	1 042 996
Other non-current assets	10	6 246 881	7 453 317
Investment	11	<u>81 000</u>	<u>81 000</u>
Total non-current assets		<u>90 556 441</u>	<u>82 167 977</u>
Current assets			
Inventories	12	261 625	50 196
Trade and other receivables	14.1	19 603 915	20 303 282
Other current assets	14.2	6 154 011	4 204 367
Income tax recoverable	15	-	1 990 444
Cash and cash equivalents	16	<u>17 417 765</u>	<u>5 674 632</u>
Assets classified as held for sale	6b	43 437 316	32 222 921
Total current assets		<u>3 746 210</u>	<u>-</u>
Total assets		<u>47 183 526</u>	<u>32 222 921</u>
Total assets		<u>137 749 967</u>	<u>114 390 898</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		1 000	1 000
Share premium		398 375	398 375
Retained earnings		<u>23 693 824</u>	<u>15 351 123</u>
Total shareholders' equity		<u>24 093 199</u>	<u>15 750 498</u>
Non-current liabilities			
Borrowings	17	527 101	1 029 712
Lease liabilities	18	23 085 573	13 482 604
Deferred spectrum liabilities	19	<u>263 993</u>	<u>-</u>
Total non-current liabilities		<u>23 876 667</u>	<u>14 512 316</u>
Current liabilities			
Borrowings	17	30 958 695	29 682 578
Deferred spectrum liabilities	19	166 491	-
Lease Liabilities	18	3 335 304	2 673 099
Trade and other payables	20	38 291 860	45 670 749
Contract liabilities	21	6 813 217	5 381 171
Other current liabilities	22	5 718 645	720 487
Income tax payable	15	<u>4 495 889</u>	<u>-</u>
Total current liabilities		<u>89 780 101</u>	<u>84 128 084</u>
Total liabilities		<u>113 656 768</u>	<u>98 640 400</u>
Total equity & liabilities		<u>137 749 967</u>	<u>114 390 898</u>

The financial statements on pages 11 to 79 were approved and authorised for issue by the Board of Directors on 30 March 2021 and signed on its behalf by:


.....
Chairperson (Mr Alex Chitsime)


.....
Director (Mr Charles Kamoto)

AIRTEL MALAWI PLC
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	<u>Notes</u>	For the year ended 31 December <u>2020</u> K'000	For the year ended 31 December <u>2019</u> K'000
Income			
Operating revenue	25	110 233 321	92 823 564
Other income	26	<u>1 083 457</u>	<u>2 573 942</u>
		111 316 778	95 397 506
Expenses			
Operating expenses	27	(34 118 598)	(28 454 572)
Other expenses	28a	(16 450 774)	(18 232 067)
Licence fee and spectrum usage charges	28b	(8 737 766)	(7 577 073)
Depreciation and amortization	28c	<u>(14 621 871)</u>	<u>(11 299 785)</u>
		(73 929 009)	(65 563 497)
Operating profit			
		37 387 769	29 834 009
Finance cost	30	(2 088 784)	(3 246 009)
Foreign exchange loss	29	<u>(3 560 090)</u>	<u>(1 357 498)</u>
Profit before tax			
		31 738 895	25 230 502
Income tax expense	31	<u>(9 646 194)</u>	<u>(9 322 220)</u>
Profit and total comprehensive income for the year			
		<u><u>22 092 701</u></u>	<u><u>15 908 282</u></u>
Basic and diluted earnings per share (K)	35	<u><u>2.01</u></u>	<u><u>1.45</u></u>

There were no items of other comprehensive income for the year (2019: Nil)

AIRTEL MALAWI PLC
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Share capital K'000	Share premium K'000	Retained earnings K'000	Total K'000
<u>Year ended 31 December 2020</u>				
At beginning of the year	1 000	398 375	15 351 123	15 750 498
Dividend declared for 2019 profit	-	-	(13 750 000)	(13 750 000)
Total comprehensive income for the year	-	-	22 092 701	22 092 701
At end of the year	1 000	398 375	23 693 824	24 093 199
<u>Year ended 31 December 2019</u>				
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
At end of the year	1 000	398 375	15 351 123	15 750 498

*** 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 had 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 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.

SHARE CAPITAL	<u>2020</u> K'000	<u>2019</u> K'000
<u>Authorised Share Capital</u>		
11 000 000 000 (2019: 11 000 000 000) Ordinary shares	<u>1 000</u>	<u>1 000</u>
<u>Issued and fully paid share Capital</u>		
11 000 000 000 (2019: 11 000 000 000) Ordinary shares	<u>1 000</u>	<u>1 000</u>

AIRTEL MALAWI PLC
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	<u>Notes</u>	For the year ended 31 December 2020 K'000	For the year ended 31 December 2019 K'000
Cash flows from operating activities			
Profit before taxation		31 738 895	25 230 502
Adjustments for:			
Depreciation and amortisation	28c	14 621 871	11 299 785
Interest income	26	(891 626)	(156 978)
Unrealised exchange losses		3 237 766	509 155
Other financial liability written back	26	(177 470)	-
Movement in provisions		140 111	204 339
Profit on disposal of plant and equipment	26	(14 361)	(2 088 517)
Finance cost	30	<u>2 062 695</u>	<u>3 199 700</u>
Operating cash flow before working capital changes		<u>50 717 881</u>	<u>38 197 986</u>
Decrease in trade and other receivables		669 367	16 690 552
(Increase)/decrease in inventories		(211 429)	47 385
Increase in other assets		(743 208)	(7 727 964)
(Decrease) / increase in trade and other payables		(7 378 889)	3 998 496
Increase in deferred revenue		<u>1 432 046</u>	<u>1 590 823</u>
Cash generated from operations before tax		<u>44 515 768</u>	<u>52 797 278</u>
Income tax paid	15	<u>(3 057 991)</u>	<u>(60 818)</u>
Net cash generated from operating activities		<u>41 457 777</u>	<u>52 736 460</u>
Cash flows from investing activities			
Purchase of plant and equipment and intangibles	6 & 7	(19 307 270)	(29 147 576)
Interest received		891 626	156 978
Proceeds from sale of property, plant and equipment		<u>22 299</u>	<u>6 480 785</u>
Net cash used in investing activities		<u>(18 393 345)</u>	<u>(22 509 813)</u>
Cash flows from financing activities			
Repayment of borrowings	17	(1 594 272)	(15 077 688)
Other interest payment		-	(345 719)
Repayment of spectrum liability	19	(122 208)	-
Repayment of lease liability	18	(712 866)	(3 338 210)
Dividend paid	23	<u>(8 891 953)</u>	<u>(8 268 856)</u>
Net cash used in financing activities		<u>(11 321 299)</u>	<u>(27 030 473)</u>
Net increase/(decrease) in cash and cash equivalents		<u>11 743 133</u>	<u>3 196 174</u>
Cash and cash equivalents at the beginning of the year		<u>5 674 632</u>	<u>2 478 458</u>
Cash and cash equivalents at the end of the year	16	<u>17 417 765</u>	<u>5 674 632</u>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

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. Going Concern

Though during the year ended 31 December 2020, the company recorded a net profit after taxation of K22.1 billion (2019: K15.9 billion), the company as at 31 December 2020 was in net current liabilities position of K42.5 billion (2019: K51.9 billion).

However, the directors are of the opinion that the company is a 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 spreading from short term to Medium and long-term borrowings. Further details are disclosed on note 43 to the financial statements ;
- c. The company is in process of selling its remaining 43 sites, part of passive infra inventory and land relating to the sites to Malawi Towers Limited. Further to that, the company is also in the process of selling Airtel Money Branches to Airtel Mobile Commerce Limited. The stated sales are in line with the company's vision to focus on its core activities of providing telecommunication service to its end customers and the non-core activities be taken and operated by the company’s sister companies.
- d. The company will be able to obtain from its holding company (the majority shareholder) any additional funding required to meet its obligations as and when they fall due.

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

3. Adoption of new and revised International Financial Reporting Standards

3.1 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 2020.

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16 Leases

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID- 19-related rent concession is a lease modification.

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

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

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16 Leases (Continued)

A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- a. The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b. Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- c. There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Company has not been impacted by the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

Amendments to References to the Conceptual Framework in IFRS Standards

The Company has adopted the amendments included in *Amendments to References to the Conceptual Framework in IFRS Standards* for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

Amendments to IAS 1 and IAS 8 Definition of material

The Company has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2020

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

3.2 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:

Effective date Standard, Amendment or Interpretation

Annual periods beginning on or after 1 January 2023 **Amendments to IAS 1 – Classification of Liabilities as Current or Non-current**

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

Amendments to IFRS 3 – Reference to the Conceptual Framework

Annual reporting periods beginning on or after 1 January 2022 **Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use**

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories. The amendments also clarify the meaning of ‘testing whether an asset is functioning properly’.

IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity’s ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost. The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

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

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

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2021	<p>IFRS 17 Insurance Contracts</p> <p>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 Insurance Contracts as of 1 January 2021.</p>
Annual reporting periods beginning on or after 1 January 2022	<p>Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract</p> <p>The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.</p> <p>Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application</p>
Annual reporting periods beginning on or after 1 January 2022	<p>Annual Improvements to IFRS Standards 2018–2020</p> <p>The Annual Improvements include amendments to four Standards. IFRS 1 First-time Adoption of International Financial Reporting Standards The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16 (a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent’s consolidated financial statements, based on the parent’s date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16 (a).</p>
Annual reporting periods beginning on or after 1 January 2022	<p>IFRS 9 Financial Instruments</p> <p>The amendment clarifies that in applying the ‘10 per cent’ test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.</p>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2020

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

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

Effective date	Standard, Amendment or Interpretation
Effective date not set yet	Amendments to IFRS 16 Leases The amendment removes the illustration of the reimbursement of leasehold improvements.
Annual reporting periods beginning on or after 1 January 2022	Reference to the Conceptual Framework (Amendments to IFRS 3) The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.

The directors anticipate that these standards and interpretations in future periods will have no significant impact on the financial statements of the group.

4. 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.

4.1 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).

4.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies 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 measurement date, regardless of whether that 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 liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

4.2 **Basis of preparation (Continued)**

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.

4.3 **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.

4.4 **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.

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

4.5 **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 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 and discounts. When determining the consideration to which the Company is entitled for providing promised products or services via intermediaries, the Company assesses whether the intermediary is a principal or agent in the onward sale to the end customer. To the extent that the intermediary is considered a principal, the consideration to which the Company is entitled is determined to be that received from the intermediary. To the extent that the intermediary is considered an agent, the consideration to which the Company is entitled is determined to be the amount received from the customer; the discount provided to the intermediary is recognised as a cost of sale.

The Company has entered into certain multiple-element revenue arrangements which involve the delivery or performance of multiple products, services or rights to use assets. At the inception of the arrangement, all the deliverables therein are evaluated to determine whether they represent distinct performance obligations, and if so, they are accounted for separately. Total consideration related to the multiple element arrangements is allocated to each performance obligation based on their relative standalone selling prices. The standalone selling prices are determined based on the list prices at which the Company sells equipment and network services separately. Revenue is recognised when, or as, each distinct performance obligation is satisfied.

Service revenue is derived from the provision of telecommunication services to customers. The majority of the customers of the Company subscribe to the services on a pre-paid basis. Telecommunication service revenues mainly pertain to usage, subscription and customer onboarding charges, which include activation charges and charges for voice, data, messaging and value added services.

Telecommunication services (comprising voice, data and SMS) are considered to represent a single performance obligation as all are provided over the Company's network and transmitted as data representing a digital signal on the network. The transmission consumes network bandwidth and therefore, irrespective of the nature of the communication, the customer ultimately receives access to the network and the right to consume network bandwidth.

A contract liability is recognised for amounts received in advance, until the services are provided or when the usage of services becomes remote.

The Company recognises revenue from these services when performance obligation has been met. Revenue is recognised based on actual units of telecommunication services provided during the reporting period as a proportion of the total units of telecommunication services consumed.

Subscription charges are recognised over the subscription pack validity period. Customer onboarding revenue is recognised upon successful onboarding of customer i.e. upfront.

Revenues recognised in excess of amounts invoiced are classified as unbilled revenue.

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

4.5 **Revenue (Continued)**

Service revenues also includes revenue from interconnection / roaming charges for usage of the Company's network by other operators for voice, data, messaging and signaling services. These are recognised upon transfer of control of services being transferred over time.

Revenues from long distance operations comprise of voice services and bandwidth services (including installation), which are recognised on provision of services and over the period of respective arrangements.

The Company has interconnect agreements with local and foreign operators. This allows customers from either network to originate or terminate calls to each others' network. Revenue is earned and recognised as per bilateral agreements when other operators' calls are terminated to the Company's network i.e. the service is rendered.

The Company has estimated 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 changed its policy on cost deferral recognition in these financial statements. Accordingly, the Company has deferred such costs over expected average customer life (for more details refer to note 10).

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.

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.

4.6 **Property, Plant and equipment**

All categories of property, plant and equipment are initially recorded at cost. All property, plant and equipment is subsequently measured at historical cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The expenditures that are incurred after an item of property, plant and equipment has been put to use, such as repairs and maintenance, are normally charged to the profit or loss in the period in which such costs are incurred. However, in situations where the said expenditure can be measured reliably, and is probable that future economic benefits associated with it will flow to the Company, it is included in the asset's carrying value or as a separate asset, as appropriate.

When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes such parts as separate components of assets. When an item of property, plant and equipment is replaced, then its carrying amount is de-recognised from the statement of financial position and cost of the new item is recognised.

Assets are depreciated to the residual values on a straight-line basis over the estimated useful lives. The assets' residual values and useful lives are reviewed at each financial year end or whenever there are indicators for impairment, and adjusted prospectively. Land is not depreciated

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

4.6 **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:

	Years
Buildings	20
Leaseholds improvements	10 or period of lease applicable, which ever is less
Network equipment	3-25
Computer equipment	3 -5
Furniture and equipment	1- 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. Gains and losses arising from retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement and disposal.

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 capitalised. Such cost comprises of purchase price (including non-refundable duties and taxes but excluding any trade discounts and rebates), and any directly attributable cost.

4.7 **Intangible assets**

The Company's intangible asset comprise of licenses. Licenses are recognised as an asset when it is probable that future economic benefits from the asset will flow to the Company 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 15 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.

The cost of intangible assets under development includes the amount of spectrum awarded to the Company for which services are yet to be rolled out

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

4.7 **Intangible assets** (Continued)

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

4.8 **Impairment of non-financial assets**

Property, plant and equipment (PPE), right-of-use assets (ROU) and intangible 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).

PPE, ROU and intangible assets with definite lives are reviewed for impairment, whenever events or changes in circumstances indicate that their carrying values may not be recoverable. For the purpose of impairment testing, the recoverable amount (that is, higher of the fair value less costs to sell and the value-in-use) is determined on an individual asset basis, unless the asset does not generate cash flows that are largely independent of those from other assets, in which case the recoverable amount is determined at the cash-generating-unit ('CGU') level to which the said asset belongs. If such individual assets or CGU are considered to be impaired, the impairment to be recognised in the statement of profit and loss is measured by the amount by which the carrying value of the asset / CGU exceeds their estimated recoverable amount and allocated on pro rata basis. Impairment losses, if any, are recognised in statement of profit and loss.

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.

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

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

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.

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

4.9 **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.

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.

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), variable lease payments that are based on consumer price index ('CPI'), the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Subsequently, the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments including due to changes in CPI or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or when the lease contract is modified and the lease modification is not accounted for as a separate lease. 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.

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

4.9 **Leases** (Continued)

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.

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. The Company recognizes 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.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

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

4.9 **Leases** (Continued)

For lessors lease income from operating leases is recognised in income on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Leases of property, plant and equipment where the Company has substantially retained all risks and rewards of ownership are classified as finance leases. Finance leases are capitalised by the lessee at the lease's commencement at the lower of fair value of the leased property and present value of minimum lease payments. The Lessor recognises assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease.

For a finance lease interest and depreciation is charged as expense in the periods in which they are incurred.

4.10 **Borrowing Costs**

When funds borrowed are specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of the borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of the borrowings.

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.

4. Significant accounting policies (Continued)

4.11 Taxation

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

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.

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.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except: When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised, except:

when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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.

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

4.11 **Taxation** (Continued)

Deferred tax (Continued)

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.

4.12 **Functional currency translations**

(a) *Functional and presentation currency*

The financial statements are presented in Malawi Kwacha, being the currency of the primary economic environment in which the Company operates (the functional currency). Transactions in foreign currencies are converted into Malawi Kwacha using the exchange rates prevailing at the dates of the transactions.

(b) *Transactions and balances*

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the foreign exchange rate ruling at that date. Exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the closing date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate prevalent, at the date of initial recognition (in case they are measured at historical cost) or at the date when the fair value is determined (in case they are measured at fair value) – with the resulting foreign exchange difference, on subsequent re-statement/settlement, recognised in the profit and loss, except to the extent that it relates to items recognised in the other comprehensive income or directly in equity.

All exchange differences are taken to profit and loss.

4.13 **Employee benefits**

a. *Retirement benefit obligations*

The Company operates a defined contribution scheme for all its employees. The Company and all its employees also contribute to the National Pension Scheme Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Company pays fixed contributions into a separate Company. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions to the defined contribution schemes are recognised in profit or loss in the year in which they fall.

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

4.13 **Employee benefits** (Continued)

b. **Other entitlements**

The estimated liability for employees' accrued gratuity and annual leave entitlement at the reporting date is recognised as an expense accrual.

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.

4.14 **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.

4.15 **Dividend**

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

4.16 **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.

4.17 **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.

4.18 **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

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

4.19 **Financial instruments**

4.19.1. **Recognition, classification and presentation**

Financial instruments are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial instruments at initial recognition.

The Company classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

The Company has classified all non-derivative financial liabilities as measured at amortised cost.

Financial assets with embedded derivatives are considered in their entirety for determining the contractual terms of the cash flow and accordingly, embedded derivatives are not separated. However, derivatives embedded in non-financial instrument/financial liabilities (measured at amortised cost) host contracts are classified as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts.

Financial assets and liabilities arising from different transactions are off-set against each other and the resultant net amount is presented in the statement of financial position, if and only when, the Company currently has a legally enforceable right to set-off the related recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

4.19.1. **Measurements – Non derivative financial instruments**

Initial measurement

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Other transaction costs are expensed as incurred in the Statement of Comprehensive Income.

Subsequent measurement - financial assets

The subsequent measurement of non-derivative financial assets depends on their classification as follows:

- i. Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest rate ('EIR') method (if the impact of discounting/any transaction costs is significant). Interest income from these financial assets is included in finance income.

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

4.19 **Financial instruments** (Continued)

4.19.1. **Measurements – Non derivative financial instruments** (Continued)

Subsequent measurement - financial assets (Continued)

i. **Financial assets measured at amortised cost** (Continued)

EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the gross carrying amount of the financial asset or to the amortised cost of a financial liability.

ii. **Financial assets at fair value through profit or loss ('FVTPL')**

All equity instruments and financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income ('FVTOCI') are measured at FVTPL. Interest (basis EIR method) and dividend income from financial assets at FVTPL is recognised in the profit and loss within finance income/finance costs separately from the other gains/losses arising from changes in the fair value.

4.19.3 **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, 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.

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

4.19 **Financial instruments** (Continued)

4.19.3 **Amortised cost and effective interest method** (Continued)

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.

4.19.4 **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.

4.19.5 **Impairment of financial assets**

The Company assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost and debt instrument carried at FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition. If credit risk has not increased significantly, 12 month expected credit loss ('ECL') is used to provide for impairment loss, otherwise lifetime ECL is used.

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.

However, only in case of trade receivables, the Company applies the simplified approach which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Financial liabilities are subsequently measured at amortised cost using the EIR method (if the impact of discounting/any transaction costs is significant).

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

4.19 **Financial instruments** (Continued)

4.19.5 **Impairment of financial assets** (Continued)

4.19.5.1. **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.

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

4.19 *Financial instruments* (Continued)

4.19.5 **Impairment of financial assets** (Continued)

4.19.5.1. **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.

4.19.5.2. **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.

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

4.19 **Financial instruments** (Continued)

4.19.5 **Impairment of financial assets** (Continued)

4.19.5.3. **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.

4.19.5.4. **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.

4.19.5.5. **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.

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

4.19 **Financial instruments** (Continued)

4.19.5 **Impairment of financial assets** (Continued)

4.19.5.5. **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.

4.19.5.6. **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.

4.20. **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.

4.21 **Financial liabilities and equity instruments**

4.21.1 **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.

4.21.2 **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.

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

4.21 **Financial liabilities and equity instruments** (Continued)

4.21.2 **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.

4.21.3 **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.

4.21.4 **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.

4.21.5 **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.

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

4.21 **Financial liabilities and equity instruments** (Continued)

4.21.6 **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.

4.22 **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.

4.23 **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.

4.23.1 **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.

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

4.23 **Hedge accounting** (Continued)

4.23.1 **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.

4.23.2 **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.

4.24 **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.

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

4.24 **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.

4.25 **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.

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

5.1 **Critical accounting estimates and assumptions**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Receivables

Critical estimates are made by the Directors in determining the recoverable amount of impaired receivables. The Company uses a provision matrix to measure the expected credit loss of trade receivables. Factors taken into consideration in making such judgments include historical trends and the number of days a debt is past its due date for payment. The carrying amount of impaired receivables is set out in Note 14.

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.

Deferred Tax Assets

Deferred tax assets are recognised by the Company, for the unused tax losses and temporary differences for which there is probability of utilisation against the taxable profit.

Uncertainties exist in determination of the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, future tax planning strategies and recent business performances and developments. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the reporting date. For details, refer Note 9.

Determination of residual values and useful lives

Judgment and estimations are used when determining the residual values and useful lives of property, plant and equipment on annual basis.

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

5.1 **Critical accounting estimates and assumptions** (Continued)

Contingent liabilities and provisions

The Company is involved in various legal, tax and regulatory matters, the outcome of which may not be favourable to the Company. Management in consultation with the legal, tax and other advisers to assess the likelihood that a pending claim will succeed. The Company has applied its judgement and has recognised liabilities based on whether additional amounts will be payable and has included contingent liabilities where economic outflows are considered possible but not probable. However, given the nature of these matters, there may be a risk of a material change within the next financial year.

5.2 **Critical judgments in applying the Company's accounting policies**

In the process of applying the Company's accounting policies, management has made judgments in determining:

a. **Determining the incremental borrowing rate for lease contracts**

The Company has recognised lease liabilities at present value using the incremental borrowing rate (IBR) based on considerations specific to the lease agreement. Since determination of incremental borrowings is not directly available for the given markets in which Company operates, the Company has used judgement in determining the IBR by taking into consideration risk free borrowing rate based on US\$ bonds and adjusting it for country and Company specific risk premiums. The IBR used across the Company is 9.84% for USD leases and 17.61% for MW leases.

b. **Separating lease and non-lease components**

The consideration paid by the Company in telecommunication towers lease contracts include the use of land, passive infrastructure as well as maintenance, security services, etc. Therefore, in determining the allocation of consideration between lease and non-lease components, for the additional services that are not separately priced, the Company performs detailed analysis of cost split to arrive at relative stand-alone prices of each of the components.

c. **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.

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

6a. Property, plant and equipment

	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
For the year ended 31 December 2020							
Cost							
At the beginning of the year	83 693 121	20 373 899	4 412 442	342 098	437 413	15 175 621	124 434 594
Additions	22 866 911	3 696 020	-	-	41 961	(7 806 879)	18 798 013
**Assets classified as held for sale	(1 422 770)	-	-	-	-	(2 482 479)	(3 905 249)
Disposal to Malawi Towers Limited	-	-	-	-	-	(7 938)	(7 938)
At the end of the year	<u>105 137 262</u>	<u>24 069 919</u>	<u>4 412 442</u>	<u>342 098</u>	<u>479 374</u>	<u>4 878 325</u>	<u>139 319 420</u>
Accumulated depreciation							
At the beginning of the year	42 471 185	17 782 212	1 772 806	341 850	388 559	-	62 756 612
Charge for the year	8 530 339	2 024 237	206 789	57	22 584	-	10 784 006
**Assets classified as held for sale	(159 039)	-	-	-	-	-	(159 039)
Adjustment reversal of ARO	4 649	-	-	-	-	-	4 649
At end of the year	<u>50 847 134</u>	<u>19 806 449</u>	<u>1 979 595</u>	<u>341 907</u>	<u>411 143</u>	<u>-</u>	<u>73 386 228</u>
NBV for 31 December 2020	<u>54 290 128</u>	<u>4 263 470</u>	<u>2 432 847</u>	<u>191</u>	<u>68 231</u>	<u>4 878 325</u>	<u>65 933 192</u>
NBV 31 December 2019	<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>

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. The carrying value of CWIP as at 31 December 2020 and 2019 is MK 4,878 million and MK 15,176 million respectively, mainly pertains to telecom equipment.

** Assets classified as held for sale have been further disclosed on note 6b to the financial statements.

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

6a. 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
<u>For the year ended 31 December 2019</u>							
Cost							
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
Disposals	-	-	-	-	-	(1 359 456)	(1 359 456)
Sale of 90 Towers to Malawi Towers Limited	(3 322 102)	-	-	-	-	-	(3 322 102)
Reclassification with ROU asset	(7)	-	(239 526)	-	-	-	(239 533)
Reclassifications with intangible assets	1 189 505	-	-	-	-	-	1 189 505
Reclassifications	(557 252)	557 252	-	-	-	-	-
At the end of the year	<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>
Accumulated depreciation							
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 year	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
At the end of the year	<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>
NBV for 31 December 2019	<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>
NBV 31 December 2018	<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>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

	<u>2020</u> K'000	<u>2019</u> K'000
6b. Assets classified as held for sale		
Network equipment (43 Towers)	1 263 731	-
Infrastructure assets (Capital work in progress)	2 083 403	-
Land - (Capital work in progress)	<u>399 076</u>	<u>-</u>
	<u>3 746 210</u>	<u>-</u>

On 20 November 2020, the Board approved to sale the passive infrastructure assets comprising the remaining 43 Towers together with its related infrastructure inventories. Further the Board also approved the sale of Land relating to 111 Tower sites. All the approved sales are to be made to Malawi Towers Limited.

Since the assets had already been earmarked for sale to Malawi Towers Limited, the company has classified assets as held for sale and reported them at their carrying amount which is the lower of fair value less costs to sale and carrying amount.

The stated sales are in line with the company's vision to focus on its core activities of providing telecommunication service to its end customers and the non-core activities be taken and operated by the company's sister company.

	<u>2020</u> K'000	<u>2019</u> K'000
7. Intangible assets		
Cost		
At the beginning of the year		6 654 777
Transfer to Airtel mobile commerce Limited	1 800 000	(835 696)
Additions	-	4 304 953
Reclassification to Network equipment	509 257	(1 189 505)
Reclassification to prepaid expense	-	<u>(7 134 529)</u>
	<u>2 309 257</u>	<u>1 800 000</u>
Amortisation		
At the beginning of the year		3 183 139
Transfer to Airtel mobile commerce Limited	1 064 784	(835 696)
Charge for the year	-	179 984
Reclassification to prepaid expense	281 365	(413 787)
Reclassification to network equipment	-	<u>(1 048 856)</u>
	<u>1 346 149</u>	<u>1 064 784</u>
Net book value	<u>963 108</u>	<u>735 216</u>

Macra Telecom License fee covers a period of 10 years from March 2014. Cost of the fee was K1.8 billion. Additions during the year represent deferred spectrum costs that have been capitalised and are being amortised accordingly.

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

8. Right of use assets

	Leasehold buildings K'000	Leasehold land K'000	Telecom equipment K'000	Dark fibre K'000	Motor Vehicle K'000	Total K'000
For the year ended 31 December 2020						
Cost						
At the beginning of the year	175 244	239 526	12 300 185	-	171 948	12 886 903
Additions	508 308	-	7 297 992	952 412	-	8 758 712
Adjustments/disposal	(17 977)	-	-	-	-	(17 977)
At the end of the year	<u>665 575</u>	<u>239 526</u>	<u>19 598 177</u>	<u>952 412</u>	<u>171 948</u>	<u>21 627 638</u>
Amortisation						
At the beginning of the year	115 405	28 640	1 393 444	-	171 948	1 709 437
Charge for the year	165 972	3 757	3 317 755	69 016	-	3 556 500
Adjustment/disposals	(17 977)	-	-	-	-	(17 977)
At end of the year	<u>263 400</u>	<u>32 397</u>	<u>4 711 199</u>	<u>69 016</u>	<u>171 948</u>	<u>5 247 959</u>
Net right of use asset 2020	<u>402 175</u>	<u>207 129</u>	<u>14 886 978</u>	<u>883 396</u>	<u>-</u>	<u>16 379 678</u>
Net right of use asset 2019	<u>59 839</u>	<u>210 886</u>	<u>10 906 741</u>	<u>-</u>	<u>-</u>	<u>11 177 466</u>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

8. Right of use assets (Continued)

	<u>Leasehold buildings</u> K'000	<u>Leasehold land</u> K'000	<u>Telecom equipment</u> K'000	<u>Motor vehicles</u> K'000	<u>Total</u> K'000
<u>For the year ended 31 December 2019</u>					
<u>Cost</u>					
At the beginning of the year	-	-	-	-	-
Additions	<u>175 244</u>	<u>239 526</u>	<u>12 300 185</u>	<u>171 948</u>	<u>12 886 903</u>
At the end of the year	<u>175 244</u>	<u>239 526</u>	<u>12 300 185</u>	<u>171 948</u>	<u>12 886 903</u>
<u>Amortisation</u>					
At the beginning of the year	-	-	-	-	-
Charge for the year	<u>115 405</u>	<u>28 640</u>	<u>1 393 444</u>	<u>171 948</u>	<u>1 709 437</u>
At end of the year	<u>115 405</u>	<u>28 640</u>	<u>1 393 444</u>	<u>171 948</u>	<u>1 709 437</u>
Net right of use asset 2019	<u>59 839</u>	<u>210 886</u>	<u>10 906 741</u>	<u>-</u>	<u>11 177 466</u>

The company leases several offices, vehicles, network equipment 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 4.9 to the financial statements.

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

9. **Deferred tax asset**

For the year ended 31 December 2020	Asset (liability) Opening <u>balance</u> K'000	(Charged)/ credited to income statement / equity <u>statement / equity</u> K'000	Closing <u>balance</u> K'000
Property, plant and equipment	(5 110 071)	(2 238 652)	(7 348 723)
Provision and fair value loss	4 118 593	1 603 582	5 722 175
Unrealised exchange losses and deferred revenue	<u>2 034 474</u>	<u>554 656</u>	<u>2 589 130</u>
	<u>1 042 996</u>	<u>(80 414)</u>	<u>962 582</u>
For the year ended 31 December 2019	Asset (liability) Opening <u>balance</u> K'000	(Charged)/ credited to income statement / equity <u>statement / equity</u> K'000	Closing <u>balance</u> K'000
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>			
Transition adjustment IFRS 16		1 763 722	
Transition adjustment IFRS 15		(64 892)	
Charged to income statement (note 31)		<u>(5 159 099)</u>	
Total movement as above		<u>(3 460 269)</u>	

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

10. Other non-current assets

	<u>2020</u> K'000	<u>2019</u> K'000
Security deposit *	45 000	45 000
Prepayments (Bandwidth)	6 112 916	7 301 149
Other – (deferred customer acquisition costs)	<u>88 965</u>	<u>107 168</u>
Total other non-current assets	<u>6 246 881</u>	<u>7 453 317</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.

Deferred customer acquisition cost

At the beginning of the year	763 461	-
Additions	2 727 880	1 683 719
Amortisation	<u>(1 623 038)</u>	<u>(920 258)</u>
At the end of the year	<u>1 868 303</u>	<u>763 461</u>

Deferred customer acquisition cost analysis

Current prepayment (note 14)	1 779 338	656 293
Non current prepayment	<u>88 965</u>	<u>107 168</u>
	<u>1 868 303</u>	<u>763 461</u>

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 IFRS 15 not to defer customer acquisition costs on recognition and amortise 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 with a financial impact of increasing profits before tax by K 25.980 million. The amounts relating to the prior and earlier years were not considered to be material requiring restatement of the prior year financial statements.

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.

AIRTEL MALAWI PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

12. Inventories

	<u>2020</u> K'000	<u>2019</u> K'000
Merchandise held for sale	355 672	237 038
Provision	<u>(94 047)</u>	<u>(186 842)</u>
	<u>261 625</u>	<u>50 196</u>

The company has provided fully for all handsets and accessory inventories over 180 days. The cost of inventories recognised as an expense and included in operating cost amounted to K650 million (2019: K294 million)

13. Related party disclosures

13.1 Amount due from other related parties

<u>Name of the related party</u>	<u>Relationship</u>	<u>2020</u> K'000	<u>2019</u> K'000
Bharti Airtel Limited	Step up parent	96 183	-
Airtel Money Trust (Mw)	Fellow subsidiary	-	71 776
Malawi Towers Limited	Fellow subsidiary	9 523 714	9 152 079
Airtel Tanzania Plc	Fellow subsidiary	-	1 892 262
Bharti Airtel (UK) Limited	Fellow subsidiary	2 310 205	949 136
Airtel Gabon S.A	Fellow subsidiary	-	2
Airtel Networks Limited	Fellow subsidiary	-	46 334
Airtel (Ghana) Limited	Fellow subsidiary	61 810	58 828
NXTRA Data Limited	Fellow subsidiary	25	-
Airtel Tchad S.A.	Fellow subsidiary	809	761
Airtel (Seychelles) Limited	Fellow subsidiary	<u>11 012</u>	<u>10 299</u>
		<u>12 003 758</u>	<u>12 181 477</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%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

13. Related party disclosures (Continued)

13.2 Amount due from other related parties

<u>Name of the related party</u>	<u>Country of incorporation</u>	<u>Relationship to company</u>	<u>2020</u> K'000	<u>2019</u> K'000
Airtel mobile commerce Limited	Malawi	Fellow subsidiary	778 753	4 774 357
Bharti Airtel International (Netherlands) BV	Netherlands	Step up parent	3 827 303	2 303 453
Network i2i Limited	Mauritius	Step up parent	1 216 947	763 303
Airtel Tanzania plc	Tanzania	Fellow subsidiary	6 018	-
Emtel Mauritius	Mauritius	Other related party	-	24
Airtel networks Zambia plc	Malawi	Fellow subsidiary	1 087 523	673 836
Bharti Airtel Limited	India	Step up parent	-	11 524
Airtel Networks Limited	Nigeria	Fellow subsidiary	59 816	-
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	219 291	189 353
Nxtra Data Limited	India	Fellow subsidiary	74 574	30 030
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	111 630	107 807
Airtel Congo (RDC) S.A	Congo (DRC)	Fellow subsidiary	3 522	2 560
Airtel Madagascar S.A	Madagascar	Fellow subsidiary	22 566	21 483
Airtel Uganda Limited	Uganda	Fellow subsidiary	128 438	114 575
Airtel Congo S.A	Congo	Fellow subsidiary	100 996	84 282
Airtel Gabon S.A	Gabon	Fellow subsidiary	23 610	4
Bharti Airtel Malawi Holdings BV	Netherlands	Holding company	2 989 668	2 838 829
Centum Learning Limited	India	Other related party	46 335	30 582
Bharti Airtel Sri Lanka (private) Limited	Sri Lanka	Fellow subsidiary	-	13
Celtel Niger S.A	Niger	Fellow subsidiary	8	83
Bharti Airtel (France) SAS	France	Fellow subsidiary	1 169 735	783 083
Bharti Airtel Services Limited	India	Fellow subsidiary	47 552	45 153
Total			<u>11 914 285</u>	<u>12 774 334</u>

No provisions for impairment losses have been required in 2020 and 2019 for any related party receivables. Amounts due from/to related parties carry no interest, are receivable/payable on demand and are at arm length.

* 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 2020

13. Related party disclosures (Continued)

13.3 Related party transactions

13.3.1 Sales of goods and services

	<u>2020</u> K'000	<u>2019</u> K'000
Airtel (Ghana) Limited	4	17
Airtel (Seychelles) Limited	25	328
Airtel Congo (RDC) S.A	2 584	1 136
Airtel Congo S.A	16	29
Airtel Gabon S.A	15	62
Airtel Madagascar S.A	27	191
Airtel Mobile Commerce Limited	2 505 527	1 465 207
Airtel Networks Kenya Limited	27 015	25 172
Airtel Networks Limited	2 193	97 887
Airtel Networks Zambia plc	103 031	145 910
Airtel Rwanda Limited	421	5 652
Airtel Tanzania Limited	52 874	71 055
Airtel Tchad S.A	1	30
Airtel Uganda Limited	3 039	4 267
Bharti Airtel (UK) Limited	3 651 006	4 466 931
Bharti Airtel Lanka (Private) Limited	-	4
Bharti Airtel Limited	111 373	892
Bharti Hexacom Limited	18	-
Celtel Niger S.A	8	11
Emtel Mauritius	5	83
Jersey Airtel Limited	4	3
Malawi Towers Limited	2 320 790	12 161 198
	<u>8 779 976</u>	<u>18 446 065</u>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

13. Related party disclosures (Continued)

13.3 Related party transactions (Continued)

13.3.2 Purchase of goods and services

	<u>2020</u> K'000	<u>2019</u> K'000
Airtel (Ghana) Limited	16	1 674
Airtel Congo (RDC) S.A	20 982	18 016
Airtel Congo S.A	61 645	79 202
Airtel Gabon S.A	34	336
Airtel Madagascar S.A	338	480
Airtel Mobile Commerce Limited	6 121 848	5 007 689
Airtel Networks Kenya Limited	59 690	426 664
Airtel Networks Limited	13 996	34 509
Airtel Networks Zambia plc	500 967	1 407 061
Airtel Rwanda Limited	778	5 871
Airtel Tanzania Limited	252 371	228 062
Airtel Tchad S.A	12	36
Airtel Uganda Limited	4 651	109 336
Bharti Airtel (France) SAS	544 769	5 476 060
Bharti Airtel (UK) Limited	1 437 574	1 230 560
Bharti Airtel International (Netherlands) B.V	232 720	-
Bharti Airtel International (Netherlands) B.V; Kenya Branch	19 756	-
Bharti Airtel Lanka (Private) Limited	1	45
Bharti Airtel Limited	4 814	231 843
Bharti Airtel Malawi Holdings B.V	130 250	1 239 937
Bharti Airtel Services Limited	24	55 416
Bharti Hexacom Limited	47	-
Celtel Niger S.A	29	180
Centum Learning Limited	99 921	80 332
Emtel Mauritius	53	2 827
Jersey Airtel Limited	1	-
Malawi Towers Limited	6 809 314	6 078 352
Network i2i Limited	415 933	369 077
Nxtra Data Limited	39 488	80 315
Airtel (Seychelles) Limited	-	666
	<u>16 772 022</u>	<u>22 164 546</u>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

13. Related party disclosures (Continued)

13.3 Related party transactions (Continued)

13.3.3 Management fees

	<u>2020</u> K'000	<u>2019</u> K'000
Bharti Airtel International (Netherlands) BV	289 035	506 215
Bharti Airtel International (Netherlands) BV – Kenya branch	<u>2 928 104</u>	<u>1 621 063</u>
	<u>3 217 139</u>	<u>2 127 278</u>

14. Trade and other receivables and other current assets

14.1 Trade and other receivables

Trade receivables	14 346 678	13 997 321
Less: provision for impairment losses	<u>(6 751 771)</u>	<u>(5 883 214)</u>
Amount due from related parties (Note 13.1)	7 594 907	8 114 107
Other receivables	<u>12 003 758</u>	<u>12 181 477</u>
	<u>5 250</u>	<u>7 698</u>
	<u>19 603 915</u>	<u>20 303 282</u>

14.2 Other current assets

Prepayment	2 543 835	1 584 439
Deferred customer acquisition costs (note 10)	1 779 338	656 293
Interest accrued on investment	16 307	-
Advance to supplier	452 789	1 060 234
Tax recoverable	422 548	490 477
Others	<u>939 194</u>	<u>412 924</u>
	<u>6 154 011</u>	<u>4 204 367</u>

Other expense mainly includes cost to obtain or fulfil contracts with customers, prepaid payments in respect of indefeasible right to use (IRU) network costs and advance rent to offices and shops Tax recoverable includes value added tax (VAT). Advances to suppliers are disclosed net of provision of K233 million.

14. Trade and other receivables and other current assets (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 K1 863 million (2019: K763). Refer to note 10 to the financial statements.

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>2020</u> K'000	<u>2019</u> K'000
At the beginning of the year	5 883 214	5 173 955
Loss allowance recovered	-	(328 447)
Change in loss allowances	<u>868 557</u>	<u>1 037 706</u>
Total	<u>6 751 771</u>	<u>5 883 214</u>

The average credit period on sales of goods is 30 days. No interest is charged on outstanding trade receivables. 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.

The Company uses a provision matrix to measure the expected credit loss of trade receivables. Based on the industry practices and the business environment in which the Company 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 creditworthiness 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.

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

14. Trade and other receivables and other current assets (Continued)

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

The Company 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. None of the trade receivables that have been written off is subject to enforcement activities.

As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Company's different 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 2020, 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%	0.0%	100.0%	100.0%
Channel partner	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%
Enterprise	0.0%	0.0%	0.0%	100.0%	100.0%	99.0%
Interconnect*	0.0%	0.0%	0.0%	0.0%	0.0%	36.0%
Lease line	0.0%	0.0%	0.0%	100.0%	100.0%	70.0%
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%	7.0%	4.0%	5.0%
Other receivables**	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%

** 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.

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

14. Trade and other receivables and other current assets (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	243	474	733	-	874	50 665	52 989
Channel partner	1 022 950	(601)	(2 435)	(2 068)	6 499	358 670	1 383 015
Enterprise	113 853	66 531	56 658	77 827	79 573	921 848	1 316 290
Interconnect*	(9 870)	13 143	3 866	8 086	56 621	4 157 517	4 229 363
Lease line	173 777	130 087	121 333	195 673	206 952	920 954	1 748 776
Postpaid	(12 220)	55 828	37 278	99 169	114 265	1 743 916	2 038 236
Roaming	30 294	5 579	1 668	513	53 988	598 383	690 425
Site sharing	-	-	79 806	77 751	134 229	2 136 675	2 428 461
Other receivables**	912 014	(21 456)	(58 846)	(39 376)	(26 903)	(306 310)	459 123
Total	2 231 041	249 585	240 061	417 575	626 098	10 582 318	14 346 678

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	-	-	-	-	874	50 665	51 539
Channel partner	-	-	-	-	6 499	358 670	365 169
Enterprise	-	-	-	77 827	79 573	911 716	1 069 116
Interconnect*	-	-	-	-	-	1 486 701	1 486 701
Lease line	-	-	-	195 673	206 952	641 517	1 044 142
Postpaid	-	-	-	99 169	114 265	1 743 918	1 957 352
Roaming*	-	-	-	513	53 987	598 383	652 883
Site sharing	-	-	-	5 583	5 569	111 378	122 530
Other receivables	-	-	-	-	-	2 339	2 339
Totals	-	-	-	378 765	467 719	5 905 287	6 751 771

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%

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

14. Trade and other receivables and other current assets (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 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
Total	1 707 879	728 547	821 718	1 978 770	1 258 117	7 502 290	13 997 321

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	-	-	-	-	-	-	-
Totals	-	-	-	960 381	572 941	4 349 892	5 883 214

15. Income Tax payable/(recoverable)

	2020 K'000	2019 K'000
Balance at the beginning of the year	(1 990 444)	(6 092 747)
Withholding tax paid during the year	(1 631 714)	(60 818)
Provisional tax paid during the year	(1 426 277)	-
Charge for the year (note 31)	9 544 324	4 163 121
Income tax payable / (recoverable)	4 495 889	(1 990 444)

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

	<u>2020</u> K'000	<u>2019</u> K'000
16. Cash and cash equivalents		
Short term deposit accounts		
Current bank accounts		-
FCDA account	9 369 240	3 196 406
Cash in hand	126 784	1 220 960
Short term deposit accounts	421 741	1 257 266
	<u>7 500 000</u>	<u>-</u>
Totals	<u>17 417 765</u>	<u>5 674 632</u>

Included in bank balances and cash are foreign currency denominated balances valued at K126 million (2019: K1220 million) at 31 December 2020. The balances were earning nil % in 2020 (2019: nil %) per annum. The rest of the bank balances are denominated in Malawi Kwacha and were earning interest between 5-12% per annum (2019: 5 -10%).

The carrying amount of K17 417 million (2019: K5 674 million) is a reasonable approximation of fair value.

17. Borrowings

	<u>2020</u> K'000	<u>2019</u> K'000
Non-current		
Term loans	31 485 796	30 712 290
Less: current	<u>(30 958 695)</u>	<u>(29 682 578)</u>
Non current portion of the loan	<u>527 101</u>	<u>1 029 712</u>
Current maturity of long term debts	<u>30 958 695</u>	<u>29 682 578</u>

The term loans are due to the following:-

	Bharti Airtel Malawi Holdings BV	Bank of America	
	Holding company related party K'000	Bank Hong kong K'000	Closing balance K'000
As at 1 January 2020			
At the beginning of the year	1 261 071	29 451 218	30 712 289
Drawdown during the year (Interest charges capitalised)	61 305	678 364	739 669
Repayments in the year	(819 703)	(774 568)	(1 594 272)
Exchange loss	<u>32 833</u>	<u>1 595 276</u>	<u>1 628 109</u>
At the end of the year	<u>535 506</u>	<u>30 950 290</u>	<u>31 485 796</u>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

17. **Borrowings** (Continued)

	Bharti Airtel Malawi Holdings BV	Bank of America	
	Holding company related party K'000	Bank Hong kong K'000	Closing balance K'000
As at 1 January 2019			
At the beginning of the year	14 127 688	29 266 618	43 394 306
Drawdown during the year (Interest charges capitalised)	991 631	1 027 459	2 019 090
Repayments in the year	(14 020 288)	(1 057 400)	(15 077 688)
Exchange loss	<u>162 040</u>	<u>214 541</u>	<u>376 581</u>
At the end of the year	<u>1 261 071</u>	<u>29 451 218</u>	<u>30 712 289</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. 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.

As at 31 December 2020, the shareholder loan denominated in US Dollar amounted to USD 2 million (2019: USD 2 million) is unsecured and interest is charged at Libor plus 450 bps. The loan was provided by Bharti Airtel Malawi holdings BV. 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 2020

18. Lease liabilities

As at 31 December 2020, the company had the following lease liabilities:-

	<u>2020</u> K'000	<u>2019</u> K'000
Current portion of Leases liabilities	3 335 304	2 673 099
Non-current portion of leases liabilities	<u>23 085 573</u>	<u>13 482 604</u>
Total lease liabilities	<u>26 420 877</u>	<u>16 155 703</u>

Lease details are as below:-

	<u>2020</u> K'000	<u>2019</u> K'000
Opening lease liability	16 155 703	-
Additional lease during the year	8 758 712	18 526 447
Interest on lease liability	1 291 319	834 892
*Repayment of lease liabilities	(712 866)	(3 338 210)
Unrealised exchange movement	<u>928 009</u>	<u>132 574</u>
	<u>26 420 877</u>	<u>16 155 703</u>

*The Company has identified certain amounts payable under its leases which are accrued or due to and were grouped under trade payables during the previous year. Consequently, an amount of K4,478 million has been reclassified to lease liabilities during the year. The amount of lease payments above is after adjusting the impact of such reclassification.

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)
For the year ended 31 December 2020

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:-

Name of the Entity	Local Currency Leases	USD Leases
Airtel Malawi Plc	17.61%	9.84%

Undiscounted Maturity Schedule

Maturity analysis of lease liabilities

Lease liability Aging	2020 K'000	2019 K'000
Less than one year	8 006 468	3 630 494
One to two years	8 120 568	3 443 534
Two to three years	19 496 568	9 131 343
More than five years	<u>13 996 056</u>	<u>3 302 584</u>
	49 619 660	19 507 955
Less: future finance charges	(23 198 783)	(3 352 252)
	<u>26 420 877</u>	<u>16 155 703</u>

19. Deferred Spectrum liabilities

As at 31 December 2020, the company had the following deferred spectrum liabilities:-

	2020 K'000	2019 K'000
Non-current portion of deferred spectrum liabilities	263 993	-
Current portion of deferred spectrum liabilities	<u>166 491</u>	<u>-</u>
Total	<u>430 484</u>	<u>-</u>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

19. Deferred spectrum liabilities (Continued)

The movement for the year is as follows:

	<u>2020</u> K'000	<u>2019</u> K'000
At the beginning of the year	-	-
Additions during the year	509 257	-
Interest during the year	21 605	-
Repayments during the year	(122 208)	-
Exchange loss	<u>21 829</u>	<u>-</u>
	<u>430 484</u>	<u>-</u>

20. Trade and other payables

	<u>2020</u> K'000	<u>2019</u> K'000
Trade payable	4 237 847	10 339 515
Amount due to related parties (Note 13.2)	11 914 285	12 774 334
Other payables	<u>22 139 728</u>	<u>22 556 900</u>
	<u>38 291 860</u>	<u>45 670 749</u>

Trade payables are represented by amounts payable both to local and foreign suppliers. The other payables comprise accrued expense, PAYE, provision for security expenses, withholding tax deducted from suppliers, provision for audit fees, provisions for legal cases, 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.

21. Contract liabilities

	<u>2020</u> K'000	<u>2019</u> K'000
Deferred income	<u>6 813 217</u>	<u>5 381 171</u>

Amounts received in advance from prepaid customers for delivery of internet and voice service.

Revenue relating to internet and voice services is recognised over time, when a customer makes use of the talk-time that was carried forward. There is no significant change in contract liability balances during the reporting period.

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

22. Other current liabilities

	<u>2020</u> K'000	<u>2019</u> K'000
Dividends (note 23)	4 858 047	-
Provisions (note 24)	<u>860 598</u>	<u>720 487</u>
Totals	<u>5 718 645</u>	<u>720 487</u>

23. Dividend payable

At beginning of the year	-	8 268 856
Dividend declared	13 750 000	-
Dividend paid	<u>(8 891 953)</u>	<u>(8 268 856)</u>
At the end of the year	<u>4 858 047</u>	<u>-</u>

24. Provisions

For the year ended and as at 31 December 2020

	<u>At the beginning the year</u> K'000	<u>Addition in the year</u> K'000	<u>Reversed/ transferred in the year</u> K'000	<u>Utilised in the year</u> K'000	<u>At the end of the year</u> K'000
Bonus provision	287 238	365 158	111 896	(495 855)	268 437
Tevet provision	18 724	39 748	-	-	58 472
Asset retirement obligation	9 093	53 420	-	-	62 513
Provision for MACRA	227 143	305 143	-	(228 000)	304 286
Provision for leave	<u>178 289</u>	<u>166 890</u>	<u>(164 827)</u>	<u>(13 462)</u>	<u>166 890</u>
	<u>720 487</u>	<u>930 359</u>	<u>(52 931)</u>	<u>(737 317)</u>	<u>860 598</u>
Current amount payable within 12 months	<u>720 487</u>	<u>930 359</u>	<u>(52 931)</u>	<u>(737 317)</u>	<u>820 598</u>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

24. Provisions (Continued)

For the year ended and as at 31 December 2019

	<u>At the beginning the year</u> K'000	<u>Addition in the year</u> K'000	<u>Reversed/ transferred in the year</u> K'000	<u>Utilised in the year</u> K'000	<u>At the end of the year</u> 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	<u>106 872</u>	<u>81 570</u>	<u>-</u>	<u>(10 153)</u>	<u>178 289</u>
	<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>

25. Operating revenue

	<u>2020</u> K'000	<u>2019</u> K'000
Airtime revenue	59 301 253	53 963 286
Data revenue	40 389 954	27 560 371
Interconnect	4 341 047	7 364 129
Other services	649 176	619 863
Short messaging services	5 270 952	3 125 667
Value added services content	3 793 223	2 585 741
Roaming	469 682	1 232 082
Activation revenue	937 100	429 278
Handset & accessories	412 229	222 123
Trade discount	<u>(5 331 295)</u>	<u>(4 278 976)</u>
Total	<u>110 233 321</u>	<u>92 823 564</u>

Performance obligations that are unsatisfied (or partially unsatisfied) amounting to K 6 813 million at 31 December 2020 and K 5 381 million as at 31 December 2019 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 5 381 million for 2020 (2019: K 3 790 million). Transfers from unbilled revenue recognized at the beginning of the year to receivables is K 383 million for 2019 (2019: K 896 million).

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

26. Other income	<u>2020</u> K'000	<u>2019</u> K'000
Interest income	891 626	156 978
Other operating income	14 361	2 088 517
Liability written back	177 470	-
Loss allowance recovered (note 14)	<u>-</u>	<u>328 447</u>
	<u>1 083 457</u>	<u>2 573 942</u>
27. Operating expenses		
Network operation & maintenance	19 776 949	14 750 031
Sales and marketing expenses	7 439 385	4 829 021
Employee benefits expenses	3 826 168	3 868 345
Access charges	<u>3 076 096</u>	<u>5 007 175</u>
	<u>34 118 598</u>	<u>28 454 572</u>
28a Other expenses	<u>2020</u> K'000	<u>2019</u> K'000
IT expenses	2 148 172	2 357 923
Management fees	2 884 109	2 479 786
Content charges	3 560 952	4 581 780
Travel expenses	936 039	1 490 354
Administrative expenses	1 389 863	1 703 964
Provisions for legal cases	694 742	-
Customer services expenses	541 980	875 435
Rates and Taxes	328 699	1 360 961
Billing and collection expenses	680 534	568 429
Corporate social responsibility	148 502	46 153
Directors' remuneration – for managerial services	1 495 827	1 335 073
Directors' remuneration – for services as Director	34 031	28 718
Cost of goods sold	649 488	293 854
Provision for impairment losses	868 557	1 037 709
Auditors' remuneration	<u>89 279</u>	<u>71 928</u>
	<u>16 450 774</u>	<u>18 232 067</u>
28b. Licence fee/spectrum usage charges		
Net Operating Revenue	<u>101 493 602</u>	<u>81 260 370</u>
MACRA levy at 5%	5 074 680	4 063 018
Spectrum and frequency fees	<u>3 663 086</u>	<u>3 514 055</u>
	<u>8 737 766</u>	<u>7 577 073</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

28b. Licence fee/spectrum usage charges (Continued)

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 royalty.

	<u>2020</u>	<u>2019</u>
	K'000	K'000
Interconnect Call Termination Rate Cost (0.08 cents)	<u>795 878</u>	<u>1 488 184</u>

28c. Depreciation and amortisation

Depreciation on property and equipment (note 6)	10 784 006	9 410 364
Depreciation on right-of use assets (note 8)	3 556 500	1 709 437
Amortisation of intangible assets (note 7)	<u>281 365</u>	<u>179 984</u>
	<u>14 621 871</u>	<u>11 299 785</u>

29. Foreign exchange losses

Realised exchange gain	(788 418)	(1 553 256)
Realised exchange loss	890 863	12 891 562
Unrealised exchange gain	219 879	1 478 892
Unrealised exchange loss	<u>3 237 766</u>	<u>(11 459 700)</u>
Net foreign exchange loss	<u>3 560 090</u>	<u>1 357 498</u>

30. Finance cost and income

Interest expenses	749 771	2 364 808
Bank charges	26 089	46 309
Interest on lease liability	<u>1 312 924</u>	<u>834 892</u>
Total finance cost	<u>2 088 784</u>	<u>3 246 009</u>

31. Income tax expenses

	<u>2020</u>	<u>2019</u>
	K'000	K'000
Income tax expense		
Current income – note 15	9 544 324	4 163 121
Other tax	21 456	-
Deferred tax – note 9	<u>80 414</u>	<u>5 159 099</u>
	<u>9 646 194</u>	<u>9 322 220</u>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

31. Income tax expenses (Continued)

A reconciliation between tax expense and accounting profit is as follows

	<u>2020</u> K'000	<u>2019</u> K'000
Profit before tax	31 738 895	25 230 502
Income tax at 30%	9 521 669	7 569 151
Expenses not deductible for tax purposes	<u>124 525</u>	<u>1 753 069</u>
	<u>9 646 194</u>	<u>9 322 220</u>

32. Compensation of key management personnel.

Salaries	712 624	714 874
Benefits	504 337	467 279
Bonuses	<u>278 866</u>	<u>192 401</u>
	<u>1 495 827</u>	<u>1 374 554</u>

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:

	EMPLOYEE NAME	DESIGNATION	
1	Mr. Charles Kamoto	Managing Director	Full year
2	Mr. Indradip Mazumdar	Finance Director	Full year
3	Ms. Hlupekire Chalamba	Legal & Regulatory Director	Full year
4	Mr. Alick Sikelo	Human Resource & Administration Director	Full year
5	Mr. Aashish Dutt	Sales & Distribution Director	Full year
6	Mr. Allan Banda	IT Director	Full year
7	Mr. Frank Magombo	Marketing Director	Full year
8	Mr. Beston Ndhlovu	Supply Chain Management Director	Full year
9	Ms. Sibusiso Twea Nyasulu	Customer Experience Director	Full year
10	Mr. Bruce Masamba	Network Director	Up to January 2020
11	Ms. Stella Hara	Enterprise Director	Effective February 2020
12	Mr. Misheck Kavuta	Head of Home Broadband	Effective February 2020
13	Mr. Mphatso Manda	Network Director	Effective February 2020

	<u>2020</u> K'000	<u>2019</u> K'000
33. Defined contribution plan expenses	<u>308 830</u>	<u>339 582</u>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2020

34. Capital Commitments

Capital expenditure

Estimate amount of contract expenditure to be incurred	<u>8 078 518</u>	<u>15 879 439</u>
--------------------------------------------------------	------------------	-------------------

The expenditure will be financed from internal resources. The amount is net capital advances.

35. 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 year. There were no potentially dilutive shares outstanding at 31 December 2020 and 31 December 2019. Dilutive earnings per share is therefore the same as basic earnings per share.

	<u>2020</u> K'000	<u>2019</u> K'000
Profit attributable to ordinary shareholders for the year (K'000)	<u>22 092 701</u>	<u>15 908 282</u>
Weighted average number of shares	<u>11 000 000 000</u>	<u>11 000 000 000</u>

	<u>2020</u> K'000	<u>2019</u> K'000
Basic earnings per share (MK)	<u>2.01</u>	<u>1.45</u>
Diluted earnings per share (MK)	<u>2.01</u>	<u>1.45</u>

36. Contingent liabilities

Contingent liabilities	<u>-</u>	<u>-</u>
------------------------	----------	----------

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

37 Financial risk management

37.1 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>2020</u> K'000	<u>2019</u> K'000
<u>Financial assets held at amortised cost</u>		
Trade and other receivables	7 594 907	8 114 107
Amount due from related parties	12 003 758	12 181 477
Cash and cash equivalents	<u>17 417 765</u>	<u>5 674 632</u>
	<u>37 016 430</u>	<u>25 970 216</u>
<u>Financial assets at FVTPL</u>		
Investment – long term	<u>81 000</u>	<u>81 000</u>
Total financial assets	<u>37 097 430</u>	<u>26 051 216</u>
<u>Financial liabilities held at amortised cost</u>		
Loan due to bank of America	30 950 290	29 451 219
Loan due to holding company	535 506	1 261 071
Amount due to related parties	11 914 285	12 774 334
Trade and other payables	<u>26 377 575</u>	<u>38 277 586</u>
Total	<u>69 777 656</u>	<u>81 764 210</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

37 Financial risk management (Continued)

37.2 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, 2020.

(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 2020, 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 K1 500 million (2019: K1 939 million) lower/higher, mainly as a result of US dollar denominated borrowings.

37. Financial risk management (Continued)

37.2 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 amount arose as a result of the conversion of the amount payable to Bharti Airtel International BV following the agreement figured between Bharti Airtel Malawi Holdings BV and Airtel Malawi plc on 23 April 2015 and subsequent agreements on 15 April 2016 and 29 August 2017 respectively. 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 2020, if effective interest rates on borrowings had been 1% higher/lower with all other variables held constant, profit before tax would have been K 307 million (2019: K335 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 are 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, 2020 and December 31, 2019 is the carrying amounts as reflected in Note 14.

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

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

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

(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.

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
<u>As at 31 December 2020</u>				
Liabilities				
Loan due to Bank of America	25 627	30 924 663	-	30 950 290
Loan due to holding company	-	8 405	527 101	535 506
Amounts due to related parties	11 914 285	-	-	11 914 285
Trade and other payables	<u>26 377 575</u>	<u>-</u>	<u>-</u>	<u>26 377 575</u>
Total liabilities	<u>38 317 487</u>	<u>30 933 068</u>	<u>527 101</u>	<u>69 777 656</u>

	<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
<u>As at 31 December 2019</u>				
Liabilities				
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>32 896 415</u>	<u>-</u>	<u>-</u>	<u>32 896 415</u>
Total liabilities	<u>75 121 968</u>	<u>231 359</u>	<u>1 029 713</u>	<u>76 383 040</u>

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

37. Financial risk management (Continued)

37.2 Financial risk management objectives and policies (Continued)

37.3 Capital management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital is calculated as equity plus net debt.

The gearing ratios at 31 December 2020 and 31 December 2019 were as follows:

	<u>2020</u> K'000	<u>2019</u> K'000
Total borrowings (including bank overdraft and lease liabilities)	57 906 673	46 867 993
Less: cash and cash equivalents	(17 417 765)	(5 674 632)
Net debt	40 488 908	41 193 361
Total equity	<u>24 093 199</u>	<u>15 750 498</u>
Total capital	<u>64 582 107</u>	<u>56 943 859</u>
Gearing ratio	<u>63%</u>	<u>72%</u>

38. 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.

Set out below is a comparison by class of the carrying amount and fair value of the financial instruments that are recognised in the financial statements. The carrying amount of the financial assets and financial liabilities approximate their fair values because of their short term nature as shown below.

38.1 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.

38.2 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).

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

38. Fair value measurements (Continued)

38.3 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>2020</u> Carrying amount	<u>2020</u> Fair value	<u>2019</u> Carrying amount	<u>2019</u> Fair value
<u>Financial assets classified at amortized cost</u>				
Trade and other receivables	7 600 157	7 600 157	8 114 107	8 114 107
Amount due from related parties	<u>12 003 758</u>	<u>12 003 758</u>	<u>12 181 477</u>	<u>12 181 477</u>
Total	<u><u>19 603 915</u></u>	<u><u>19 603 915</u></u>	<u><u>20 295 584</u></u>	<u><u>20 295 584</u></u>
<u>Financial assets classified at FVTPL</u>				
Investment	<u>81 000</u>	<u>81 000</u>	<u>81 000</u>	<u>81 000</u>
<u>Financial liabilities at amortized cost</u>				
Loan due to Bank of America	30 950 290	30 950 290	29 451 219	29 451 219
Loan due to holding company	535 506	535 506	1 261 071	1 261 071
Amounts due to related parties	11 914 285	11 914 285	12 774 334	12 774 334
Trade and other payables	<u>26 377 575</u>	<u>26 377 575</u>	<u>32 896 415</u>	<u>32 896 415</u>
Total	<u><u>69 777 656</u></u>	<u><u>69 777 656</u></u>	<u><u>76 383 039</u></u>	<u><u>76 383 039</u></u>

Fair value hierarchy as at 31 December 2020

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

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

38. Fair value measurements (Continued)

38.3 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 2019

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

39. 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.

	31 December <u>2020</u>	31 December <u>2019</u>
Kwacha/US Dollar	766.67	736.66
Inflation	7.6%	11.5%

Subsequent to the year end, on 30 March 2021, the above economic factors had moved as follows:

Kwacha/US Dollar	783.62
Inflation (February 2021)	8.3%

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

40. Comparatives

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

41. Segment reporting

Management has determined the operating segments based on the reports reviewed by the Executive management committee that are used to make strategic decisions. The committee considers the business as a single operating segment, being the Malawi operations, as the information reported to the executive management committee for the purpose of strategic decision making is not presented per product line.

The reportable operating segment derives its revenue primarily from the of sale of voice and data services to subscribers of the network and to foreign telephone operators when their subscribers utilize the Airtel Malawi network. Other revenue consists of connection and subscription charges and sale of mobile handsets to customers.

The executive management committee measures assess the performance of the operating segment based on a measure of Earnings before Interest, Tax, Depreciation and Amortisation.

Breakdown of revenue from all services is shown in note 25 to the financial statements.

42. Impact of the Covid -19

Malawi registered its first ever COVID-19 cases in April 2020. Thus, the Government of Malawi implemented restrictive measures in both international and local travel, in the conduct of business within the country. We noted that this was in line with the measures that the other Southern Africa countries took in preventing the further spread of the pandemic.

The pandemic slowed down in the final quarter of 2020, and that the total number of active cases were also falling down. The reduction in cases was therefore expected to ease pressure on the local economy with an expectation for a recovery in 2021. The second wave of COVID-19 Pandemic was expected to affect the first half of 2021 but the global economy was forecasted to recover and to grow the GDP by 5.4% in 2021 from the -4.9% GDP growth in 2020.

The Malawi 2020 GDP growth projected at 1.9%, down from the initial projections of 5.1% projection as forecasted at the beginning of the year. The forecasts indicated the local economy GDP would grow by 3% in 2021

In response to ensure proper operations of the company, the company implemented 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 period. All customers and staff are now being requested to wash their hands prior to entering the Service Centre or Head Office premises.

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

Further to that, most of the staff at Airtel Malawi Plc as at 31 December 2020 have been working from home with few working on shift basis especially the operational staff who cannot work from home but to operate the network machinery while on the ground.

Economically the country has been affected by the pandemic due to slow down of operations. However for the Telecommunication sector particularly due to the increase in the usage of data , this has been a bonus to the company as most people are working from home and they need to be connected hence the increase in data demand.

AIRTEL MALAWI PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2020

43. Subsequent events

Loan facilities

Subsequent to the year end , the company was in negotiations with the third party lenders for the provision of debt facilities that will be used to settle the short term facility they had with Bank of America (Hong Kong Branch) which falls due on 13 September 2021. The facilities being arranged are for periods ranging from 3 to 5 years.

The company is engaging with the following banks;

1. National Bank of Malawi plc US\$ 20 million;
2. First capital Bank Plc US\$ 8 million (equivalents to Mk 6billion); and
3. Eco Bank Malawi US\$ 6 million.

The company's intention is to begin to retire the Bank of America facility starting from April 2021 and to be cleared no later than 31 August 2021. The lender has already agreed to receiving the repayments any time with a minimum of US\$ 1 million instalments.

Dividend

Subsequent to the year end in March 2021, the company proposed a dividend of K 23.1 billion in respect of 2020 financial results.