

MALAWI TOWERS LIMITED

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

MALAWI TOWERS LIMITED
ANNUAL REPORTS AND FINANCIAL STATEMENTS
For the year ended 31 December 2020

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MALAWI TOWERS LIMITED
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

Main Business and Operations

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

The holding company of Malawi Towers Limited is Bharti Airtel Malawi Holdings B.V. The company's registered office is at Airtel Complex, City Centre, Off Convention Drive, P.O. Box 57, Lilongwe, Malawi.

2. AUTHORISED AND ISSUED SHARE CAPITAL

The company has authorised ordinary shares of 10,000,000 (2019: 10,000,000) of K1 each. The issued and fully paid capital is K10 million (2019: K10 million) divided into 10,000,000 (2019: 10,000,000) fully paid Ordinary Shares of K1 each. Details of these are shown in the statement of changes in equity on page 9.

3. DIRECTORS

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

<u>Name</u>	<u>Residence</u>	<u>Period</u>
1. Charles Kamoto	Malawian	Appointed on 12 April 2015
2. Hlupekire Chalamba	Malawian	Appointed on 12 April 2015

4. COMPANY SECRETARY

The secretary of the company is Hlupekire Chalamba

5. INCOME STATEMENT

The directors report a profit after tax of K0.148 billion (2019: K0.726 billion). Refer to page 8 for more details.

6. RESERVES

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

7. EVENTS AFTER THE REPORTING PERIOD

Except for matters discussed on note 28 to the financial statements, there have been no other material events after the reporting date which would require disclosure in or adjustment to the financial statements for the year ended 31 December 2020.

8. GOING CONCERN

The company recorded a profit after taxation for the year ended 31 December 2020 of K0.148 billion (2019: K0.726 billion). As at 31 December 2020, the company had a shareholders' deficit of K2.432 billion (2019: K2.580 billion) and the company was in net current liability position of K8.848 billion (2019: K6.064 billion).

In accordance with their responsibilities, the directors considered the appropriateness of the going concern basis for the preparation of the financial statements, as detailed in Note 21 of the financial statement.

9. AUDITORS

The auditors, Deloitte, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ended 31 December 2021.

Director:  _____

Director:  _____

MALAWI TOWERS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 December 2020

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

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

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

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

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

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results and cash flows for the year ended 31 December 2020.


.....) DIRECTOR
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.....) DIRECTOR

31 MARCH 2021
.....) DATE

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

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Malawi Towers Limited set out on pages 7 to 52, which comprise the statement of financial position as at 31 December 2020, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Malawi Towers Limited as at 31 December 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.

Material uncertainty relating to going concern

We draw attention to note 21 to the financial statements which indicates that though the company recorded a profit after taxation for the year ended 31 December 2020 of K0.148 billion (2019: K0.726 billion). As at 31 December 2020, the company had a shareholders' deficit of K2.432 billion (2019: K2.580 billion) and the company was in net current liability position of K8.848 billion (2019: K6.064 billion). These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter

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.

Other Information (continued)

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 misstatements, 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.

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

Chartered Accountants

Vilengo Beza

Partner

31 March 2021

MALAWI TOWERS LIMITED
STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2020

	<u>Notes</u>	As at 31 December <u>2020</u> K	As at 31 December <u>2019</u> K
ASSETS			
Non-current assets			
Property, plant and equipment	5	21 074 458 521	16 833 053 374
Other non-current assets	7	400 000 000	-
Right of use assets	6	<u>659 928 432</u>	<u>661 996 509</u>
		<u>22 134 386 953</u>	<u>17 495 049 883</u>
Current assets			
Trade and other receivables	8.1	2 067 896 672	5 091 803 431
Other current assets	8.2	1 901 542 233	961 949 794
Cash and cash equivalents	10	2 583 416 512	1 953 072
Income tax recoverable		<u>564 231 507</u>	<u>437 040 991</u>
		7 117 086 924	6 492 747 288
Total assets		<u>29 251 473 877</u>	<u>23 987 797 171</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		10 000 000	10 000 000
Accumulated loss		<u>(2 442 466 930)</u>	<u>(2 590 505 666)</u>
Total shareholders' deficit		<u>(2 432 466 930)</u>	<u>(2 580 505 666)</u>
Non-current liabilities			
Borrowings	9.2	13 142 958 600	12 479 847 977
Lease liabilities	14	423 194 761	460 640 047
Deferred tax liability (net)	12	1 374 707 246	279 386 365
Provisions	11	<u>1 024 826 574</u>	<u>791 841 000</u>
		<u>15 965 687 181</u>	<u>14 011 715 389</u>
Current liabilities			
Borrowings	9.2	757 727 459	11 170 577
Lease liabilities	14	340 850 321	340 850 321
Trade and other payables	13	14 612 081 700	12 204 566 550
Provisions	11	<u>7 594 146</u>	<u>-</u>
		<u>15 718 253 626</u>	<u>12 556 587 448</u>
Total liabilities		<u>31 683 940 807</u>	<u>26 568 302 837</u>
Total equity and liabilities		<u>29 251 473 877</u>	<u>23 987 797 171</u>

The financial statements were approved and authorised for issue by the Board of Directors on 31/10/2021 and signed on its behalf by:

.....
Director

.....
Director

MALAWI TOWERS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	<u>Notes</u>	For the year ended 31 December 2020 K	For the year ended 31 December 2019 K
Revenue			
Operating revenue	15	12 217 203 928	9 184 540 137
Other income		<u>-</u>	<u>-</u>
		12 217 203 928	9 184 540 137
Expenses			
Network operating expenses		(5 633 186 158)	(5 280 426 282)
Employee benefits expenses		(110 923 554)	-
Other expenses	16	(247 669 294)	(124 565 602)
Depreciation	5&6	<u>(3 272 419 074)</u>	<u>(2 711 413 108)</u>
		(9 264 198 080)	(8 116 404 992)
Operating profit		2 953 005 848	1 068 135 145
Net foreign exchange loss/(gain)	18	(831 893 015)	(55 645 804)
Finance costs	17	(881 472 288)	(128 226 390)
Finance income		<u>3 719 072</u>	<u>479 518</u>
Profit before tax	19	1 243 359 617	996 034 077
Tax expense	20	<u>(1 095 320 881)</u>	<u>(269 858 164)</u>
Total comprehensive income for the year		<u>148 038 736</u>	<u>726 175 913</u>

There was no items of other comprehensive income during the year (2019: Nil)

MALAWI TOWERS LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	<u>Share capital</u> K	<u>Retained earnings</u> K	<u>Total</u> K
<u>Year ended 31 December 2020</u>			
At beginning of the year	10 000 000	(2 590 505 666)	(2 580 505 666)
Total comprehensive income for the year	-	148 038 736	148 038 736
At end of the year 2020	<u>10 000 000</u>	<u>(2 442 466 930)</u>	<u>(2 432 466 930)</u>
<u>Year ended 31 December 2019</u>			
At beginning of the year	10 000 000	(3 166 803 989)	(3 156 803 989)
IFRS 16 transitioned adjustment	-	(149 877 590)	(149 877 590)
Total comprehensive income for the year	-	726 175 913	726 175 913
At end of the year 2019	<u>10 000 000</u>	<u>(2 590 505 666)</u>	<u>(2 580 505 666)</u>

	<u>2020</u> K	<u>2019</u> K
SHARE CAPITAL		
<u>Authorised, issued and fully paid</u>		
10 000 000 Ordinary shares of K1 each	<u>10 000 000</u>	<u>10 000 000</u>

MALAWI TOWERS LIMITED
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	<u>Notes</u>	For the year ended 31 December 2020 K	For the year ended 31 December 2019 K
Cash flows from operating activities			
Profit before tax		1 243 359 617	996 034 077
<i>Adjustments for:</i>			
Depreciation	5&6	3 272 419 074	2 711 413 108
Unrealised exchange gains	18	564 017 635	(55 645 804)
Finance income		(3 719 072)	(479 518)
Interest on lease liability		68 572 530	-
Movement in provisions	11	7 594 146	-
Interest expense		<u>845 649 870</u>	<u>96 644 653</u>
Operating cash flow before working capital changes		<u>5 997 893 800</u>	<u>3 747 966 516</u>
Decrease/(increase) in trade and other receivables		3 023 699 202	(3 499 135 859)
Increase in other current assets		(939 384 882)	(787 688 494)
Increase in trade payables and other payables		<u>2 640 500 724</u>	<u>(5 134 799 054)</u>
Cash flows generated from/(used in) operating activities before tax		<u>10 722 708 844</u>	<u>(5 673 656 891)</u>
Income tax paid		(127 190 516)	-
Amount paid to Malawi Revenue Authority under protest		<u>(400 000 000)</u>	<u>-</u>
Cash flows generated from/(used in) operating activities		<u>10 195 518 328</u>	<u>(5 673 656 891)</u>
Cash flows from investing activities			
Purchase of plant and equipment	5	(7 201 455 824)	(6 383 605 202)
Interest received		<u>3 719 072</u>	<u>479 518</u>
Net cash flow (used in) /generated from investing activities		<u>(7 197 736 752)</u>	<u>(6 383 125 684)</u>
Cash flows from financing activities			
Proceeds from borrowings	9.2	-	12 541 494 968
Interest paid		(68 572 530)	(84 244 222)
Principal repayment of lease liabilities	17	<u>(347 745 606)</u>	<u>(404 895 595)</u>
Net cash flow (used in)/generated from financing activities		<u>(416 318 136)</u>	<u>12 052 355 151</u>
Increase in cash and cash equivalents		2 581 463 440	(4 427 424)
Cash and cash equivalents at beginning of the year		<u>1 953 072</u>	<u>6 380 496</u>
Cash and cash equivalents at end of the year (note 10)		<u>2 583 416 512</u>	<u>1 953 072</u>

MALAWI TOWERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

1. General information

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

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

1.2 Network facilities license for Malawi Towers Limited (MTL)

Malawi Communications Regulatory Authority (MACRA) implemented a change in licensing framework under which all old and new licensees are required to move to new proposed licenses that cover the equivalent scope of their services. This new licensing framework is called the Convergence Licensing Framework (CLF) and falls under the 1st Schedule of the Communications Act, 2016 (the Act) and the Communications (Telecommunications and Broadcasting Licensing) Regulations, 2016 (Regulations) which apply to the licensing of provision of telecommunication and broadcasting services for :-

- (a) Network facilities services licences;
- (b) Network services licences;
- (c) Application services licences
- (d) Broadcasting (Content) service licences

MTL was incorporated on 15 December 2010, under Company Registration Number 10995 for the purpose of holding and managing passive infrastructure assets namely, active towers, generators, batteries, tower equipment containers, solar equipment, rectifiers, fencing, batteries and shelter (hereinafter referred to as "passive infrastructure assets").

The Shareholders of MTL are Bharti Airtel Malawi Holdings BV and Ms Uneken-Van de Vreede. MTL made a fresh application of Network Facilities Licence by way of submitting the Application Form and Application Fees of US\$10,000 on 8 and 10 January, 2020. MACRA is still evaluating the application of the Networks Facilities License of Malawi Towers Limited.

2. Adoption of new and revised International Financial Reporting Standards

2.1 Standards and Interpretations in issue, not yet effective

In the current year, the company 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.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the company.

2.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are issued and effective for annual periods beginning on or after 1 January 2021 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. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	<p>IFRS 17 Insurance contracts IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.</p> <p>IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.</p> <p>The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.</p>

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

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

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	Classification of liabilities as current or non-current (Amendments to IAS 1) The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.
Annual reporting periods beginning on or after 1 January 2022	Property, plant and equipment - Proceeds before intended use (Amendments to IAS 16) The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
Annual reporting periods beginning on or after 1 January 2022	Onerous contracts - Cost of fulfilling a contract (Amendments to IAS 37) 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 can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or 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).
Annual reporting periods beginning on or after 1 January 2022	Annual Improvements to IFRS Standards 2018–2020 Makes amendments to the following standards: <ul style="list-style-type: none"> • IFRS 1 – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to IFRSs. • IFRS 9 – The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing 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. • IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

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

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

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

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

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

3. Significant accounting policies

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

3.1 Statement of compliance

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

3.2 Basis of preparation

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measured date regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or a liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

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

3. Significant accounting policies

3.3 Use of estimates and judgments

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

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

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

3.4 Accounting convention

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

3.5 Revenue

Revenue is recognised 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 upfront discount provided to the intermediary is recognised as a cost of sale.

Rendering of services

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

Interest income

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

3. Significant accounting policies (Continued)

3.6 Property Plant and Equipment

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

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

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

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

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

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

Property, plant and equipment in the course of construction is carried at cost, less any accumulated impairment and presented separately as capital work-in-progress ('CWIP') including capital advances in the statement of financial position until 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. CWIP is not depreciation.

3.7 Asset Retirement Obligation

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

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

3. Significant accounting policies (Continued)

3.8 Impairment of non-financial assets

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

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

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

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

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

3.9 Leasing

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

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

3. Significant accounting policies (Continued)

3.9 Leases (Continued)

a. Company as a lessee

On initial application of IFRS 16, the company recognised a lease liability measured at the present value of all the remaining lease payments, discounted using the lessee's incremental borrowing rate at January 1, 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 January 1, 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 January 1, 2019 and has accounted for these leases as short-term leases.

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

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

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

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

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

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

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

3. Significant accounting policies (Continued)

3.9 Leases (Continued)

a. Company as a lessee (Continued)

Short-term leases and leases of low-value assets

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

b. Company as a lessor

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

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

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

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

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

3. Significant accounting policies (Continued)

3.10 Borrowing Costs

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

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

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

3.11 Taxation

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

Current tax

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

Deferred tax

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

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

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

3. Significant accounting policies (Continued)

3.11 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.

Current and deferred tax for the year

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

3.12 Functional currency translations

(a) Functional and presentation currency

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

(b) Transactions and balances

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

3.13 Share capital and share premium

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

3. Significant accounting policies (Continued)

3.14 Statement of cash flows

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

3.15 Financial instruments

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

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

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

3.15.1. Financial assets

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

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

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.2. Classification of financial assets

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

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

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

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

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

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

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

3.15.3. Amortised cost and effective interest method

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

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

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.3. Amortised cost and effective interest method

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

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

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

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

3.15.4 Foreign exchange gains and losses

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

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

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.5 Impairment of financial assets

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

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

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

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

3.15.5.1. Significant increase in credit risk

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

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.5.1. Significant increase in credit risk

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

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

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

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

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

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.5.1. Significant increase in credit risk (Continued)

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

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

3.15.5.2. Definition of default

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

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

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

3.15.5.3. Credit-impaired financial assets

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

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

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.5.4. Write off Policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. 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.

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

3.15.5.5. Measurement and recognition of expected credit losses

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

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

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

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

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

3. Significant accounting policies (Continued)

3.15 Financial instruments (Continued)

3.15.5.6. Derecognition of financial assets

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

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

3.16 Financial liabilities and equity instruments

3.16.1 Classification as debt or equity

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

3.16.2 Equity instruments

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

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

3. Significant accounting policies (Continued)

3.16 Financial liabilities and equity instruments (Continued)

3.16.3 Financial liabilities

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

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

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

3.16.4 Financial liabilities at FVTPL

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 *Financial Instruments* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

3.16.5 Foreign exchange gains and losses

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

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

3. Significant accounting policies (Continued)

3.16 Financial liabilities and equity instruments (Continued)

3.16.6 Derecognition of financial liabilities

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

3.17 Derivative financial instruments

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

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

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

3.18 Hedge accounting

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

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

3. Significant accounting policies (Continued)

3.18 Hedge accounting (Continued)

3.18.1 Fair value hedges

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

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

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

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

3.18.2 Cash flow hedges

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

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

3. Significant accounting policies (Continued)

3.18 Hedge accounting (Continued)

3.18.2 Cash flow hedges (Continued)

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

3.19 Provisions

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

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

3.20 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.

3.21 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. Critical accounting judgements and key sources of estimation uncertainty

4.1 Critical accounting judgements made by management

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

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4.1 **Critical accounting judgements made by management** (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods

4.1.1 **Impairment of non current assets**

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

4.2 **Key sources of estimation uncertainty**

4.2.1 **Plant and equipment residual values and useful lives**

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

4.2.2 **Loss allowance for trade and other receivables**

The management in determining the recoverable amount of impaired receivables makes critical estimates.

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 7.

4.2.3 **Income taxes**

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

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

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

4.2 Key sources of estimation uncertainty (Continued)

4.2.4 Provisions and contingent liabilities

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

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

5. Property, plant and equipment

	<u>Freehold Land</u> K	<u>Plant and Equipment</u> K	<u>ARO P/M</u> K	<u>Capital Work in Progress</u> K	<u>Total</u> K
<u>For the year ended 31 December 2020</u>					
<u>Cost</u>					
At beginning of the year	18 298 413	29 864 715 148	388 420 303	125 131 684	30 396 565 548
Additions	-	4 818 078 371	267 313 099	2 116 064 354	7 201 455 824
At the end of the year	<u>18 298 413</u>	<u>34 682 793 519</u>	<u>655 733 402</u>	<u>2 241 196 038</u>	<u>37 598 021 372</u>
<u>Depreciation</u>					
At beginning of the year	-	13 177 480 611	386 031 563	-	13 563 512 174
Charge for the year	-	2 816 848 721	143 201 956	-	2 960 050 677
At the end of the year	<u>-</u>	<u>15 994 329 332</u>	<u>529 233 519</u>	<u>-</u>	<u>16 523 562 851</u>
<u>Net book value</u>					
At end of the year	<u>18 298 413</u>	<u>18 688 464 187</u>	<u>126 499 883</u>	<u>2 241 196 038</u>	<u>21 074 458 521</u>
	<u>Freehold Land</u> K	<u>Plant and Equipment</u> K	<u>ARO P/M</u> K	<u>Capital Work in Progress</u> K	<u>Total</u> K
<u>For the year ended 31 December 2019</u>					
<u>Cost</u>					
At beginning of the year	18 298 413	23 606 241 630	388 420 303	3 108 508	24 016 068 854
Additions	-	6 258 473 518	-	122 023 176	6 380 496 694
At the end of the year	<u>18 298 413</u>	<u>29 864 715 148</u>	<u>388 420 303</u>	<u>125 131 684</u>	<u>30 396 565 548</u>
<u>Depreciation</u>					
At beginning of the year	-	10 860 010 613	384 864 969	-	11 244 875 582
Charge for the year	-	2 317 469 998	1 166 594	-	2 318 636 592
At the end of the year	<u>-</u>	<u>13 177 480 611</u>	<u>386 031 563</u>	<u>-</u>	<u>13 563 512 174</u>
<u>Net book value</u>					
At end of the year	<u>18 298 413</u>	<u>16 687 234 537</u>	<u>2 388 740</u>	<u>125 131 684</u>	<u>16 833 053 374</u>

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

	<u>2020</u> K	<u>2019</u> K
6. Right of use assets		
Gross block plant and machinery	1 325 823 994	1 054 773 025
Depreciation for the year	<u>(665 895 562)</u>	<u>(392 776 516)</u>
	<u>659 928 432</u>	<u>661 996 509</u>
Depreciation		
Opening	392 776 516	-
Charge for the year	312 368 397	392 776 516
Adjustments/disposals	<u>(39 249 351)</u>	<u>-</u>
	<u>665 895 562</u>	<u>392 776 516</u>

The company leases several offices, 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 component, the company allocates the consideration in the contract on the basis of the relative stand-alone prices of each lease component and the aggregate stand-alone price of the non-lease components. Detailed policies have been stated on note 3.9 to the financial statements.

	<u>2020</u> K	<u>2019</u> K
7. Other non-current assets		
Payment of tax to Malawi Revenue Authority under protest	<u>400 000 000</u>	<u>-</u>
	<u>400 000 000</u>	<u>-</u>

In December 2020, the company paid to Malawi Revenue Authority an amount of K400 000 000 under protest in respect of an arbitration process relating to audit of the company conducted by MRA for the period January 2014 up to December 2018. Based on prior year experience with legal system, management anticipates that the legal process will take more than 12 months, hence classification to non-current asset.

8. Trade and other receivables

	<u>2020</u> K	<u>2019</u> K
8.1 Trade and Other receivables		
Trade receivables	2 123 398 564	5 133 922 051
Less: allowance for doubtful receivables	<u>(65 696 585)</u>	<u>(62 595 781)</u>
	2 057 701 979	5 071 326 270
Advance against statutory liabilities	-	207 557
Other receivables	<u>10 194 693</u>	<u>20 269 604</u>
	<u>2 067 896 672</u>	<u>5 091 803 431</u>

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

8. Trade and other receivables (Continued)

	<u>2020</u> K	<u>2019</u> K
8.2 Other Current Assets		
Advances to staff	21 879 701	-
Advances to suppliers (net)	1 780 200 588	-
Prepayments	43 067 414	65 283 136
Advance against statutory liabilities	868 914	-
Value added tax	<u>55 525 616</u>	<u>896 666 658</u>
	<u>1 901 542 233</u>	<u>961 949 794</u>

Prepayments relate to amounts that Company paid in advance for various tower rentals.

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

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

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. Refer below note for details on the impairment of trade receivables. Based on the industry practices and the business environment in which the entity operates, management considers that the trade receivables are credit impaired if the payments are more than 90 days past due. 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.

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

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

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

8. Trade and other receivables (Continued)

At 31 December 2020 the lifetime expected loss provision for trade receivables is as follows

A	Current	60 Days	90 Days	180 Days	>180 Days
	K	K	K	K'	
Expected credit loss rate	0%	0%	0%	1.5%	
Gross carrying amount default	2 102 039	2 085 806	1 056 330 131	1 008 522 600	54 000 000
Allowance for doubtful receivables	-	-	-	15 557 804	50 000 000

As At 31 December 2019 the lifetime expected loss provision for trade receivables was as follows:

	Current	60 Days	90 Days	180 Days	>180 Days
	K	K	K	K'	
Expected credit loss rate	0%	0%	0%	0.70%	
Gross carrying amount default	1 244 344	1 242 318	865 707 097	1 216 712 416	3 049 000 000
Allowance for doubtful receivables	-	-	-	8 497 423	54 000 000

Note that for the company to arrive at the ECL rate, both historical and forward-looking information were considered. Significant receivables of 974 billion (2019: K4 780 billion) are due from TNM, MTL and ACL. No impairment loss has been recognised for these parties, as the receivables are outstanding due from Airtel Malawi plc, fellow subsidiary of the company.

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

	<u>2020</u> K
<u>Movement in the allowance for doubtful receivables</u>	
At beginning of the year	62 595 781
Loss allowance recovered during the year	-
Impairment losses arising in the year	<u>3 100 804</u>
At end of the year	<u>65 696 585</u>

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

9. Related party disclosures

		<u>2020</u> K	<u>2019</u> K
9.1	<i>Amount due to related parties</i>		
	<u>Name of related party</u>	<u>Relationship</u>	
	Bharti Airtel Malawi Holdings BV	Holding company	860 914 416
	Africa Towers N. V	Step up parent	-
	Airtel Malawi plc	Fellow subsidiary	9 523 714 527
			<u>9 152 078 968</u>
			<u>10 384 628 943</u>
			<u>9 967 729 371</u>

Amount due to Africa Towers NV and Bharti Airtel Malawi Holdings BV are related to outstanding expenses of management fees on the reporting date. During the year the outstanding amount was transferred by Africa Towers NV to Bharti Airtel Malawi Holdings BV through novation agreement.

		<u>2020</u> K	<u>2019</u> K
9.2	<i>Bharti Airtel Malawi Holdings B.V borrowings</i>		
	The movement is analysed as follows:-		
	At the beginning of the year	12 491 018 554	-
	Additions	-	12 541 494 968
	Interest charge	845 649 870	11 170 577
	Exchange difference	<u>564 017 635</u>	<u>(61 646 991)</u>
		<u>13 900 686 059</u>	<u>12 491 018 554</u>
	Current portion	757 727 459	11 170 577
	Non-current portion	<u>13 142 958 600</u>	<u>12 479 847 977</u>

The debt denominated in US dollar amounted to US\$ 17 million is unsecured and interest is charged at 3 months Libor plus 450 bps. The loan is revolving and payable by 31 December 2035

9.3 Transactions with related parties

Detailed below are amounts of transactions that have been entered into with Airtel Malawi Plc (fellow subsidiary) during the year.

9.3 (i) Purchase of goods and services

<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 Malawi plc	Malawi	Fellow subsidiary	697 696 983	12 564 779 684
Bharti Airtel International (Netherlands) BV	Netherlands	Step up parent	1 454 898 684	12 491 018 554
Africa Towers N.V	Mauritius	Step up parent	-	4 268 649
Total			<u>2 152 595 667</u>	<u>25 060 066 887</u>

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

9. Related party disclosures (Continued)

9.3 (i) Purchase of goods and services (Continued)

<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 Malawi plc	Malawi	Fellow subsidiary	10 153 842 579	-
			<u>10 153 842 579</u>	<u>-</u>
			<u>2020</u> K	<u>2019</u> K
(iii) Management fees expenses Airtel Malawi Plc			85 484 682	-
			<u>2020</u> K	<u>2019</u> K

10. Cash and cash equivalents

Bank balance	<u>2 583 416 512</u>	<u>1 953 072</u>
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11. Provisions

Asset retirement obligation	<u>1 024 826 574</u>	<u>791 841 000</u>
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	<u>At the beginning of the year</u> K	<u>Addition during the year</u> K	<u>Adjustments during the year</u> K	<u>Paid or utilized during the year</u> K	<u>At the end of the year</u> K
<u>For the year ended 31 December 2020</u>					
Bonus provision	-	2 614 199	9 151 259	(9 151 259)	2 614 199
Tevet provision	-	221 166	-	-	221 166
Asset retirement obligation provision	791 841 000	232 985 574	-	-	1 024 826 574
Provision for leave	-	4 758 781	-	-	4 758 781
	<u>791 841 000</u>	<u>240 579 720</u>	<u>9 151 259</u>	<u>(9 151 259)</u>	<u>1 032 420 720</u>
Non current amount	791 841 000	232 985 574	-	-	1 024 826 574
Current amount payable within 12 months	-	7 594 146	9 151 259	(9 151 259)	7 594 146

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

11. Provisions (Continued)

	<u>At the beginning of the year</u> K	<u>Addition during the year</u> K	<u>At the end of the year</u> K
Asset retirement obligation provision	790 611 147	1 229 853	791 841 000
	<u>790 611 147</u>	<u>1 229 853</u>	<u>791 841 000</u>
Non current amount	<u>790 611 147</u>	<u>1 229 853</u>	<u>791 841 000</u>

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

	<u>2020</u> K	<u>2019</u> K
12. Deferred tax liability		
At beginning of the year	279 386 365	9 528 201
Charge/ (Credited) to income statement (Note 20)	<u>1 095 320 881</u>	<u>269 858 164</u>
At end of the year	<u>1 374 707 246</u>	<u>279 386 365</u>
Deferred tax liability at 31 December 2020 is analysed as follows:		
Accelerated depreciation for tax purposes	3 277 078 189	2 999 347 302
Exchange differences	(240 969 466)	-
Provisions	(164 882 719)	-
Tax losses carried forward	<u>(1 496 518 758)</u>	<u>(2 719 960 937)</u>
Deferred tax liability	<u>1 374 707 246</u>	<u>279 386 365</u>
13. Trade and other payables		
Amount due to related parties (Note 9.1)	10 384 628 943	9 967 729 371
Accruals and provisions	4 089 789 593	2 048 383 460
Value added tax payable	<u>137 663 164</u>	<u>188 453 719</u>
	<u>14 612 081 700</u>	<u>12 204 566 550</u>

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

13. Trade and other payables (Continued)

The accrued expense comprises other accruals, provision for security expenses, provision for audit fees and Tevet levies.

No interest is charged on the other payables.

The directors consider that the carrying amount of payables approximates to their fair value.

14. Lease liabilities

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

	<u>2020</u> K	<u>2019</u> K
Non - current portion of lease liabilities	423 194 761	460 640 047
Current portion of lease liabilities	<u>340 850 321</u>	<u>340 850 321</u>
	<u>764 045 082</u>	<u>801 490 368</u>
Movement for the year is as follows:		
At the beginning of the year	801 490 368	-
Additions during the year	310 300 320	1 204 650 614
Interest on lease liability	68 572 530	84 244 222
Principal repayment	(347 745 606)	(404 895 595)
Interest repayment	(68 572 530)	(84 244 222)
Exchange loss	<u>-</u>	<u>1 735 349</u>
Net obligation under finance lease	<u>764 045 082</u>	<u>801 490 368</u>

Incremental borrowing rate used for IFRS 16 application (IBR)

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

Definition of Incremental Borrowing Rate

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

15. Operating revenue

	<u>2020</u> K	<u>2019</u> K
Site rent sharing – Airtel Malawi plc (fellow subsidiary)	8 715 744 703	6 213 833 189
Site rent sharing – others	<u>3 501 459 225</u>	<u>2 970 706 948</u>
	<u>12 217 203 928</u>	<u>9 184 540 137</u>

Performance obligations that are unsatisfied (or partially unsatisfied) is Nil as at 31 December 2020. (31 December 2019: Nil). Transfers from unbilled revenue recognised at the beginning of the period to receivables is K20 million for 2020 (2019: K9 million).

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

16. Other expenses	<u>2020</u> K	<u>2019</u> K
Management fees	85 484 682	-
Administrative expenses	7 874 616	-
Provision for VAT/WHT	137 252 292	156 642 861
Auditors remuneration	6 615 000	8 026 727
Provision for doubtful debts	3 100 804	(40 103 986)
Application fee for network licence	7 341 900	-
Provision for capital work in progress	-	-
	<u>247 669 294</u>	<u>124 565 602</u>

17. Finance costs	<u>2020</u> K	<u>2019</u> K
Interest on leases liabilities	68 572 530	84 244 222
Interest on borrowings	845 617 035	11 170 577
Discounting costs	(34 327 525)	1 229 854
Bank charges	<u>1 610 248</u>	<u>31 581 737</u>
	<u>881 472 288</u>	<u>128 226 390</u>

Discounting costs in the current year relates to reversal of interest on the discounted Asset Retirement Obligation provision. The discount rates used to compute the present value were revised downwards in the months of September and October from 13.5% to 10% resulting into a reversal.

18. Net Exchange loss	<u>2020</u> K	<u>2019</u> K
Lease liabilities	-	1 735 349
Borrowings and cash and cash equivalents	564 017 635	(61 646 991)
Other balances	<u>267 875 380</u>	<u>4 265 838</u>
	<u>831 893 015</u>	<u>55 645 804</u>
Analysed as;		
Realised exchange loss	28 661 463	-
Unrealised exchange gain	-	(61 646 991)
Unrealised exchange loss	<u>803 231 552</u>	<u>6 001 187</u>
Net foreign exchange loss	<u>831 893 015</u>	<u>(55 645 804)</u>

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

	<u>2020</u>	<u>2019</u>
	K	K
19. Profit before tax		
Profit before taxation is arrived at after taking into account:		
Management fees	85 484 682	-
Administration expenses	7 874 616	-
Application fee for network licence	7 341 900	-
Provision for VAT	137 252 292	156 642 861
Provision for impairment losses	3 100 804	(40 103 986)
Depreciation	5,6 3 272 419 074	2 711 413 108
Auditors remuneration	<u>6 615 000</u>	<u>8 026 727</u>

20. Tax expense

Deferred tax expense	<u>1 095 320 881</u>	<u>269 858 164</u>
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The company has accumulated losses carried forward amounting to K4.98 billion as at 31 December 2020 (2019: K9.1 billion). The company however is profitable and it is probable that sufficient taxable profits will be available against which the unused tax losses can be utilised by the entity.

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

21. Employee benefit expense

Contribution to pension fund	<u>6 849 046</u>	<u>-</u>
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22. Going Concern

During the year ended 31 December 2020, though the company recorded a profit after taxation for the year ended 31 December 2020 of K0.148 billion (2019: K0.726 billion). As at 31 December 2019, the company had a shareholders' deficit of K2.432 billion (2019: K2.580 billion) and the company was in net current liability position of K8.848 billion (2019: K6.064 billion). The operations of the Company continue to depend heavily on sources of financing from its direct and indirect parent companies.

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

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

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

22. Going Concern (Continued)

- a. Will obtain some funding from the third parties; and
- b. The company will be able to obtain from the shareholders any additional funding required to meet its obligations as and when they fall due.

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

23. Financial risk management

23.1 Categorisation of financial instruments

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

	<u>2020</u> K	<u>2019</u> K
<u>Financial assets at amortised cost</u>		
Trade and other receivables	2 067 896 672	5 071 326 270
Cash and cash equivalent	<u>2 583 416 512</u>	<u>1 953 072</u>
Total financial assets	<u>4 651 313 184</u>	<u>5 073 279 342</u>
<u>Financial liabilities at amortised cost</u>		
Loan due to holding company	13 900 686 059	12 491 018 554
Trade and other payables	4 227 452 757	2 236 837 178
Amounts due to related parties	<u>10 384 628 943</u>	<u>9 967 729 372</u>
Total financial liabilities	<u>28 512 767 759</u>	<u>24 695 585 104</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.

Fair value of financial assets and financial liabilities approximate to their carrying amount as on 31 December 2020 and 31 December 2019 on account of their current nature and they are recognised at amortised cost as on 31 December 2020 and 31 December 2019.

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

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

23. Financial risk management (Continued)

23.2 Risk Management

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

(a) Capital risk management

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

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

(b) Foreign currency risk management

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

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

As at 31st December 2020, if the Kwacha had weakened/strengthened by 5% against US Dollar with all other variables held constant, profit before tax for the year would have been K 624 million (2019: NIL million) lower/higher, mainly as a result of US Dollar denominated borrowings.

(c) Credit risk management

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

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

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

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

23. Financial risk management (Continued)

23.2 Risk Management (Continued)

(d) Management liquidity risk

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

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

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

	<u>0 to 6</u> <u>months</u> K	<u>More than</u> <u>1 year</u> K	<u>Carrying</u> <u>amounts and fair</u> <u>value</u> K
For the year ended 31 December 2020			
<u>Liabilities</u>			
Loan due to holding company	757 727 459	13 142 958 600	13 900 686 059
Amount due to related parties	10 384 628 943	-	10 384 628 943
Trade and other payables	<u>4 227 452 757</u>	<u>-</u>	<u>4 227 452 757</u>
At the end of the year	<u>15 369 809 159</u>	<u>13 142 958 600</u>	<u>28 512 767 759</u>
For the year ended 31 December 2019			
<u>Liabilities</u>			
Loan due to holding company	11 170 577	12 479 847 977	12 491 018 554
Amount due to related parties	9 967 729 372	-	9 967 729 372
Trade and other payables	<u>2 236 837 178</u>	<u>-</u>	<u>2 236 837 178</u>
At the end of the year	<u>12 215 737 127</u>	<u>12 479 847 977</u>	<u>24 695 585 104</u>

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

23. Financial risk management (Continued)

23.2 Risk Management (Continued)

(a) 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. Net debt is calculated as total borrowings less cash and cash equivalents. 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	<u>2019</u> K
<u>Financial assets at amortised cost</u>		
Total borrowings (including bank overdraft and lease liabilities)	14 664 731 144	13 292 508 922
Less: Cash and cash equivalent	<u>(2 583 416 512)</u>	<u>(1 953 072)</u>
Net debt	<u>12 081 314 632</u>	<u>13 290 555 850</u>
Total equity	<u>(1 832 129 516)</u>	<u>(2 580 505 666)</u>
Total capital	<u>10 249 185 116</u>	<u>10 710 050 184</u>
Gearing Ratio	118%	124%

24. Fair value measurements

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

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

24. Fair value measurements (Continued)

24.1 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

24.1 Valuation techniques and assumptions applied for the purposes of measuring fair value (Continued)

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.

24.2 Fair value measurements recognised 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).

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

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

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

24. Fair value measurements (Continued)

24.3 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.

	Carrying amount <u>2020</u> K'000	Fair value <u>2020</u> K'000	Carrying amount <u>2019</u> K'000	Fair value <u>2019</u> K'000
<u>Financial assets classified at amortised cost</u>				
Trade and other receivables	<u>2 067 896 672</u>	<u>2 067 896 672</u>	<u>5 071 326 270</u>	<u>5 071 326 270</u>
	<u>2 067 896 672</u>	<u>2 067 896 672</u>	<u>5 071 326 270</u>	<u>5 071 326 270</u>
<u>Financial liabilities classified at amortised cost</u>				
Loan due to holding company	13 900 686 059	13 900 686 059	12 491 018 554	12 491 018 554
Amounts due to related parties	10 384 628 943	10 384 628 943	9 967 729 372	9 967 729 372
Trade and other payables	4 227 457 757	4 227 457 757	2 236 837 178	2 236 837 178
Lease liabilities	<u>764 045 085</u>	<u>764 045 085</u>	<u>801 490 368</u>	<u>801 490 368</u>
	<u>29 276 817 844</u>	<u>29 276 817 844</u>	<u>25 497 075 472</u>	<u>25 497 075 472</u>
			<u>2020</u>	<u>2019</u>
			K	K

25. Contingent liability

Contingent liability	<u>-</u>	<u>1 126 163 773</u>
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The contingent liability is in relation to claims and demands raised by the Malawi Revenue Authority (MRA).

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

26. 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	771.73	736.66
Inflation	<u>7.6%</u>	<u>9.7%</u>

Subsequent to the year end, on 15 March 2021, the above economic factors had moved as follows:

Kwacha/US Dollar	783.62
Inflation (February 2021)	<u>7.7%</u>

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

27. Comparatives

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

28. Events after reporting period

Impact of the Covid -19

In December 2019, there was an outbreak of Corona Virus in China. This, however, became widespread in a number of countries after the reporting date

The company will continue to review the fast-changing situation and implement stringent procedures in line with Ministry of Health and World Health Organization guidelines to ensure that the health and safety of all our key stakeholders is not compromised. The COVID-19 has no impact on the financial operations as telecommunications in Malawi are still using Towers for their operations hence there is no impact on going concern of the company.

Tower Sale in Madagascar, Malawi , Chad and Gabon

On 23 March 2021, Airtel Africa, announced the signing of agreements to sell its telecommunications tower companies in Madagascar and Malawi to Helios Towers plc (the “Purchaser”), a leading independent telecommunications infrastructure company in Africa (together, the “Transactions”). The Group’s tower portfolios in these two markets together comprise 1,229 towers which form part of the Group’s wireless telecommunications infrastructure network. The Group’s Airtel Africa’s subsidiaries will continue to develop, maintain and operate their equipment on the towers under separate lease arrangements, largely made in local currencies, with the Purchaser. In addition, as part of the Transactions, the Group has agreed to build to suit commitments with the Purchaser for an additional 195 sites across Madagascar and Malawi over the three years following completion, for which a further \$11m of consideration is payable.