

Results for the year ended 31 December 2017

REVIEW OF THE YEAR

The company achieved good subscriber and service revenue growth during 2017 which resulted in sustained margins and profitability levels. These achievements were supported by the strong performance of the consumer and business enterprise products, strong brand and cost management strategies.

The economic environment stabilized during the period under review with falling inflation rates, falling interest rates and the stabilised exchange rates which resulted in foreign currency denominated expenditure savings.

The company is successful with initiatives to improve its revenue streams and cost management projects, which resulted in an EBITDA margin of 37% in 2017 (2016: 35%). Net financing cost decreased to MK 2,810 million (2016: MK 4,250 million) which includes foreign exchange losses of MK 12 million (2016: MK 815 million). Net profit after taxation for 2017, increased by 60% to MK 13,108 million, from MK 8,206 million in 2016.

TNM invested in capital projects of MK 19,037 million in 2017 (2016: MK 9,176 million) which mainly consisted of 4G LTE broadband technology and U900-3G technology across the country. A fixed mobile convergence capability was also achieved with the implementation of the IP Multimedia platform (IMS).

OUTLOOK

The company continues to pursue its stated strategy to become the preferred ICT provider in Malawi through focus on improved customer experience and product innovation. The macro economic environment is expected to remain challenging putting pressure on margins and service revenue. Management will continue to pursue cost efficiencies to protect margins.

DIVIDENDS

Total Dividends of MK 6,024 million equivalent to MK 0.60 per share: (2016 MK 0.33 per share) are proposed for the period ended 31 December 2017:

MK 1,506 million : 15t per share was declared in June 2017 and paid in September 2017.

MK 2,008 million : 20t per share was declared in December 2017 and paid in January 2018.

MK 2,510 million : 25t per share to be declared at the upcoming AGM*

*The Directors propose a final dividend of 25 (twenty five) Tambala per share out of the profits of the company for the year ended 31 December 2017, to be declared at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

George Partridge
Chairman

John M. O' Neill
Chairman Board Audit Committee

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS TO THE MEMBERS OF TELEKOM NETWORKS MALAWI PLC

OPINION

The summary financial statements, which comprise the summary statement of financial position as at 31 December 2017, the summary statement of comprehensive income and summary statement of cash flows for the year then ended and related notes, are derived from the audited financial statements of Telekom Networks Malawi plc for the year ended 31 December 2017.

In our opinion, the accompanying summary financial statements are consistent in all material respects, with the audited financial statements, on the basis described in Note 1.

SUMMARY FINANCIAL STATEMENTS

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited financial statements in our report dated 22 March, 2018. That report also includes the communication of key audit matters. Key audit matters are those matters that in our professional judgment, were of most significance in our audit of the financial statements of the current period.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARY FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summary financial statements in accordance with the basis described in Note 1.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing ISA 810 (Revised), Engagements to Report on Summary Financial Statements.

Deloitte.
Chartered Accountants
Nkondola Uka
Partner
28th March 2018



KEY ACHIEVEMENTS IN 2017

13% GROWTH
in subscriber base



LAUNCHED
4.5G LTE network



4G LTE AND U900
network expansion



NOW CLOSER
to the customers with 25 outlets across



THE COUNTRY
over 218 Mpamba kiosks to serve customers countrywide.



KEY FINANCIAL HIGHLIGHTS

21%
growth in Service Revenue to **MK 77,456**
Million

28%
increase in EBITDA to **MK 29,502**
Million

EBITDA
Margin **37%**

NEW
capital expenditure **MK 19,037**
Million

NET
Profit after Taxation **MK 13,108**
Million

ARPU
MK 1,626

EARNINGS
per share **MK 1.31**

SUMMARY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 MK'mil	2016 MK'mil
Service revenue	77,456	63,769
Hardware and equipment revenue	2,134	1,784
Total Revenue	79,590	65,553
Direct operational costs	(37,220)	(31,476)
Gross profit	42,370	34,077
Other income	2,511	1,846
Selling and administration expenses	(15,379)	(12,928)
Earnings before interest, tax, depreciation and amortisation	29,502	22,995
Depreciation and amortization	(7,727)	(6,687)
Results from operating activities	21,775	16,308
Finance income	41	42
Finance expenses	(2,851)	(4,292)
Net finance expense	(2,810)	(4,250)
Profit before income tax	18,965	12,058
Income tax expense	(5,857)	(3,852)
Profit for the period	13,108	8,206
Other comprehensive income	-	-
Total comprehensive income	13,108	8,206
Dividend paid per share (MK)	0.48	0.30
Basic earnings per share (MK)	1.31	0.82
Diluted earnings per share (MK)	1.31	0.82
Number of ordinary shares in issue ('mil)	10,040	10,040

SUMMARY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	NOTES	2017 MK'mil	2016 MK'mil
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	43,047	32,004	
Intangible assets	6,612	6,476	
Deferred tax assets	272	105	
Total non-current assets	49,931	38,585	
CURRENT ASSETS			
Inventories	4,030	2,352	
Trade and other receivables	8,064	6,474	
Amount due from related parties	772	275	
Bank and cash balances	2,890	1,885	
Total current assets	15,756	10,986	
TOTAL ASSETS	65,687	49,571	
CAPITAL AND LIABILITIES			
EQUITY			
Share capital	402	402	
Share premium	2,347	2,347	
Retained earnings	26,385	18,096	
Total equity	29,134	20,845	
NON-CURRENT LIABILITIES			
Long-term portion of interest bearing loans	5	10,000	5,000
Long-term portion of deferred payment facility	6	2,451	1,449
Total non-current liabilities	12,451	6,449	
CURRENT LIABILITIES			
Bank overdraft		1,173	4,029
Current portion of deferred payment facility	6	3,422	3,862
Dividend payable		2,008	1,004
Deferred income		3,068	1,402
Trade and other payables		12,317	10,292
Amounts due to related parties		-	18
Income tax liabilities		2,114	1,670
Total Current Liabilities	24,102	22,277	
Total Liabilities	36,553	28,726	
TOTAL EQUITY AND LIABILITIES	65,687	49,571	

SUMMARY STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTES	2017 MK'mil	2016 MK'mil
Cash flows from operating activities			
Cash receipts from customers		76,634	68,186
Cash paid to suppliers and employees		(46,959)	(44,603)
Net cash generated from operations		29,675	23,583
Interest paid		(2,839)	(3,477)
Income tax paid		(5,580)	(2,988)
Net cash generated by operating activities		21,256	17,118
Cash flows to investing activities			
Interest received		41	42
Acquisition of property, plant and equipment	7	(17,707)	(8,213)
Purchase of intangible assets	7	(1,330)	(963)
Proceeds from sale of property, plant and equipment		41	109
Net cash used in investing activities		(18,955)	(9,025)
Cash flows to financing activities			
Dividend paid		(3,815)	(3,012)
Repayments of loans	5	-	(278)
Proceeds from loans	5	5,000	-
Repayment of deferred payment facility	6	(5,238)	(4,942)
Proceeds from deferred payment facility	6	5,613	2,578
Net cash generated from/(used in) financing activities		1,560	(5,654)
Net increase in cash and cash equivalents		3,861	2,439

Cash and cash equivalents at the beginning of the period (2,144) (4,583)

Cash and cash equivalents at the end of the year 1,717 (2,144)

Additional statutory requirement

Decrease in net working capital (2,945) (1,748)

NOTES TO THE SUMMARY FINANCIAL STATEMENTS

1. Basis of preparation

The Directors have prepared the summary financial statements to meet the listings requirements of the Malawi Stock Exchange. The Directors have considered the listings requirements of the Malawi Stock Exchange and believe that the summary statements of financial position, comprehensive income and cash flows are sufficient to meet the requirements of the users of the summary financial statements. The amounts in the summary financial statements are prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards. The Summary financial statements have been derived from the Annual Financial Statements which were approved by the board of directors on 22 March 2018, and are available on the company's website www.tnm.co.mw.

2. Capital commitments

	2017 MK'mil	2016 MK'mil
Authorised and contracted for	4,371	8,016
Authorised but not contracted for	13,850	8,215

The capital expenditure will be financed from internally generated resources and existing facilities.

3. Contingent liabilities

Legal claims	100	69
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4. Interest capitalised

Deferred payment facility	18	21
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The interest capitalised relates to interest costs on borrowings to finance assets under construction during the period the interest was incurred.

5. Loans and borrowings

	2017 MK'mil	2016 MK'mil
Opening balance	278	5,000
Interest charge	26	1,457
Capital repayments	(278)	-
Interest paid	(26)	(1,457)
At end of the year	-	5,000
Long term portion of loans	-	5,000

5. Loans and borrowings (continued)

2017

	Old Mutual Commercial Paper MK'mil	NICO Asset Managers Commercial Paper MK'mil	Total MK'mil
Opening balance	5,000	-	5,000
Additions	-	5,000	5,000
Interest charge	1,286	428	1,714
Interest paid	(1,286)	(428)	(1,714)
At end of the year	<u>5,000</u>	<u>5,000</u>	<u>10,000</u>
Long term portion of loans	<u>5,000</u>	<u>5,000</u>	<u>10,000</u>

Old Mutual Investment Group Limited (OMIGL)

On 26 February 2015, the company secured commercial debt paper of K5.0 billion. The arranger and administrator is Old Mutual Investment Group Limited (OMIGL). The commercial paper is for a period of 5 years with an option of early repayment in tranches of K1.0 billion after the third year. The coupon rate is 364 Treasury bill rate plus 200 basis points. The loan is secured with a debenture ranking behind the National Bank of Malawi overdraft and First Merchant Bank overdraft debentures and ranking pari passu with the NICO Asset Managers Ltd commercial paper debenture.

Nico Asset Managers Limited

On 10 July 2017, the company secured commercial debt paper of K5.0 billion. The arranger and administrator is Nico Asset Managers Limited. The commercial paper is for a period of 5 years with an option of early repayment in tranches of K1.0 billion after the third year. The coupon rate is 180 Treasury bill rate plus 180 basis points. The loan is secured with floating debenture over TNM assets ranking behind the National Bank of Malawi and First Merchant Bank overdraft debentures but ranking pari passu with the Old Mutual Investment Group Limited commercial paper debenture.

6. Deferred payment facility

	2017 MK'mil	2016 MK'mil
Opening balance	5,311	7,017
Additions	5,613	2,578
Capital repayments	(5,238)	(4,942)
Exchange differences	187	658
Interest charged	412	417
Interest paid	(412)	(417)
At end of the year	<u>5,873</u>	<u>5,311</u>
Long term portion of deferred payment facility	2,451	1,449
Short-term term portion of deferred payment facility	<u>3,422</u>	<u>3,862</u>
	<u>5,873</u>	<u>5,311</u>

Huawei Deferred Payment Facility

In 2014 the company entered into a US\$ 20 million deferred payment facility with Huawei Technologies Limited for equipment purchased under projects which started in 2014. The invoices making up the facility are payable in instalments over a period of two years. The rate of interest on the facility is a 6 months US\$ LIBOR plus 6.5% effectively 8.5% per annum (2016: 8.14%) payable within six months after receipt of the invoice. The facility is unsecured.

7. Capital expenditure

	2017 MK'mil	2016 MK'mil
Acquisition of property, plant and equipment	17,707	8,213
Purchase of intangible assets	<u>1,330</u>	<u>963</u>
	<u>19,037</u>	<u>9,176</u>