GUIDELINES FOR THE ISSUE
OF CORPORATE BONDS

AND

COMMERCIAL PAPER

Issued By: CAPITAL MARKETS AND SECURITIES AUTHORITY – TANZANIA

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PART 1.0 BACKGROUND

1.1 Introduction

Corporate bonds and commercial paper are instruments issued for the purpose of raising funds directly from investors without intermediation by banks or other financial institutions. This is for working capital requirements in the case of commercial paper and for long term financing requirements in the case of corporate bonds. The time horizon of the financial instruments determines whether it is a corporate bond or commercial paper. The issuance of these financial instruments is critical to the deepening of the capital markets, which is presently mainly characterized with the issuance of equity stocks.

This paper provides specific guidelines on issuance of corporate bonds and commercial paper through the capital markets. This is part of measures aimed at streamlining the regulatory framework applicable to issuance of debt financial instruments. The document also serves to clarify the regulatory roles of the Capital Markets and Securities Authority (CMSA) and the Bank of Tanzania (BOT) on the issuance of debt financial instruments. The issuance of diverse financial instruments provides a number of financing options to the local corporate institutions and serves to enhance funding. This will help to reduce the cost of borrowing and should promote diversification of sources of long-term funds in the economy as well as competitiveness of the financial sector.
Regulatory Oversight and Jurisdictions of Bank of Tanzania and Capital Markets and Securities Authority

(i) The issuance of debt financial instruments by the corporate sector is traditionally a capital markets activity and in most countries falls under the regulatory jurisdiction of securities regulatory bodies.

(ii) The issuance of Treasury Bills and Treasury Bonds are the responsibility of the BOT or assigned Monetary Authorities on behalf of the Treasury.

(iii) Commercial banks and other financial institutions licensed under the Banking and Financial Institutions Act, 1991 must obtain BOT clearance before seeking to issue any financial instrument. Insurance companies must also seek clearance from the Insurance Supervisory Department of the Ministry of Finance.

(iv) In order to ensure proper and appropriate information disclosure, the issuance of corporate bonds and commercial paper must be subject to regulatory clearance of CMSA.

(v) It is important to note that an effective liaison and consultation framework exists between BOT and CMSA.
1.1.2 Rationale for the Guidelines

The absence of an independent rating agency in the local money and capital markets poses a major constraint to the issuance of both commercial paper and corporate bonds.

In view of the risk and credit-worthiness assessment of the issuers of these financial instruments, BOT and CMSA agreed to initially restrict the issuance of commercial paper to listed companies which are subject to continuous disclosure and reporting obligations. In exceptional circumstances, the CMSA may waive the requirement that only the listed companies may issue corporate bonds and commercial paper.

Following further consultation between CMSA, BOT and other market players it has now become necessary to develop these guidelines. This is in order to take into account the financial soundness of the issuers of these securities and to ensure compliance with prescribed disclosure requirements.

These guidelines have therefore been developed in order to streamline the regulatory framework for the issuance of debt instruments and to address the needs of the investors.
PART 2.0 GUIDELINES AND CONDITIONS

2.1 SCOPE OF GUIDELINES

The guidelines outlined herein are intended to govern the issuance of corporate bonds and commercial paper until such time that a rating agency has been developed in the local market. New guidelines will be issued in future once a rating agency is established. In the meantime, only companies, which meet the prescribed conditions in these guidelines, may issue corporate bonds and commercial paper.

2.1.1 Prospectus or Offering Memorandum

The issuer of corporate bonds or commercial paper, shall publish a prospectus or Offering Memorandum which complies with all the requirements for issue of debt securities as prescribed under Part X11 of the Capital Markets and Securities Authority Act of 1994 and subject to the Laws of Tanzania.

In submitting the application for issuance or listing of bonds and commercial papers, the adviser is required to submit a due diligence certificate confirming that the application complies with these guidelines and other requirements. The Sponsoring Broker is required to submit a checklist indicating that information and other requirements are complied with.

2.1.2 Approval and Fees

The Authority shall approve any issue of bonds or commercial papers, which satisfy the requirements given in these guidelines and on payment of the fees prescribed under the fee structure of the Capital Markets, and Securities Authority as approved by the Board.
Companies satisfying the following requirements will qualify to issue corporate bonds.

2.2.1 (a) Share Capital

The paid-up share capital and reserves shall not be less than Tanzanian Shillings fifty million (TShs. 50 million) and shall be maintained at that level during the period the bond remains outstanding.

In the event that the issuer does not have minimum paid up capital and reserves of Tshs. 50 million, the issuer shall obtain a financial guarantee from a bank or any other approved institution to support the issue.

(b) Track Record

An issuer shall have made profits in at least two of the last three financial periods preceding the application for the issue.

2.2.2 (a) Debt Ratios

Total indebtedness, including the new issue of bonds shall not exceed 400% of the company’s net worth (or gearing ratio of 4.1) as at the date of the latest balance sheet.

(b) The funds from operations to total debt for the three trading periods preceding the issue shall be maintained at a weighted average of 40% or more.

The conditions prescribed under items 2.2.1 and 2.2.2 above shall be maintained as long as the corporate bonds remain outstanding.
2.2.3 (a) Offer Document

The offer document must be accompanied by an accountant’s report covering at least three years audited accounts preceding the issue. The Accountant’s Report shall disclose a pro-forma balance sheet, a profit and loss account following the issue and the following ratios for the last three financial years preceding the issue:

- Earnings before interest and taxes interest cover
- Funds from operation to total Debt percentage
- Free cash flow to total Debt repayment cover
- Total free cash flow to short-term debt obligations
- Net profit margin
- Post-tax return (before financing) on capital employed
- Long Term Debt to Capital employed ratio
- Total Debt to Equity ratio

(b) Cash Flow Projection

A cash flow projection for the subsequent 12 months for regulatory purposes shall be prepared and submitted to CMSA.

2.2.4 Publication of Accounts

The issuer shall publish in at least two reputable daily newspapers as may be designated in that behalf by the CMSA, half-yearly management accounts. PROVIDED that one set of audited annual accounts is submitted each year during the period the Corporate Bond remains outstanding.
2.2.5 Size of Issue

(i) The Minimum size of the issue shall be Tanzanian Shillings Thirty million (TShs. 30 million)

(ii) The Minimum issue lot shall be:

Tanzania Shillings one million (TShs. 1,000,000).

2.2.6 Timing

The offer period shall not exceed ten working days.

2.2.7 Announcement

The issuer shall make a public announcement in the print and electronic media at least one week before the issue opens. The contents of such announcement shall obtain the prior approval of the CMSA.

2.2.7 Advisers

The issuer shall appoint advisers for the issue from amongst licensed banks, investment advisers and stockbrokers.

2.2.9 Placing Agents

The issuer shall appoint placing agents from amongst licensed investment advisers, stockbrokers and banks.

2.2.10 Receiving Bank

The issuer shall designate one receiving bank. Payments shall be in the issuers name and banked in a designated account.

2.2.11 Registrar
The issuer shall designate a Registrar for the issue

**2.2.12 Guarantee Bond**

Where there is a guarantor the issuer may be exempted from the conditions set out under items 2.2.1, 2.2.2, 2.2.3 and 2.2.4 above, but the guarantor shall fulfil those conditions. In the event the guarantor is a bank the consent of BOT shall be required and if the guarantor is an insurance company the consent of the Insurance Supervisory Department of the Ministry of Finance shall be required. In addition the guarantor shall provide CMSA with a financial capability statement duly certified by the guarantor’s auditors.

**2.3 ISSUANCE OF COMMERCIAL PAPER**

Companies satisfying the following requirements shall qualify to issue commercial paper:-

**2.3.1 (a) Share Capital**

The paid-up share capital and reserves shall not be less than Tanzania Shillings fifty million (TShs. 50 million) and be maintained at that level during the period the commercial paper remains outstanding.

In the event that the issuer does not have a minimum paid up capital and reserves of TShs 50 million, the issuer shall obtain a financial guarantee from a bank or any other approved institution to support the issue.

**2.3.1 (b) Track Record**

The company shall have made profits in at least two of the last three years preceding the issue.

**2.3.2 (a) Debt Ratios**
Total indebtedness, including the new issue of commercial paper shall not exceed 400% of the company's net worth (or gearing ratio of 4.1) as at the date of the latest balance sheet.

(b) The funds from operations to total debt for the three trading periods preceding the issue shall be maintained at a weighted average of 40% or more.

The conditions as provided in 2.3.1 and 2.3.2 shall be maintained as long as the commercial paper remain outstanding.

2.3.3 (a) Offer Document

The offer document must be accompanied by an accountant's report covering at least three years audited accounts preceding the issue. The Accountant's Report shall disclose a pro-forma balance sheet, a profit and loss account following the issue and the following ratios for the last three financial years preceding the issue:-

- Earnings before interest and taxes interest cover
- Funds from operations to total debt percentage
- Free cash flow to total Debt percentage
- Total free cash flow to short-term debt obligations
- Net profit margin
- Post-tax return (before financing) on capital employed
- Long Term Debt to Capital employed ratio
- Total debt to Equity ratio

(b) Cash Flow Projection
A cash flow projection for the subsequent 12 months for regulatory purposes shall be prepared and submitted to CMSA.

2.3.4 Publication of Accounts

The issuer shall publish in at least two reputable daily newspapers half-yearly management accounts as may be designated for the purpose by the CMSA. Provided one set of audited annual accounts is submitted each year during the period the Corporate Bond remains outstanding.

2.3.5 Commercial Paper Size Programme

(i) Minimum Programme Size of the issue shall be Tanzania Shillings Thirty million (TShs. 30 million)

(ii) Minimum denomination shall be in multiples of Tanzania Shillings one million (TShs. 1 million).

2.3.6 Announcement

The issuer shall make a public announcement in the print and electronic media at least one week before the issue opens. Such announcements shall obtain the prior approval of the CMSA.

2.3.7 Advisers

The issuer shall appoint t advisers for the issue from amongst licensed banks, investment advisers and stockbrokers.

2.3.8 Placing Agents

The issuer shall appoint placing agents from amongst the licensed investment advisers, stockbrokers and banks.
2.3.9 Receiving Bank

The issuer shall designate one receiving bank. Payment shall be in the issuers name and banked in a designated account.

2.3.10 Registrar

The issuer shall designate a Registrar for the issue.

2.3.11 Guaranteed Paper

Where there is a guarantor, the issuer may be exempted from the condition set out under item 2.3.1, 2.3.2, 2.3.3 and 2.3.4 above, but the guarantor shall fulfil these conditions. In the event the guarantor is a bank the consent of BOT shall be required and if the guarantor is an insurance company the consent of the Insurance Supervisory Department of the Ministry of Finance shall be required. In addition the guarantor shall provide CMSA with a financial capability statement duly certified by its auditors.

PART 3.0: FINANCIAL RATIOS

The financial ratios have been defined below to ensure that all issuers prepare them on a consistent and comparable basis.

Earnings before interest and taxes (EBIT) interest cover

\[
\text{EBIT interest cover} = \frac{(\text{EBIT for the period})}{(\text{Interest payable for the period} + \text{any preference dividend payable for the period})}
\]

This is the extent to which interest is covered by profits before interest (payable) and taxes.
EBIT is after interest earned and income from investments during the period. Interest payable for the period is defined as interest payable on all long-term and short-term debts for the period (i.e. interest paid and accrued).

**Operating cash flow to total debt percentage**

Operating cash flow to total debt ratio = \( \frac{\text{funds generated from Operations in the period}}{\text{Average total debt during the period}} \times 100\% \)

This is the extent to which debt is covered by the cash generated from operations during the period.

**Free Cash flow to total debt percentage**

Free cash flow to total debt = \( \frac{\text{free cash flows for the period}}{\text{average total debt during the period}} \times 100\% \)

This is the extent to which debt is covered by free cash flow available for the period.

**Total free cash flow to total short term debt obligations**

Total free cash flow to Total short-term debt obligation = \( \frac{\text{total uncommitted cash flows for the period}}{\text{total short-term debt obligations at the end of the period}} \times 100\% \)

This is the extent to which all short-term obligations are covered by total uncommitted cash flows measured as a percentage.

Total uncommitted cash flow is defined as free cash flow for the period plus any cash and cash equivalents at the end of the period.

Cash equivalents are defined as highly liquid assets, convertible into known amounts of cash without notice and have insignificant risk of changes in value owing to changes in interest rates. A reasonable cut-off for cash equivalents is represented by a three-month (or less) maturity from date of acquisition.
Short-term debt obligations at the end of the period are defined as:

- Bank loans and overdrafts,
- Current portions of long-term liabilities,
- Other payables, but excluding accounts and notes payable (trade), taxes on income, dividends payable and other payables and accrued expenses which are of a non-financing nature.

Net profit margin

Net profit margin = \(\frac{\text{net profit for the period}}{\text{total sales for the period}}\) \times 100\%

This is a measure of profitability.

Total sales turnover for the period represents the total gross sales net of indirect taxes such as VAT.

Net profit is as defined in the glossary but must be stated after charging depreciation on the gross carrying value of the fixed assets.

Post-tax return (before financing costs) on capital employed

\[
\text{Post-tax return (before financing costs)} = \left(\frac{\text{profit after tax but before Financing costs for the Period}}{\text{average Capital employed for the period}}\right) \times 100\%
\]

This measures the actual percentage rate of return to the “owners” of the capital (both equity and debt holders).

Profit after tax for the period is stated after exceptional items but before extraordinary items and interest payable.

Capital employed is defined as: shareholders’ interest + Minority interest + non-equity shares at Liquidation value + Long-term debt
Shareholders’ interest is made-up of paid-up capital and all reserves (i.e. revenue and capital reserves, including revaluation reserves).

Note: Where extraordinary items can have a significant impact, the ratio should also be computed using profit after tax, extraordinary items and exceptional items but before financing costs.

Long-term debt to capital employed ratio

\[
\text{Long-term debt to Capital employed ratio} = \frac{\text{average long-term debt outstanding during the period}}{\text{average equity + average long-term debt for the period}}
\]

This measures the level of debt in relation to capital employed – the financial leverage, stated as a percentage.

Total debt to equity ratio

\[
\text{Total debt to equity ratio} = \frac{\text{average short-term debt outstanding + average long term debt outstanding during the period}}{\text{average equity for the period}}
\]

This is also termed as the gearing ratio, measures the level of debt compared to equity, stated as a factor x: 1.

Equity = networth (defined in the glossary).

Funds from operations to debt Percentage

\[
\text{Funds from operations to debt} = \frac{\text{funds generated from operations In the period}}{\text{Average total debt during the period}} \times 100\%
\]

This is the extent to which total debt is covered by cash generated from operations during the period, measured as a percentage.
Free cash flow to debt repayment cover

Free cash flow to debt repayment cover = \((\text{free cash flow for the period})\)
\((\text{Interest payable} + \text{preference dividend} + \text{principal repaid during the period})\)

This is the extent to which total debt is covered by cash flow available for the period.

Free cash flow is defined in the glossary. Debt repayment includes any obligations on total debt that are due within the period.
The glossary is designed to provide clarity to the terms used in the guidelines and the computation of the financial ratios.

Adviser

In relation to an issue of securities means a corporate person engaged in the provision of financial services which deals in securities whether debt or equity and has been contracted by an issuer as a lead adviser to an issue of securities.

Average over the period

This is defined as the average of the opening and closing balances for that period. Alternatively, where the debt profile changes significantly during the year, it would be more appropriate to compute a weighted average over the period using month-end or quarter-end balances. The basis of computation should be disclosed.

Bond

A bond is a debt instrument with a maturity of one year or more, and evidence of a loan extended by a creditor to a corporation or other borrower such as a government or local authority. The borrower is obligated to pay the bondholder a specific interest at specific intervals, and to repay the principal amount of the loan at maturity. Bonds signify indebtedness of the issuer to the bondholder but do not have corporate ownership privileges as shareholders. The terms of the contract are normally contained in the bond indenture or trust indenture.
Bond Insurer

An insurance company which insures an issuer of securities against risk of default in payment of interest and payment of principal due under a guaranteed bond.

Commercial Paper

Commercial paper is a debt instrument with a maturity of less than one year and is evidence of loan extended by a creditor to a corporation.

Free Cash flow

This is defined as operating cash flow for the period less income tax paid and net capital investment.

Guarantor

Means any person who guarantees to bond or commercial paper holders payment of interest and repayment of principal due under a guaranteed bond or paper respectively.

Guaranteed Bond

Means a bond which is guaranteed as to payment of interest and repayment of principal by a third party who may or may not be related to the issuer but is usually larger, better known or more credit worthy than the issuer, or guaranteed by means of a contract of insurance.

Guaranteed paper

Means a commercial paper which is guaranteed as to payment of interest and repayment of principal by a third party who may or may not be related to the issuer but is usually larger, better known or more credit worthy than the issuer or guaranteed by means of a contract of insurance.
Issue
Any security of a legal entity, offered for distribution.

Issuer
A legal entity whose securities are offered for sale or distribution.

Lot
A given number of units of a security.

Net worth (equity)
This represents the worth of the company after all obligations are met. Thus it may be defined as paid-up share capital plus all reserves (i.e., revenue and capital reserves, including revaluation reserves).

Net profit
This is defined as the net profit for the period after the tax and extraordinary and exceptional items.

Offer Document
This is a document prepared by the issuer to provide information about the issue and in compliance with disclosure requirements whether in the form of a prospectus or an information memorandum.

Offer period
This is the period between the time an issue is offered to the public and the time the offer closes.
Operating cash flow (funds generated from operations)

Following Tanzania Statement of Standard Accounting guideline 8 (TSSAG8), this is defined as net profit (see below) for the period as adjusted for the effects of:

- changes in working capital (stocks, trade debtors and creditors) during the period;

- Non-cash items such as depreciation, foreign exchange (gain)/loss, (gain/loss or disposal of fixed assets, provisions, deferred taxes, etc.

- All other items for which the cash effects are investing or financing cash flows or returns on investment or servicing of finance, such as dividend income, interest paid, or interest received.

Paid-up Share Capital

This represents ordinary shares (equity shares), which have been issued and fully paid for, but excludes all non-equity shares except for non-redeemable preference shares.

Period

The term is defined as the period for which the financial statements are made up. This must not exceed 18 months and must not be less than 3 months. For example, the longest period would be 1st January 1999 to 30th June 2000 and the shortest period would be 1st January 1999 to 31st March 1999.

Profit for the purpose of determining eligibility for issuing debt

Profit for this purpose is the net profit before minority interests, as disclosed in the financial statements (i.e., profit after tax and extraordinary items).
The latest available balance sheet date

Where the latest annual audited financial statements are made up to a date more than six months prior to launch date e.g., latest audited financial statements are for 12 months to 30th June 1999 for a bond issue to be launched on 31st March, 2000, then:

(1) Management should disclose the un-audited balance sheet date to a date less than six months prior to the launch date (say 31 December 1999) and financial results and cash flows for the period from the last audited financial statements to that date (6 months to December 1999).

(2) Disclose the financial ratios for that period (6 months to 31st December 1999) on a 12-month equivalent basis. The balance sheet, profit & loss and cash flows for the "notional" first six months should be extrapolated. The extrapolation should be on a straight-line basis where there are no significant seasonal trends. Where there are significant seasonal trends identified in the previous period, then the extrapolation should be weighted accordingly.

Total Indebtedness

This is represented by both long-term debt and short-term debt.

Long-term debts are any amounts outstanding on commitments that are repayable after more than one year. Examples include:

- term loan
- bonds issued
- non-equity shares outstanding, e.g. redeemable preference shares
- long-term lease obligation
- parent company loan/director loan/shareholder loan**

For these items, analyse the amounts as:
- amounts falling due within 1 year (classified as short term debt)
- amounts falling due within 2-5 years
- amounts falling due after 5 years

Short-term debts are any amounts owed that have a maturity period of less than a year or which are repayable on demand but exclude normal trade creditors and other creditors. Example include:

- overdrafts
- current portion of long term debt
- commercial paper
- certificate of deposit (CDs) issued
- parent company loans/director loans/shareholder loans**
- trade credit facilities from related parties which are in excess of normal industry credit terms***

** these amounts would be classified as long-term debt provided that there is an agreed repayment schedule for interest and principal that is being adhered to, otherwise the amounts would be classified as short-term debt.

*** for example, if the amount outstanding on a trade credit from a related party is equivalent to 90 days worth of purchase while normal industry terms are 30 days. An amount equivalent to 60 days worth of purchases should be classified as short-term debt.

Disclosure should also be provided of future significant/material cash obligations that are not already reflected on the balance sheets as a liability (i.e., off-balance sheet items), such as:

- Contracted obligations, commitments for the next 12 months;
- capital commitments that have been contracted for but not provided for on the balance sheet and those authorised but not contracted.
- Contingent liabilities
- Contracted amounts payable under sale and repurchase agreements not recognised in the balance sheet, e.g., sale and leaseback of fixed assets;

The disclosure of these future obligations should also be classified as those falling due within one year and those falling due after one year.