



AIRTEL NETWORKS KENYA LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2018

AIRTEL NETWORKS KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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AIRTEL NETWORKS KENYA LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2018

COMPANY INFORMATION

DIRECTORS

Mr. Prasanta Das Sarma***
Mr. Daddy Mukadi**
Mr. Titus Naikuni*
Mr Alok Bafna***

*Kenyan
**Congolese
***Indian

REGISTERED OFFICE

LR No. 209/11880
Parkside Towers, Mombasa Road
P.O. Box 73146 - 00200
NAIROBI, KENYA

COMPANY SECRETARY

Africa Registrars
Certified Public Secretaries (Kenya)
P.O. Box 1243 - 00100
NAIROBI, KENYA

LAWYERS

Ojiambo & Co Advocates
P.O. Box 1021 - 00100
NAIROBI, KENYA

Majanja Luseno & Co Advocates
P.O. Box 74580 - 00200
NAIROBI, KENYA

Kaplan & Stratton Advocates
P.O. Box 40111 - 00100
NAIROBI, KENYA

Coulson Harney
P.O. Box 10643 - 00100,
NAIROBI, KENYA

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P.O. Box 40092 - 00100
NAIROBI, KENYA

PRINCIPAL BANKERS

Commercial Bank of Africa Limited
P.O. Box 44286 - 00100
NAIROBI, KENYA

KCB Bank (Kenya) Limited
Kencom House, 6th Floor, Wing B
P.O. Box 48400 - 00100
NAIROBI, KENYA

Standard Chartered PLC
48 Westlands Road, Chiromo
P.O. Box 30003 - 00100
NAIROBI, KENYA

Barclays Bank of Kenya Limited
P.O. Box 46661 - 00100
NAIROBI, KENYA

Citibank N.A.
Citibank House, Upper Hill Road
P.O. Box 30711 - 00100
NAIROBI, KENYA

Equity Bank (Kenya) Limited
Equity Centre, Hospital Road, Upper Hill
P.O. Box 75104 - 00200
NAIROBI, KENYA

AIRTEL NETWORKS KENYA LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2018

REPORT OF THE DIRECTORS

The directors submit their report together with the audited annual financial statements for the year ended 31 December 2018, which disclose the state of affairs of the company.

1. PRINCIPAL ACTIVITIES

The **principal** activity of the company is the provision of a public GSM mobile telecommunications network and mobile financial services in Kenya.

2. RESULTS

The results for the year are set out in page 8.

	2018 KShs '000
Loss before taxation	(2,938,991)
Taxation	52,187
Loss after taxation	<u>(2,886,804)</u>

3. DIVIDEND

The directors do not recommend payment of a dividend in the year. (2017: Nil).

4. RESERVES

The reserves for the company are set out on page 10.

5. DIRECTORS

The **directors** who held office during the year and to the date of this report are included on page 1.

6. BUSINESS REVIEW

We have continued with the momentum gained in the 2017 to grow our customer base coupled with acquisition of the 800MHz spectrum which has helped us to further solidify our customer base. With substantial investment in our network and innovative products and services, Airtel has continued to grow in customer acquisition compared to previous years. The **customer** base stands at 13+mn customers as of Dec 2018.

The launch of innovative voice (Tubonge) and Data (Amazing) products have added to Customer satisfaction, as evidenced by higher usage of all our products and services. Voice minutes have grown by 118% and Data Usage has grown by 106%.

As a result of our strong focus on delivering quality services to our customers, our total revenue grew by 23% and our customer base grew by 45% to over 13 million customers. Voice & Data remain our predominant revenue stream having increased by 30% and 40% respectively. This growth was supported by our convenient distribution and attractive consumer propositions and promotions.

With our ongoing drive to provide customers with the best network experience, Airtel has invested KShs 6.5 billion in improving network quality, capacity and coverage. We have increased the population coverage of our 2G and 3G networks and have completed the network modernization exercise.

For another consecutive year, we have delivered robust results and ensured value for our shareholders **supported** by growth across all our revenue streams. This growth in revenue, coupled with cost efficiency, reduced the losses by 50% year on year. Our goal is to ensure the that the "Airtel" brand continues to be positioned as in Kenya as "Kenya's Most Affordable Network".

We take this opportunity to sincerely thank all our valued stakeholders; customers, government bodies, business partners and employees for their unstinted support during the year and wish to assure that we at Airtel remain firmly committed to usher in the benefits of the global voice and data revolution to our customers.

We are well positioned to continue our growth into 2019 in both subscriber addition and revenue, and will continue being guided by the strategic imperatives of distribution excellence, customer experience, network **excellence**, right cost model and people development. It is for this reason that we look **forward** to the upcoming fiscal year with great optimism and purpose.

AIRTEL NETWORKS KENYA LIMITED
REPORT OF THE DIRECTORS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

6. AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance provisions of section 719 (2) of the Kenyan Companies Act, 2015. The Directors monitor the effectiveness, objectivity and independence of the auditor. The Directors also approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees.

7. DISCLOSURE OF INFORMATION TO AUDITORS

Each director confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board

SCRIBE SERVICES



SECRETARIES

29 / 03 /2019

SCRIBE SERVICES
SECRETARIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the **company** and disclose, with reasonable accuracy, the financial position of the **company**. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the **presentation** of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the **company's** ability to continue as a going concern, the directors are aware of material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern. The directors acknowledge that the continued existence of the company as a going concern depends on the outcome of various strategic measures that the directors continue to pursue to return the company to profitability and the continued financial support from the company's shareholders and bankers. The directors are confident that any financial support required by the company from its shareholders will be forthcoming and are of the view that the strategic turn-around measures that have been put in place will restore the company's solvency and will enable it to trade profitably in a sustainable manner.

The directors acknowledge that the independent audit of the financial **statements** does not relieve them of their responsibilities.

Approved by the board of directors on 29 / 03 / 2019 and signed on its behalf by:


P D Sarma
Director


T Naikuni
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIRTEL NETWORKS KENYA LIMITED

Report on the audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Airtel Networks Kenya Limited, ("the Company"), set out on pages 8 to 59, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other 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 financial statements give a true and fair view of the financial position of the company as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are **independent** of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern

We draw attention to Note 2 to the financial statements which indicates that the company incurred a net loss of KShs 2.89 billion during the year ended 31 December 2018 (2017: net loss of KShs 5.95 billion) and, as of that date, the company's current liabilities exceeded its current assets by KShs 8.14 billion (2017: KShs 2.86 billion). These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to **continue** as a going concern. Our opinion is not **modified** in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Kenya Companies Act, 2015. The other information does not include the financial statements and our **auditors'** 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, 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
AIRTEL NETWORKS KENYA LIMITED

Report on the audit of the Financial Statements (Continued)

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in **accordance** with International Financial Reporting Standards and the requirements of the Kenya Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain **professional** scepticism throughout the audit. We also:

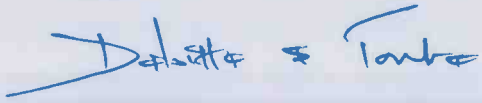
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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.

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF FAIRTEL NETWORKS KENYA LIMITED (Continued)

Report on Other matters prescribed by the Kenya Companies Act, 2015.

In our opinion, the information given in the report of the directors on pages 2 to 3 is consistent with the financial statements.



**Certified Public Accountants (Kenya)
Nairobi**

29 March 2019

**CPA Fred Okwiri - P/No 1699
Signing partner responsible for the independent audit**

AIRTEL NETWORKS KENYA LIMITED
 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 DECEMBER 2018

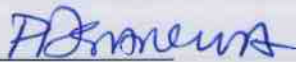
	Notes	2018 KShs'000	2017 KShs'000
REVENUE	7	20,501,225	16,785,781
COST OF SALES	8	(4,455,017)	(3,793,362)
GROSS PROFIT		16,046,208	12,992,419
OTHER INCOME/(COSTS)	9	12,972	(1,752)
DISTRIBUTION COSTS	10	(4,018,225)	(3,333,520)
ADMINISTRATIVE EXPENSES	11	(2,673,666)	(2,057,524)
OTHER EXPENSES	12	(10,892,484)	(11,137,644)
FINANCE COSTS	13	(1,413,796)	(2,412,010)
LOSS BEFORE TAXATION	14	(2,938,991)	(5,950,031)
INCOME TAXATION	16	52,187	-
LOSS FOR THE YEAR		(2,886,804)	(5,950,031)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(2,886,804)	(5,950,031)

AIRTEL NETWORKS KENYA LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
Assets			
Non-current assets			
Property, plant and equipment	17	18,660,611	16,795,285
Intangible assets	18	4,511,258	2,513,699
Prepaid operating lease rentals	19	30,124	48,180
Other non-current assets	37	35,784	29,727
Investment in subsidiary company	37	20,000	-
Total Non-current assets		23,257,777	19,386,891
Current assets			
Income tax recoverable	16	294,861	285,391
Embedded derivative asset	20	239	4,459
Inventories	22	43,595	3,722
Trade and other receivables	23	9,671,790	7,432,660
Cash and cash equivalents	24	295,703	800,869
Total current assets		10,306,188	8,527,101
Total assets		33,563,965	27,913,992
Equity and liabilities			
Ordinary share capital	25	2,625,000	2,625,000
Share premium – ordinary and preference shares	26	4,493,824	4,493,824
Redeemable preference shares	27	22,611,514	22,611,514
Accumulated losses		(68,090,426)	(65,203,622)
Total equity		(38,360,088)	(35,473,284)
Non-current liabilities			
Shareholder's loans	28	47,504,323	43,434,755
Borrowings	29	5,925,554	8,522,396
Other non-current liabilities	38	39,646	45,846
		53,469,523	52,002,997
Current liabilities			
Embedded derivative liability	20	9,224	8,059
Borrowings	30	6,099,923	1,559,238
Trade and other payables	31	10,601,294	8,384,593
Provisions	32	1,744,089	1,432,389
Total current liabilities		18,454,530	11,384,279
Total equity and liabilities		33,563,965	27,913,992

The financial statements on pages 8 to 59 were approved by the Board of directors on 29/03/.....2019 and signed on its behalf by


Director
P D Sarma


Director
T Naikuni

AIRTEL NETWORKS KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Ordinary Share capital	Preference share capital	Share premium – Ordinary shares	Share premium – Redeemable preference shares	Accumulated losses	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Year ended 31 December 2018						
Balance as at 1 January 2018	2,625,000	22,611,514	234,801	4,259,023	(65,203,622)	(35,473,284)
Total comprehensive loss for the year					(2,886,804)	(2,886,804)
Balance as at 31 December 2018	2,625,000	22,611,514	234,801	4,259,023	(68,090,426)	(38,360,088)
Year ended 31 December 2017						
Balance as at 1 January 2017	2,625,000	22,611,514	234,801	4,259,023	(59,253,591)	(29,523,253)
Total comprehensive loss for the year	-	-	-	-	(5,950,031)	(5,950,031)
Balance as at 31 December 2017	2,625,000	22,611,514	234,801	4,259,023	(65,203,622)	(35,473,284)

Further explanations on the components of equity are in Note 25 – 27.

AIRTEL NETWORKS KENYA LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KShs'000	2017 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	35	3,369,952	(874,973)
Interest paid	13	(1,077,533)	(2,155,976)
Interest received	9	-	11
Tax paid		(9,470)	-
Net cash used in operating activities		<u>2,282,949</u>	<u>(3,030,938)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	17-18	(7,360,902)	(1,122,873)
Proceeds on disposal of property, plant and equipment		-	6,036
Network capacity cost adjustment		-	1,019,113
Investment in subsidiary company	37(ii)	(20,000)	-
Net cash generated from/(used in) investing activities		<u>(7,380,902)</u>	<u>(97,724)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Third party non-current borrowings	29-30	427,071	1,670,270
Additional proceeds from shareholder's loans	28	1,805,400	2,512,267
Repayment of third party short term loans	30	-	(278,701)
Proceeds from third party borrowing short-term	29-30	1,528,756	-
Net cash generated from/(used in) financing activities		<u>3,761,227</u>	<u>3,903,836</u>
NET DECREASE/(INCREASE) IN CASH AND CASH EQUIVALENTS		(1,336,726)	775,174
NET FOREIGN EXCHANGE DIFFERENCES		843,545	(219,133)
CASH AND CASH EQUIVALENTS AT START OF THE YEAR		369,335	(186,705)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24	<u>(123,846)</u>	<u>369,335</u>

1. GENERAL INFORMATION

Airtel Networks Kenya Limited (the company) is incorporated in Kenya under the Kenyan Companies Act as a private limited liability company and is domiciled in Kenya. The address of the registered office is:

LR No. 209/1180,
Parkside Towers, Mombasa Road,
P O Box 73146, City Square 00200,
Nairobi.

The immediate holding company is Bharti Airtel Kenya B.V., a company incorporated in Netherlands. The step up parent company is Bharti Airtel International (Netherlands) B.V., a company incorporated in Netherlands and Bharti Airtel Limited, a company incorporated in India.

2. GOING CONCERN BASIS OF PRAPARATION OF FINANCIAL STATEMENTS

In 2018, the **company** incurred a net loss of Kshs 2.89 billion (2017: loss of Kshs 5.95 billion). At 31 December 2018, the company had accumulated losses amounting to Kshs 68.09 billion (31 December 2017: Kshs 65.20 billion). The company is also in a net liability position of Kshs 38.36 billion (2017: Kshs 35.47 billion) with current liabilities exceeding current assets by Kshs 8.14 billion (2017: Kshs 2.86 billion). The operations of the company continue to depend heavily on sources of financing from its direct and indirect parent companies and lenders.

These conditions may result in Company's inability to realise its assets and discharge its liabilities in the normal course of business, consequently it may not able to maintain its going concern status.

The directors are of the opinion that the Company is a going concern on the basis that the Company:

- a) Will generate cash inflows from operations of at least the amount projected in the management's annual operating plan. The generation of sufficient cash flows from operations is driven by and is dependent on management achieving operational targets on subscriber numbers, churn rate and average revenue per user;
- b) Will continue to obtain funding from lenders whenever required;
- c) The Company will be able to obtain from the shareholders any additional funding required to meet its obligations as and when they fall due. A **commitment** to this effect from the major **shareholders** has been **obtained** by the **Company**.

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) **Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act, 2015.

For the **purposes of reporting** under the **Kenyan Companies Act**, 2015 the **balance** sheet in these financial statements, is represented by/equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

b) **Basis of preparation**

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (KShs), which is also the company's functional currency, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of estimates and **assumptions**. It also requires **management** to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3q.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Consolidation

Subsidiaries

Subsidiaries are all entities over which the company has control. The company controls an investee if and only if the company has all the following:

Power over the investee;
Exposure, or rights to variable returns from its involvement with the investees; and
The ability to use its power over the investee to affect the amount of the company's returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the company. They are de-consolidated from the date the control ceases.

The subsidiary of the company is immaterial. Therefore, consolidated financial statements would be of no real value to the members of the company in view of insignificant amounts involved. The investment in the company's subsidiary is stated at cost less accumulated impairment losses.

d) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of value-added tax (VAT), rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and when specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The company assesses its revenue arrangements against specific criteria, i.e., whether it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services, in order to determine if it is acting as a principal or as an agent.

i) Service revenues

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

Service revenues are recognised as the services are rendered and are stated net of discounts, waivers and taxes. Revenues from pre-paid cards are recognised based on actual usage. Subscriber acquisition costs are expensed as incurred.

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

Unbilled revenue represents revenues recognised from the bill cycle date to the end of each month. These are billed in subsequent periods based on the terms of the billing plans.

Deferred revenue includes amount received in advance on pre-paid cards and advance monthly rentals on post-paid. The related services are expected to be performed within the next operating cycle.

ii) Sale of goods

Sales of goods (handsets and accessories) are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

iii) Site Sharing revenue

Site sharing revenue arises from rental fees charged to other operators for usage of sites owned or leased by Airtel Networks Kenya Limited in a sub-letting arrangement.

iv) MVNO Revenue

MVNO refers to Mobile Virtual Network Operator. In 2014, Airtel Networks Kenya Limited entered into an agreement to sell excess network capacity to Finserve Africa Limited (Finserve). As per the agreement, Finserve pays Airtel Networks Kenya Limited for usage of infrastructure capacity in form of Voice, Sms and Data revenue. In addition, any other costs incurred by Airtel on behalf of Finserve are marked-up and cross-charged to Finserve.

v) Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets, classified as financial assets at fair value through profit or loss, interest income is recognised using the effective interest rate (EIR), which is

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in 'other income' in the statement of profit or loss and other comprehensive income.

c) **Functional currency and translation of foreign currencies**

Transactions are recorded on initial recognition in Kenya Shillings, being the currency of the primary economic environment in which the company operates (the functional currency). Transactions in foreign currencies are converted into Kenya Shillings using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rates of exchange ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

d) **Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the company recognises such parts as separate components of assets with specific useful lives and provides depreciation over their useful lives. The carrying amount of the replaced part is derecognised. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repair and maintenance costs are recognised in profit or loss when incurred.

Assets are depreciated to their residual values on a straight-line basis over their estimated useful lives. Estimated useful lives of the assets are as follows:

Asset category	Useful life
Leasehold improvements	Remaining period of the lease or 20 years, whichever is shorter
Technical Assets (Network Equipment)	3 - 20 years
Computer equipment	3 years
Office furniture and equipment	2-5 years
Motor vehicles	3-5 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted prospectively if appropriate, at each reporting date.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

e) **Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such circumstances include, though are not limited to, significant or sustained declines in revenues or earnings and material adverse changes in the economic environment.

An impairment test is performed at the level of each cash generating unit ('CGU') or groups of CGUs expected to benefit from acquisition-related synergies and represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, within an operating segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. To calculate value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Impairment losses, if any, are recognised in profit or loss as a component of depreciation and amortisation expense.

For all assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

f) Intangible assets

Identifiable intangible assets are recognised when the **company** controls the asset, it is probable that future economic benefits attributed to the asset will flow to the company and the cost of the asset can be reliably measured.

Separately acquired intangible assets are recognised at cost. The cost of intangible assets that are acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, the intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The amortisation period and the amortisation method for an **intangible** asset are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic **benefits** embodied in an asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives (10 years for License, 2 years for YU brand and 4 years for YU customers) is recognised in profit or loss in an expense category that is consistent with the **function** of the intangible assets.

The carrying amount of an intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. **Gains or losses arising from de-recognition** of an intangible asset are measured as the difference between the net **disposal proceeds** and the **carrying amount of the asset** and are recognised in profit or loss when the asset is derecognised.

i) Bandwidth

Payments for bandwidth capacities are classified as prepayments in service arrangements or under certain conditions as an acquisition of a right. In the latter case, it is accounted for as an intangible asset and the cost is amortised over the period of agreement. This does not relate to indefeasible right of use (IRU).

(ii) Mobile Phone Licenses

Acquired licenses are initially recognised at cost. Subsequently, license and spectrum entry fees are measured at cost less accumulated amortisation and accumulated impairment loss. Amortisation is recognised in profit or loss on a straight-line basis over the unexpired period of the license **commencing** from the date **when** the related network is available for intended use in the respective **jurisdiction** and is disclosed under administrative expenses.

(iii) YU Brand & Customer Base

On 21 December 2014, the company acquired YU brand and customer base. YU brand and Customer base were recognised at their cost as at 21 December 2014 and are being amortised over a period of 2 years and 4 years respectively starting 21 December 2014. These are fully amortised as at 31 December 2017 with the YU customer base being subjected to accelerated amortisation in 2017.

g) Accounting for leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Company as a lessee

A finance lease is a lease that transfers to the lessee substantially all of the risks and rewards of ownership. A lease that is not a finance lease is an operating lease. Operating lease payments are recognized as an operating **expense** in profit or loss on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Company as a lessor

Leases in which the company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases and are recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

h) Inventories

Inventories are valued at the lower of cost and net realisable value.

Basis of cost

Cost is determined by the First in First Out (FIFO) method. The cost of inventories comprises all the purchase and other costs in bringing the product to its present location but excludes borrowing costs.

Basis of net realisable value

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and applicable variable selling expenses.

i) Financial instruments

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

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established using an ECL model in line with the requirements of IFRS 9 as outlined in the next section below. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is charged to profit or loss.

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. 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.

(i) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial instruments (continued)

(ii) 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.

The Company write-offs debt only when there objective evidence that the debt will not be recovered and after it has exhausted its collection avenues.

(iii) 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 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.

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**.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Interest-bearing loans are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any **difference** between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the **borrowings** in accordance with the Company's accounting policy for borrowing costs.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from the banks repayable within three months from the dates of advance.

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 issued by the company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Share capital

Ordinary shares and qualifying preference shares that do not meet the definition of a financial liability are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, call deposits and other short-term highly liquid investments with an original maturity of three months or less, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents also include outstanding bank overdrafts shown within the borrowings in current liabilities in the statement of financial position and which are considered an integral part of the company's cash management.

l) Employee benefits

Retirement benefit obligations and long term incentives

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

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the company and employees.

The company's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.

Other entitlements

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

The company's top executives are usually entitled to long term incentives. This is a long term incentive whereby the executives are entitled to a certain predetermined number of shares in the **company** once the company achieves the set performance targets and the executive has served over the set number of years. The liability is usually accrued for on a monthly basis but subject to **continuous** review between accrued amounts and the target incentive.

m) Taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other **comprehensive** income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the **reporting** date.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the **transaction**, affects neither the accounting profit nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Taxes (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled or the related deferred income tax asset is realised.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable, and
- When receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

n) Provisions

i) General

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

Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the **reimbursement** is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

ii) 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 is provided at the present value of expected costs to settle the obligation using discounted cash flows and is recognised as part of the cost of that particular asset. ARO asset is recorded in property plant and equipment and ARO liability is recorded in provisions.

The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in profit or loss as a finance cost. The estimated future costs of decommissioning 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.

iii) Contingencies

Contingent liabilities are disclosed in the financial statements unless in cases where the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised. However, when the realization of income is virtually certain, then the related asset is no longer a contingent asset, and is recognised as an asset. Contingent assets are disclosed where an inflow of economic benefits is probable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

p) Dividends

Dividends payable are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

q) Critical accounting estimates and judgements

Critical accounting estimates and assumptions

The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, ARO provision, lease classification especially site rentals, going concern and the disclosure of contingent liabilities, at the end of the reporting period. Assets retirement obligation (ARO) is an estimate of the cost of demolishing the sites once the lease term expires (note 3(n)). Estimates are made for amounts to be recognised in the books of account as the expected duration of lease agreements and estimated cost of restoration of the base transceiver station (BTS) sites to original state prior to occupancy. Management also evaluates and makes assumptions on factors that affect the company's ability to continue existing as a going concern. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the company's accounting policies, management has made the following judgements, which have significant effect on the amounts recognised in the financial statements:

Income taxes (Note 16)

Significant judgement is required in determining the company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises 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 income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets (Note 21)

Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred income taxes that can be recognised, based upon the likely timing of future taxable profits. Critical assumptions have been made by the directors in determining the recoverability of the deferred income tax asset.

Allowance for bad and doubtful debts (Note 23)

The company reviews its trade receivables at each reporting date to assess whether an allowance for bad and doubtful debts should be recorded in profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables.

Revenue recognition and presentation

The company assesses its revenue arrangements against specific criteria including whether it has exposure to the significant risks and rewards associated with the sale of goods or rendering of services, in order to determine if it is acting as a principal or as an agent.

When deciding the most appropriate basis for presenting revenue or costs of revenue, both the legal form and substance of the agreement between the company and its business partners are reviewed to determine each party's respective role in the transaction. Where the company's role in a transaction is that of a principal, revenue comprises amount billed to the customer/distributor, after trade discounts.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Critical accounting estimates and judgements (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment

Directors make estimates in determining the depreciation rates for property, plant and equipment. The rates used are set out in the accounting policy for property, plant and equipment.

These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances. Refer to Note 17.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired on a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite. Refer to Note 18.

Value in Use of non-financial assets

The company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Impairment exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions at arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset.

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 asset. Note 17.

Contingent liabilities

As disclosed in note 33 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

Going concern

The company's management has made an assessment of its ability to continue as a going concern and obtained commitment from shareholders for financial support in order to continue in business for the foreseeable future. Furthermore, management has put in place sound business strategies to ensure that the company raises revenue and adequate cash flows to fund its operations. Therefore, the financial statements continue to be prepared on the going concern basis. Refer to Note 2.

Asset retirement obligations (ARO)

In measuring the provision for ARO the company uses technical estimates to determine the expected cost to dismantle and remove the infrastructure equipment from the site and the expected timing of these costs.

The provision for asset retirement obligations is disclosed in Note 38.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) **Critical accounting estimates and judgements (continued)**

Estimates and assumptions (continued)

Classification of leases

Management assesses whether the company effectively retains substantially all the risks and rewards incidental to ownership of a leased item and classifies it as operating leases. Lease rentals with respect to assets taken on 'Operating Lease' are charged to profit or loss on a straight-line basis over the lease term.

Leases which effectively transfer to the company substantially all the risks and rewards incidental to ownership of the leased item are classified as finance leases. These are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in profit or loss. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Leased assets are depreciated on straight-line basis over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated on straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(i) *New and amended IFRS Standards that are effective for the current year ended 31 December 2018*

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Company has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 only and not to the comparative period.

The standard amends the **classification** and measurement models for financial assets. See below.

1) *Classification and measurement of financial assets*

The **Company** has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that **continue** to be **recognised** as at 1 January 2018 have not been restated where appropriate in accordance with the transition provisions of the standard.

The Company's statement of financial position only contains the following financial assets:

- 1) Trade and other receivables
- 2) Due from related parties
- 3) Cash & bank balances
- 4) Financial assets held at amortised cost

There has been no change in the measurement criteria for any of the Company's financial assets on adoption of IFRS 9 after the consideration of the business model and cash flow characteristics. Specifically, the trade receivables typically held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost and are subject to impairment. See (2) below.

2) *Impairment of financial assets*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on its financial assets as listed in (1) above. The Company measured the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL).

The **expected** credit loss (ECL) assessment 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.

See (5) below for further financial details of the adjustments.

The **Company** uses a provision matrix to measure the **expected** credit loss of trade receivables. Refer note 5 for **details** on the impairment of trade receivables (give reference of trade receivable reported in the financials). 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 aging of Trade Receivables as of the reporting date is as follows:

	Neither past due nor impaired	Past due but not impaired				Total (Kes'000')
		Current	Less than 30 days	30 to 60 days	60 to 90 days	
31st December 2018	99,817	161,531	93,722	65,979	1,835,763	2,256,813
31st December 2017	265,600	(510,158)	(29,046)	10,322	2,684,894	2,421,612

The Company performs on-going credit evaluations of its customers' financial condition and monitors the credit-worthiness of its customers to which it grants credit in its ordinary course of business. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(i) *New and amended IFRS Standards that are effective for the current year ended 31 December 2018 (continued)*

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.

See note 23 for details on movement in provisions for the year.

The adoption of the standard has not resulted in any adjustments to the comparatives as allowed by the provisions of the standard.

3) *Classification and measurement of financial liabilities*

The application of IFRS 9 has not affected the Company's accounting for its liabilities. The payables continue to be recognised initially at fair value and subsequently measured at amortised cost.

4) *Disclosures in relation to the initial application of IFRS 9*

There were no financial assets or financial liabilities which the Company had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of IFRS 9.

5) *Impact of initial application of IFRS 9 on financial performance*

The adoption and application of IFRS 9 in the current year has resulted in an insignificant impairment loss.

6) *Day one adjustment*

The Company's financial instruments as carried at fair value or amortised cost are all short term. The financial instruments as at 31 December 2018 do not include any significant long outstanding from the 2017 financial year. Accordingly, the application of IFRS 9 would not result in any significant adjustment to the opening balance and a day one adjustment to retained earnings has not been made.

The application of IFRS 9 has had no impact on the cash flows of the Company.

Impact of application of IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15, 'Revenue from Contracts with Customers' applying the cumulative effect method applied retrospectively to the contracts that are not completed as of April 1, 2018 (being the date of initial application). Accordingly, the comparative information has not been restated. The effect on adoption of the said standard is **insignificant** on these financial statements.

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

(ii) New and revised IFRSs were effective in the current year but had no material impact on the amounts reported in the company financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions clarify the following aspects:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an **arrangement** should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - i) the original liability is derecognised;
 - ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (continued)

- iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments to the standard has had no impact on the Company's financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments to IAS 40 Transfers of Investments Property clarify the following aspects:

- Transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred.

The amendments to IAS 40 Transfers of Investments Property clarify the following aspects:

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments to the standard has had no impact on the Company's financial statements.

Annual Improvements to IFRS Standards 2014-2016 Cycle

The annual improvements to IFRSs 2014-2016 cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IAS 28 Investments in Associates and Joint Ventures clarify that the the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

The amendments to the standard has had no impact on the Company's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The application of this interpretation has had no effect on the Company's financial statements.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(iii) New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 16 Leases	1 January 2019, with earlier application permitted
Amendments to IFRS 9: <i>Prepayment Features with Negative Compensation</i>	1 January 2019, with earlier application permitted
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019, with earlier application permitted
Annual Improvements to IFRS Standards 2015–2017	1 January 2019, with earlier application permitted
Amendments to IAS 19 Employee Benefits	1 January 2019, with earlier application permitted
IFRIC 23: <i>Uncertainty over Income Tax Treatments</i>	Effective for annual periods beginning on or after 1 January 2019
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Effective for annual periods beginning on or after a date to be determined

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

1) *IFRS 16 Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 will be adopted by the Company from 1 January 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lease accounting model.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The **Directors** of the **Company** are still in the process of **assessing** the full impact of the application of IFRS 16 on the **Company's** financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the Directors complete the detailed review. The Directors do not intend to early apply the standard.

2) *Amendments to IFRS 9 Prepayment Features with Negative Compensation*

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The **Directors** of the **Company** do not **anticipate** that the **application** of the **amendments** in the future will have an **impact** on the company financial statements.

3) *Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures*

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019.

Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The **Directors** of the **Company** do not **anticipate** that the **application** of the **amendments** in the future will have an **impact** on the company financial statements.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(iii) **New and revised IFRS Standards in issue but not yet effective**

4) *Annual improvements to IFRS Standards 2015 – 2017 Cycle*

The Annual Improvements to IFRS Standards 2015-2018 cycle makes amendments to the following standards:

- IAS 12 Income Taxes - The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
- IAS 23 Borrowing Costs - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- IFRS 11 Joint Arrangements - The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation. All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

5) *Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement*

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this re-measurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as re-measured under IAS 19.99 with the discount rate used in the re-measurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

6) *IFRIC 23 Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a Company; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

(iv) **Early adoption of standards**

The Company did not early-adopt any new or amended standards in 2018.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market prices of the company's products. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to **minimise** the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is extended to customers with an established credit history.

Market risk

Market risk is the risk that changes in market prices such as interest rate and foreign exchange rates will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i) Foreign exchange risk

The company's currency risk arises mainly from fluctuation of the Kenya Shilling against the US Dollar since the company has liabilities and receivables from related parties that are denominated in US Dollar. The company manages foreign exchange risk by converting its foreign currency balances into local currency on an on-going basis to cater for its operational requirements.

The following table demonstrates the effect on the **company's** loss before tax and equity from a reasonable possible change in the exchange rate of the USD, with all other variables held constant:

USD	Increase /decrease in Forex Exchange rate	Effect of foreign Currency fluctuation on profit before tax	Effect of foreign Currency fluctuation one equity
2018	5%	1,609,456	132,025
2017	5%	1,746,417	284,977

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows;

	2018 KShs'000	2017 KShs'000
Assets in foreign currencies		
Trade receivables	663,683	2,413,363
Bank balances in foreign currencies	29,498	9,428
	<u>693,181</u>	<u>2,422,791</u>
Liabilities in foreign currencies		
Trade and other payables	1,301,646	2,343,340
Shareholder's loan	47,504,323	43,434,755
Borrowings	6,099,923	7,788,916
Total Liabilities	<u>54,905,892</u>	<u>53,567,011</u>
Net foreign currency liability	<u>(54,212,711)</u>	<u>(51,144,220)</u>

In computing the percentage change in exchange rates, management has taken into consideration the direction of the **published rates movement** in the **functional currency** against the major foreign transactional currencies over the last two years.

ii) Price risk

The company does not hold any financial instruments subject to price risk.

iii) Cash flow and fair value interest rate risk

Interest rate risk arises from possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. Interest rate risk to the company is the risk of changes in market interest rates reducing the overall return or **increasing** the cost of finance to the company. The company limits interest rate risk by monitoring changes in interest rates in the currencies in which loans are denominated.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The company's only variable interest bearing financial liabilities are its borrowings which are set at variable rates, and it is therefore exposed to cash flow interest rate risk. The company regularly monitors financing options available to ensure optimum interest rates are obtained. Usually the company relies on funding from shareholders, which is at a fixed interest rate.

At 31 December 2018, an increase/decrease of 100 basis points would have resulted in a decrease/increase in pre-tax profit of KShs 23,105,650 (2017: KShs 24,859,351) and KShs 15,366,947 (2017: KShs 17,401,546) in equity.

The table below analyses the company's interest rate risk exposure on its financial assets and liabilities. The assets and liabilities are included at carrying amounts and categorised by the earlier of contractual re-pricing or maturity dates.

31-Dec-18	Effective interest rate	3 months or less	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Non-interest bearing	Total
	%	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Financial assets							
Embedded derivative asset						239	239
Cash and bank balances						315,703	315,703
Amounts due from related companies						6,939,811	6,939,811
Trade & Other receivables						3,457,849	3,457,849
At 31 December 2018		-	-	-	-	10,713,602	10,713,602
Financial liabilities							
Embedded derivative liability		-	-	-		9,224	9,224
Finance Lease Obligation		-	778,106	3,853,621	2,305,680	-	6,937,408
SCB Loan I	3.06%	-	124,493	-	-	-	124,493
Citibank Loan	4.60%	-	4,428,191	-	-	-	4,428,191
Bank overdraft	14.00%	419,549	-	-	-	-	419,549
Shareholder's loans	3.00%	-	-	47,504,323	-	-	47,504,323
Amounts due to related companies		-	-	-	-	1,716,516	1,716,516
Accrued expenses and other payables		-	-	-	-	4,937,355	4,937,355
Trade payables		-	-	-	-	2,361,060	2,361,060
At 31 December 2018		419,549	5,330,790	51,357,944	2,305,680	9,024,156	68,438,120
Interest sensitivity gap		(419,549)	(5,330,790)	(51,357,944)	(2,305,680)	1,689,446	(57,724,518)
31-Dec-17							
Financial assets							
Embedded derivative asset		-	-	-	-	4,459	4,459
Cash and bank balances		-	-	-	-	800,869	800,869
Amounts due from related companies		-	-	-	-	5,315,532	5,315,532
Trade receivables		-	-	-	-	2,421,612	2,421,612
At 31 December 2017		-	-	-	-	8,542,472	8,542,472
Financial liabilities							
Embedded derivative liability						4,459	4,459
Finance Lease Obligation		171,716	515,148	4,445,937	2,063,770	-	7,196,571
SCB Loan I	2.05%	-	280,659	-	-	-	280,659
SCB Loan II	1.93%	-	-	2,012,059	-	-	2,012,059
Bank overdraft	16.80%	431,534	-	-	-	-	431,534
Shareholder's loans	3.00%	-	-	43,434,755	-	-	43,434,755
Amounts due to related companies		-	-	-	-	1,550,793	1,550,793
Accrued expenses and other payables		-	-	-	-	5,018,932	5,018,932
Trade payables		-	-	-	-	833,550	833,550
At 31 December 2017		603,250	795,807	49,892,751	2,063,770	7,407,734	60,763,312
Interest sensitivity gap		(603,250)	795,807	(49,892,751)	(2,063,770)	1,134,738	(52,220,840)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

iv) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers. Credit risk arises from cash and cash equivalents, amounts from related parties and trade and other receivables. The company has no significant concentrations of credit risk. The Credit Control function assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. **Individual** risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

The amount that best represents the Company's maximum exposure to credit as at 31 December is made up as follows:

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >90 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit- Impaired
In default	Amount is >120 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the company has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Company's financial assets as well as the Company's maximum exposure to credit risk by credit risk rating grade:

	Note	Internal/ external rating	12 months or lifetime ECL	Gross carrying amount Sh'000	Loss allowance Sh'000	Net amount Sh'000
31 December 2018						
Trade receivables	23	Performing	Lifetime ECL (simplified approach)	2,256,813	1,742,983	513,830
Cash and bank balances	24	Investment grade	12 months ECL	315,703	-	315,703
Due from related parties	36 (a)	Performing	Lifetime ECL (simplified approach)	6,939,811	-	6,939,811
				<u>9,512,327</u>	<u>1,742,983</u>	<u>7,769,344</u>

	Note	Internal/ external rating	Incurred loss model (IAS 39)	Gross carrying amount Sh'000	Loss allowance Sh'000	Net amount Sh'000
31 December 2017						
Trade receivables	23	Performing	Incurred loss model	2,421,612	1,430,283	991,329
Cash and bank balances	24	N/A	Incurred loss model	800,869	-	800,869
Due from related parties	36 (a)	Performing	Incurred loss model	5,315,532	-	5,315,532
				<u>8,538,013</u>	<u>1,430,283</u>	<u>7,107,730</u>

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Bank balances are not restricted and include deposits held with banks that have high credit ratings. Bank balances deposits are thus considered investment grade.

The customers under the fully performing category are paying their debts as they continue trading.

The loss allowance represents the debt that is fully provided for in line with the expected credit loss model.

v) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities including facilities from the principal shareholders.

Management monitors rolling forecasts of the company's liquidity reserves on the basis of expected cash flows.

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

	Less than 1 year KShs'000	Between 1 and 2 years KShs'000	Between 2 and 5 years KShs'000	Totals KShs'000
At 31 December 2018:				
Liabilities				
Embedded derivative liability	9,224	-	-	9,224
Third party borrowings	1,332,544	5,330,174	2,527,366	9,190,084
Shareholder's loans	47,504,323	-	-	47,504,323
Bank overdraft	419,549	-	-	419,549
Accrued expenses and other payables	4,937,355	-	-	4,937,355
Amounts due to related companies	1,716,516	-	-	1,716,516
Trade payables	2,361,060	-	-	2,361,060
	<u>58,280,571</u>	<u>5,330,174</u>	<u>2,527,366</u>	<u>66,138,111</u>
At 31 December 2017:				
Liabilities				
Embedded derivative liability	8,059	-	-	8,059
Third party borrowings	2,612,715	1,254,387	8,525,246	12,392,347
Shareholder's loans	43,434,755	-	-	43,434,755
Bank overdraft	431,534	-	-	431,534
Accrued expenses and other payables	5,018,932	-	-	5,018,932
Amounts due to related companies	1,550,793	-	-	1,550,793
Trade payables	<u>833,550</u>	<u>-</u>	<u>-</u>	<u>833,550</u>
	<u>53,890,338</u>	<u>1,254,387</u>	<u>8,525,246</u>	<u>63,669,970</u>

Capital management

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

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

No changes were made in the objectives, policies or processes during the year ended December 31, 2018 and December 31, 2017. The company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as loans and borrowings less cash and cash equivalents.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Telecom companies in Kenya are required by law to maintain at least 20% local shareholding. However, in November 2012, Airtel Networks Kenya Limited managed to secure an unlimited waiver from this requirement by the Minister for Finance then.

The gearing ratios at 31 December 2018 and 2017 were as follows.

	2018 KShs'000	2017 KShs'000
Loans and borrowings	59,529,800	53,516,390
Less : Cash and cash equivalents	(315,703)	(800,869)
	<hr/>	<hr/>
Net Debt	<u>59,214,097</u>	<u>52,715,521</u>
	<hr/>	<hr/>
Equity	<u>(38,360,088)</u>	<u>(35,473,284)</u>
	<hr/>	<hr/>
Gearing ratio	<u>Over 100%</u>	<u>Over 100%</u>

6 SEGMENTAL INFORMATION

The Central Bank of Kenya requires Airtel Money to present its financial results. However, Airtel Money is not registered as a separate entity. Therefore, we are presenting segmental information in order to comply with requirements by Central Bank of Kenya.

Information reported to the managing director (chief decision maker) for purposes of resource allocation and assessment of segment performance focuses on nature of services provided. The directors of the company have decided to organize the company around differences in services and related regulatory **structure**. As a result, there are two operating segments: Airtel Networks Kenya Limited telecommunications business (GSM) and Airtel Kenya Networks Limited Mobile Commerce business.

Specifically, the company reports operating segments under IFRS 8 as follows:

Telecommunications business (GSM):

- ✓ Voice services
- ✓ Data Services
- ✓ Other Value added services

Mobile commerce business (Airtel Money)

- ✓ Mobile money transfer
- ✓ **Electronic** settlement of bills and bulk disbursements
- ✓ Electronic airtime recharges from subscribers Airtel money account
- ✓ Mobile banking

AIRTEL NETWORKS KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

6. SEGMENTAL INFORMATION (continued)

Segmental Performance

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	GSM	Airtel Money	Total	GSM	Airtel Money	Total
	2018 KShs'000	2018 KShs'000	2018 KShs'000	2017 KShs'000	2017 KShs'000	2017 KShs'000
Revenue	20,317,046	197,151	20,514,197	16,588,874	195,156	16,784,030
Interest	-	-	-	-	-	-
Total Net Revenue	20,317,046	197,151	20,514,197	16,588,874	195,156	16,784,030
Staff expenses	1,409,773	28,339	1,438,113	1,268,061	25,058	1,293,119
IT expenses	238,708	231,258	469,967	310,443	290,291	600,734
Marketing expenses	828,458	35,314	863,772	626,349	-	626,349
Sales and distribution expenses	4,007,531	96,224	4,103,755	2,484,291	222,880	2,707,171
Other Costs	10,662,099	170,173	10,832,272	11,276,153	2,947	11,279,100
Total Costs	17,146,569	561,309	17,707,878	15,965,297	541,176	16,506,473
(Loss)/profit before taxation, depreciation and amortization	3,170,477	(364,158)	2,806,319	623,577	(346,020)	277,557
Depreciation	(3,094,098)	(4,838)	(3,098,935)	(3,063,238)	(7,565)	(3,070,803)
Amortization	(417,137)	-	(417,137)	(1,000,809)	-	(1,000,809)
Interest expense	(2,229,238)	-	(2,229,238)	(2,155,976)	-	(2,155,976)
(Loss)/profit before tax	(2,569,996)	(368,996)	(2,938,991)	(5,596,446)	(353,585)	(5,950,031)
Tax expense	52,187	-	52,187	-	-	-
(Loss)/profit after tax	(2,517,809)	(368,996)	(2,886,804)	(5,596,446)	(353,585)	(5,950,031)

AIRTEL NETWORKS KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

6. SEGMENTAL INFORMATION (continued)

STATEMENT OF FINANCIAL POSITION

	GSM	Airtel Money	Intersegment elimination	Total	GSM	Airtel Money	Intersegment elimination	Total
	2018 KShs'000	2018 KShs'000	2018 KShs'000	2018 KShs'000	2017 KShs'000	2017 KShs'000	2017 KShs'000	2017 KShs'000
Bank balance	246,838	48,865	-	295,703	720,795	80,074	-	800,869
Non-Current Assets	23,210,781	46,997	-	23,257,778	19,347,963	38,929	-	19,386,892
Other assets	12,697,277	77,743	-	12,775,020	10,194,489	66,652	-	10,261,141
Intersegment receivables from Airtel Money	2,764,424	-	(2,764,424)	-	2,534,909	-	(2,534,909)	-
Total Assets	38,919,320	173,604	(2,764,424)	36,328,501	32,798,155	185,655	(2,534,909)	30,448,902
Creditors								
Intersegment payable to GSM	(13,135,530)	(230,188)	-	(13,365,718)	(10,763,099)	(156,405)	-	(10,919,504)
Shareholder's loans	(47,504,323)	(2,764,424)	2,764,424	(47,504,323)	(43,434,755)	(2,534,909)	2,534,909	(43,434,755)
Loans from banks	(6,099,923)	(112)	-	(6,100,035)	(3,571,297)	-	-	(3,571,297)
Other liabilities	(7,658,897)	(59,617)	-	(7,718,514)	(7,990,547)	(6,081)	-	(7,996,630)
Retained earnings	65,209,691	2,880,735	-	68,090,426	62,691,881	2,511,741	-	65,203,622
Share capital and share premium	(29,730,338)	-	-	(29,730,338)	(29,730,338)	-	-	(29,730,338)
Total equity and liabilities	(38,919,320)	(173,605)	2,764,424	(36,328,501)	(32,798,155)	(185,654)	2,534,909	(30,448,902)
Other disclosures								
Capital expenditure	4,978,939	12,905	4,991,844	(482,487)	5,469	-	-	(477,019)

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 KShs'000	2017 KShs'000
7 REVENUE		
Analysis of revenue by category:		
Voice revenues	10,060,768	7,744,842
Data revenues	5,290,260	3,779,905
Interconnect revenues	2,166,707	1,859,254
Roaming revenues	429,626	399,782
Site sharing revenue (leased site)	12,856	24,426
Other service revenues	438,443	625,642
Sale of goods (handsets and accessories)	45,082	677,272
Revenue earned from Mobile Virtual Network Operator	301,992	328,635
Messaging & VAS revenue	1,755,491	1,346,023
	<u>20,501,225</u>	<u>16,785,781</u>
8 COST OF SALES		
Cost of handsets and accessories	51,585	517,077
Interconnect costs	4,043,592	3,095,381
Roaming charges	112,251	178,493
Other direct costs	247,589	2,411
	<u>4,455,017</u>	<u>3,793,362</u>
9 OTHER INCOME/(COSTS)		
Interest income from banks	-	11
Other income*	11,865	-
Miscellaneous income	-	16,181
Gain/(loss) on sale of towers	1,107	(17,944)
	<u>12,972</u>	<u>(1,752)</u>
10 DISTRIBUTION COSTS		
Agent commission	5,048	88,671
Dealer commission	20,630	8,597
Distribution cost	250,652	55,327
Marketing costs	863,772	626,349
Selling costs	2,584,228	2,176,441
VAS content	293,895	378,135
	<u>4,018,225</u>	<u>3,333,520</u>

*Under Other Income, KShs 11mn relates to write back of unallocated receipts deemed not payable.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

11	ADMINISTRATIVE EXPENSES	2018 KShs'000	2017 KShs'000
	Employee benefits expense (Note 15)	1,438,113	1,293,119
	Travel costs	13,231	8,899
	Professional fees	41,509	58,221
	Auditors' remuneration	9,039	13,014
	Provision for impairment on doubtful trade receivables	408,618	571,137
	Provision for cash & bank balances*	612,980	-
	Office administration and maintenance costs	39,207	12,512
	Repairs and maintenance costs	10,548	26,904
	Directors' remuneration	10,141	13,726
	Insurance expenses	12,158	18,014
	Other administrative costs	78,122	41,977
		<u>2,673,666</u>	<u>2,057,524</u>
12	OTHER EXPENSES		
	Network operation and maintenance costs	5,304,454	4,839,715
	Site lease costs	34,612	28,422
	Leased lines	242,763	430,442
	Amortization of license fees	486,686	313,990
	Regulatory costs	1,661,468	1,626,292
	Depreciation on property, plant and equipment	3,080,879	3,070,803
	Amortization of prepaid operating lease rentals	18,056	18,056
	Customer experience costs	104,625	133,687
	Other operating expenses	28,489	7,475
	Amortization of YU Brand	(862)	-
	Amortization of YU Customer Base	(68,687)	668,762
		<u>10,892,484</u>	<u>11,137,644</u>
13	FINANCE COSTS		
	Interest expense	2,229,238	2,155,976
	Upfront fees on bank loans	14,060	24,364
	Foreign exchange (gains)/losses	(843,545)	219,133
	Bank charges	14,043	12,537
		<u>1,413,796</u>	<u>2,412,010</u>

*Refer to note 24 for details. Remaining balance relates to provision recorded for open items in the bank reconciliations.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

14 LOSS BEFORE TAXATION

The following items have been charged/(credited) in arriving at the loss before income tax:

	2,018 KShs'000	2,017 KShs'000
Depreciation on property, plant and equipment (Note 17)	3,080,880	3,070,803
Amortization of intangible assets (Note 18)	417,137	982,752
Amortization of prepaid lease rentals (Note 19)	18,056	18,056
Profit on disposal of property, plant and equipment	-	1,534
Repairs and maintenance – property, plant and equipment	10,548	46,368
Foreign exchange (gains)/losses (Note 13)	(843,545)	219,133
Receivables – provision for impairment losses (Note 23)	312,700	556,908
Other receivables- (unused provisions reversed) / provision for impairment losses (Note 23)	95,747	4,723
Interest income (Note 9)	-	11
Interest expense (Note 13)	2,229,238	2,155,976
Inventories expensed (Note 22)	51,585	1,769,957
Increase/(decrease) in inventory provisions	2,034	9,106
Site lease costs (Note 12)	34,612	28,422
Employee benefits expense (Note 15)	1,438,113	1,293,119
Auditors' remuneration (Note 11)	9,039	13,014
Directors' remuneration (Note 11)	10,141	13,726

15 EMPLOYEE BENEFITS EXPENSE

The following items are included within employee benefits expense:

Salaries and wages	751,545	769,552
Other staff related costs	654,676	491,553
Social security costs – defined contribution plans	31,892	32,014

<u>1,438,113</u>	<u>1,293,119</u>
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16 INCOME TAXATION

Statement of financial position

As at 1 January	285,391	279,535
Under provision in prior year	-	(5,851)
Paid during the year	9,470	11,707

Tax recoverable	<u>294,861</u>	<u>285,391</u>
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Statement of profit or loss and other comprehensive income

Tax expense based on loss for the year adjusted for tax purposes	-	-
Deferred tax expense/(credit)	(122,569)	(782,245)
Deferred tax asset not recognized	122,569	782,245

Income tax expense*	<u>-</u>	<u>-</u>
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AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

16 INCOME TAX EXPENSE (Continued)

The tax on the company's profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2018 KShs'000	2017 KShs'000
Loss before income tax	(2,938,991)	(5,950,031)
Tax calculated at the statutory income tax rate of 30%	(881,697)	(1,785,009)
	<u> </u>	<u> </u>
Net tax effect of:		
Income not subject to tax	(190,778)	(186,257)
Under-provision of deferred tax in prior year	(38,792)	(2,127,096)
Expenses not deductible for tax purposes	1,184,380	1,212,976
Deferred income tax asset not recognized during the year	(73,112)	2,885,386
	<u> </u>	<u> </u>
Income tax expense*	<u> </u> -	<u> </u> -

*During the year, provision for tax cases was reassessed, with a reversal in income tax expense of KShs 52 million. Provisions made in prior years were charged to income tax expense. The liability for the tax cases is disclosed under note 32.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

17 PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2018

COST

	Leasehold improvements KShs'000	Land KShs'000	Technical assets KShs'000	Motor vehicles KShs'000	Office, IT & other equipment KShs'000	Furniture & fittings KShs'000	Capital work in progress** KShs'000	TOTAL KShs'000
At January 1, 2018	675,331	85,000	38,968,103	7,085	7,133,552	784,773	5,657,622	53,311,466
Reclassification of opening balances from inventory	-	-	1,638	-	(4,083)	361	-	(2,084)
Reclassifications	-	-	(1,662)	-	1,662	-	-	-
Reclassification of opening balance to accumulated depreciation	(1,499)	-	2,495,093	4,486	86,187	748	2,406,829	4,991,844
Additions	-	-	(71,320)	-	-	-	-	(71,320)
Disposals	-	-	-	-	-	-	-	-
Network capacity cost adjustment	-	-	-	-	-	-	-	-
At December 31, 2018	673,832	85,000	41,391,853	11,571	7,217,318	785,882	8,064,451	58,229,906

DEPRECIATION

At January 1, 2018	531,209	-	28,085,702	7,085	7,133,552	758,633	-	36,516,181
Charge for the year	38,456	-	2,797,770	811	233,112	10,731	-	3,080,880
Disposals/sale	-	-	(27,766)	-	-	-	-	(27,766)
Adjustment	-	-	344	-	(344)	-	-	-
At December 31, 2018	569,665	-	30,856,050	7,896	7,366,320	769,364	-	39,569,295

NET CARRYING AMOUNT

At December 31, 2018	104,167	85,000	10,535,803	3,675	(149,003)	16,518	8,064,451	18,660,611
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The carrying amount of technical assets held under finance leases at 31 December 2018 was KShs 6.9 billion.

**Capital work in progress represents assets under construction hence not yet put into

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

17 PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2017

COST

At January 1, 2017

Reclassification of opening balances from inventory

Reclassification of opening balances****

Reclassification of opening balance to accumulated depreciation

Additions

Disposals

Network capacity cost adjustment

At December 31, 2017

DEPRECIATION

At January 1, 2017

Charge for the year

Reclassifications

Reclassification of opening balance from cost

Disposals/sale

Network capacity cost adjustment

At December 31, 2017

NET CARRYING AMOUNT

At December 31, 2017

	Leasehold Improvements KShs'000	Land KShs'000	Technical assets KShs'000	Motor Vehicles KShs'000	Office, IT & other Equipment KShs'000	Furniture & fittings KShs'000	Capital work in progress** KShs'000	KShs'000
At January 1, 2017	670,619	-	39,577,210	33,105	7,469,222	746,047	5,573,059	54,069,262
Reclassification of opening balances from inventory	-	-	-	-	-	-	68,225	68,225
Reclassification of opening balances****	-	85,000	414,413	(26,020)	(473,317)	(76)	-	-
Reclassification of opening balance to accumulated depreciation	-	-	(339,725)	-	-	-	-	(339,725)
Additions	4,712	-	343,451	-	137,667	39,926	16,338	542,094
Disposals	-	-	(8,133)	-	(20)	(1,124)	-	(9,277)
Network capacity cost adjustment	-	-	(1,019,113)	-	-	-	-	(1,019,113)
At December 31, 2017	675,331	85,000	38,968,103	7,085	7,133,552	784,773	5,657,622	53,311,466
DEPRECIATION								
At January 1, 2017	491,668	-	25,196,315	33,105	7,322,748	746,047	-	33,789,883
Charge for the year	39,541	-	2,894,981	-	406,779	13,710	-	3,355,011
Reclassifications	-	-	621,975	(26,020)	(595,955)	-	-	-
Reclassification of opening balance from cost	-	-	(339,729)	-	-	-	-	(339,729)
Disposals/sale	-	-	(3,632)	-	(20)	(1,124)	-	(4,776)
Network capacity cost adjustment	-	-	(284,208)	-	-	-	-	(284,208)
At December 31, 2017	531,209	-	28,085,702	7,085	7,133,552	758,633	-	36,516,181
NET CARRYING AMOUNT								
At December 31, 2017	144,122	85,000	10,882,401	-	-	26,140	5,657,622	16,795,285

The carrying amount of technical assets held under finance leases at 31 December 2017 was KShs 7.5 billion.

**Capital work in progress represents assets under construction hence not yet put into use.

***Adjustments relate to tower company assets

****Reclassification represents reclassification of opening balances from one asset class to another class.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

18 INTANGIBLE ASSETS

	Prepaid mobile phone license KShs'000	Acquisition of YU brand (Note 3 f iii) KShs'000	Acquisition of YU customer base KShs'000	Bandwidth KShs'000	Total KShs'000
COST					
At 1 January 2018	3,288,657	17,042	1,357,987	370,008	5,033,694
Additions	2,577,500	-	-	-	2,577,500
Adjustments – YU business purchase retention amounts	(93,255)	(862)	(68,687)	-	(162,803)
At December 31, 2018	5,772,903	16,180	1,289,300	370,008	7,448,390
AMORTISATION					
At January 1, 2018	1,132,611	17,042	1,357,987	12,355	2,519,995
Charge for the year	462,587	(862)	(68,687)	24,099	417,137
At December 31, 2018	1,595,198	16,180	1,289,300	36,454	2,937,132
NET CARRYING AMOUNTS					
At December 31, 2018	4,177,704	-	-	333,554	4,511,258
2017					
COST					
At 1 January 2017	3,288,657	17,042	1,357,987	-	4,663,686
Additions	-	-	-	370,008	370,008
At December 31, 2017	3,288,657	17,042	1,357,987	370,008	5,033,694
AMORTISATION					
At January 1, 2017	833,954	17,042	686,247	-	1,537,243
Charge for the year	301,636	-	668,761	12,355	982,752
*Reclassification	(2,979)	-	2,979	-	-
At December 31, 2017	1,132,611	17,042	1,357,988	12,355	2,519,995
NET CARRYING AMOUNTS					
At December 31, 2017	2,156,046	-	-	357,653	2,513,699

*Reclassification of YU customer base numbers from licenses
 YU customer base fully amortized as of 31st Dec 2017.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

21 DEFERRED INCOME TAXATION (continued)

Deferred income tax is calculated using the enacted tax rate of 30% (2018: 30%). The movement on the deferred income tax account is as follows

	2018	2017
	KShs'000	KShs'000
At start of year	20,003,566	17,156,973
Credit to profit or loss	(73,112)	2,846,593
Unrecognized asset	(19,930,454)	(20,003,566)
At end of year	-	-

Deferred income tax asset and deferred income tax credit to profit or loss are attributable to the following items after multiplying by the tax rate of 30%:

	1.1.2018	Credit to profit or loss	31.12.2018
	KShs'000	KShs'000	KShs'000
Year ended 31 December 2018			
Doubtful Debts	(1,502,259)	(408,583)	(1,910,842)
Inventory obsolescence	(50,156)	2,035	(48,121)
Accrued leave	(37,494)	(9,287)	(46,780)
Bonus	(72,730)	(16,609)	(89,339)
Provision for network removal (ARO)	(17,312)	8,900	(8,412)
Provision for legal cases	(371,720)	35,132	(336,588)
Provision for tax cases	(453,994)	271,330	(182,663)
IBM embedded derivative gain	8,059	(8,059)	(0)
Net unrealized exchange differences	(136,451)	952,231	815,780
ESOP Provision	(10,297)	(12,155)	(22,453)
Provision for Airtel Money/ Bank/ Cash balance	-	(590,570)	(590,570)
Tax losses carried forward	(60,200,554)	(408,564)	(60,609,118)
Deferred income tax assets not recognized	62,844,908	184,198	63,029,106
Net deferred income tax assets	-	-	-

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

21 DEFERRED INCOME TAXATION (continued)

The net unrecognised deferred income tax asset and deferred income tax credit to profit or loss are attributable to the following items after multiplying by the tax rate of 30%:

Year ended 31 December 2017	1.1.2017	Credited to profit or loss	31.12.2017
	KShs'000	KShs'000	KShs'000
Doubtful Debts	(928,543)	(573,716)	(1,502,259)
Inventory obsolescence	(59,261)	9,105	(50,156)
Accrued leave	(54,812)	17,319	(37,494)
Bonus	(130,992)	58,262	(72,730)
Provision for network removal (ARO)	(2,868)	(14,444)	(17,312)
Provision for legal cases	(331,613)	(40,107)	(371,720)
Provision for tax cases	(453,994)	-	(453,994)
IBM embedded derivative gain	4,454	3,605	8,059
Net unrealised exchange differences	129,183	(265,634)	(136,451)
ESOP Provision	-	(10,297)	(10,297)
Tax losses carried forward	(57,463,764)	(2,736,790)	(60,200,554)
Deferred income tax assets not recognised	59,292,210	3,552,698	62,844,908
Net deferred income tax assets	-	-	-

A deferred tax asset of KShs 19.99 million (2017: KShs 20.04mn) has not been recognized in the financial statements as it is not probable that future taxable profits will be available against which the deferred tax asset can be utilized. The company's tax losses can be carried forward for ten years for offsetting.

22 INVENTORIES	2018 KShs'000	2017 KShs'000
Finished goods (at cost)	91,715	53,877
Provision for stock obsolescence	(38,572)	(43,196)
Stock write-down	(9,548)	(6,959)
	<u>43,595</u>	<u>3,722</u>

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to KShs 51.59 million (2017: KShs 1.77 billion). Inventories include handsets and accessories. 2017 inventory balance included KShs 68m which was reclassified to fixed assets in note 17.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

23 TRADE AND OTHER RECEIVABLES	2018	2017
	KShs'000	KShs'000
Trade receivables	2,256,813	2,421,612
Less: Provision for impairment losses	(1,742,983)	(1,430,283)
	<hr/>	<hr/>
Net trade receivables	513,830	991,329
Amount receivable from related companies (Note 36)	6,939,811	5,315,532
Prepayments	1,170,129	909,288
Other receivables	1,201,036	273,780
Less: Provision for impairment losses on other receivables	(153,016)	(57,269)
	<hr/>	<hr/>
	<u>9,671,790</u>	<u>7,432,660</u>

Other receivables include value added tax recoverable, duty recoverable, and Airtime Credit services (Kopa credo) recoverable.

The average credit period is 30 days. Interest is not charged on overdue accounts.

Movements on the provision for impairment of trade receivables are as follows:

	2018	2017
	KShs'000	KShs'000
At start of year	1,430,283	875,998
Additional provision in the year	312,871	556,908
Provisions reversed on write-off of bad debts aged over 3 years	(171)	(2,623)
	<hr/>	<hr/>
At end of year	<u>1,742,983</u>	<u>1,430,283</u>

Movements on the provision for impairment of other receivables are as follows:

	2018	2017
	KShs'000	KShs'000
At start of year	57,269	52,545
(Unused amounts reversed)/provision for the year	95,747	4,723
	<hr/>	<hr/>
At end of year	<u>153,016</u>	<u>57,269</u>

The carrying amounts of receivables approximate their fair value due to the short-term nature of the receivables.

24 CASH AND CASH EQUIVALENTS	2018	2017
	KShs'000	KShs'000
Cash at bank*	263,467	793,851
Cash in hand	32,236	7,018
	<hr/>	<hr/>
	<u>295,703</u>	<u>800,869</u>

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2018	2017
	KShs'000	KShs'000
Cash and bank balances	295,703	800,869
Bank overdraft (note 30)	(419,549)	(431,534)
	<hr/>	<hr/>
	<u>(123,846)</u>	<u>369,335</u>

*In 2018, a KShs 676 million provision was recorded in 2018 on account of the suspected Airtel Money fraud. The company lodged an insurance claim out of which the insurer (AIG Kenya Insurance Ltd) has accepted to settle KShs 86 million in a letter dated 1st March 2019.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

25 ORDINARY SHARE CAPITAL

	Number of shares	Par value KShs	Ordinary Shares KShs'000
Authorised, issued and fully paid-up share capital			
Balance as at 31 December 2017	2,625,000	1,000	2,625,000
Balance as at 31 December 2018	2,625,000	1,000	2,625,000

26 SHARE PREMIUM

	Ordinary shares KShs'000	Redeemable preference shares KShs'000	Total KShs'000
2018			
At start and end of year	234,801	4,259,023	4,493,824
2017			
At start and end of year	234,801	4,259,023	4,493,824

The premium on ordinary shares arose on the issue of 875,000 ordinary shares of KShs 1,000 each issued in 2001 for a premium of KShs 234,801,000. The premium on redeemable preference shares arose on the issue of 6,700,000 redeemable preference shares of KShs 1,000 each issued in 2007 for a premium of KShs 1,340,000,000, on the issue of 8,525,427 redeemable preference shares of KShs 1,000 each in 2008 for a premium of KShs 2,141,806,000 and the issue of 3,886,087 redeemable preference shares of KShs 1,000 each in 2009 for a premium of KShs 777,217,000.

27 REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Preference shares KShs'000	Share premium KShs'000	Total KShs'000
At 31 December 2017, and 31 December 2018	22,611,514	22,611,514	4,259,023	26,870,537

The number of Authorised and Issued Preference Shares is 22,611,514

The par value for the redeemable preference shares is KShs 1,000.

The preference shares are classified as equity in line with IAS 32, Financial Instruments; Presentation.

The preference shares are denominated in Kenya Shillings and have no right to dividend.

There is no fixed redemption date for the preference shares; they will be redeemed at the discretion of the company. There were no changes in share capital in 2018.

28 SHAREHOLDER'S LOANS

	2018 KShs'000	2017 KShs'000
At start of year	43,434,755	37,608,524
Proceeds from new shareholder's loans	1,805,400	2,512,267
Accumulated interest capitalized	1,151,505	3,313,964
Reclassification related party balances	1,112,663	-
At end of year	47,504,323	43,434,755

These are loans from the immediate holding company, Bharti Airtel Kenya B.V. The loans are payable in full by 31st December 2021. The loans are unsecured and bear 3% interest per annum. The loan balance has been reclassified from current liabilities to non-current liabilities in line with the loan agreement including the comparative information.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 KShs'000	2017 KShs'000
29 NON-CURRENT BORROWINGS		
Term loan	-	2,012,059
Tower Finance Lease	5,925,554	6,510,337
	<u>5,925,554</u>	<u>8,522,396</u>

The carrying amount of property, plant and machinery held under finance leases at 31 December 2018 was KShs 6.9 billion (2017: KShs 7.2 billion).

Further details on the term loan are detailed below.

	2018 KShs'000	2017 KShs'000
(i) Term loan		
Opening balance	2,012,059	403,872
Long term unsecured DOC	-	(17,848)
Additions(Citibank N.A)**	-	1,906,694
Transfer to current borrowings (Note 30)	(2,012,059)	(280,659)
	<u>-</u>	<u>2,012,059</u>

**The facility of USD 18.45 million from Citibank was transferred to current borrowings in 2018.

(ii) Finance Lease

In 2015, the company leased towers from Kenya Towers Limited. The towers represent the technical capacity of the dedicated part of the towers on which company's equipment are located.

The company has a finance lease for network sites. Future minimum lease payments under the finance lease, together with the present value of the net minimum lease payments are as follows;

	Minimum lease payments KShs '000	Present value of minimum lease payments KShs '000
2018		
Within one year (reported with current liabilities)	1,332,544	1,011,853
After one year but in no more than 5 years	5,330,174	3,853,621
More than 5 years	2,527,367	2,305,680
	<u>9,190,084</u>	<u>6,937,408</u>
Total minimum lease payments	9,190,084	6,937,408
Less amounts representing finance charges	(2,252,676)	-
Present value of minimum lease payments	6,937,408	6,937,408
Transfer to current borrowings	(1,332,544)	(1,011,853)
	<u>5,925,554</u>	<u>5,925,554</u>
Total non-current lease payments	5,925,554	5,925,554
	<u>5,925,554</u>	<u>5,925,554</u>
Exchange gain on translation of borrowings	-	-
Net non-current lease payments	5,925,554	5,925,554

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

29 NON-CURRENT BORROWINGS (continued)

The position as at 31 December 2017 was as follows:

	Minimum lease Payments KShs '000	Present value of minimum lease payments KShs '000
Within one year (reported with current liabilities)	1,205,351	686,862
After one year but in no more than 5 years	6,051,459	4,445,937
More than 5 years	3,290,511	2,063,771
	<hr/>	<hr/>
Total minimum lease payments	9,779,633	7,196,571
Less amounts representing finance charges	(2,583,062)	-
Present value of minimum lease payments	7,196,571	7,196,571
Transfer to current borrowings	(1,254,387)	(686,862)
	<hr/>	<hr/>
Total non-current lease payments	6,509,708	6,509,708
Exchange gain on translation of borrowings	(629)	(629)
	<hr/>	<hr/>
Net non-current lease payments	6,510,337	6,510,337
	<hr/> <hr/>	<hr/> <hr/>

The carrying amount of Technical assets held under finance leases at 31 December 2018 was KShs 6.9 billion.
 The escalation clause for the finance lease is based on Consumer Price Index; 75% of CPI. (2018:7.5%,2017:4.84%)

Movement in Finance Lease Obligations

	2018 KShs'000	2017 KShs'000
Opening balance	6,510,337	6,955,925
Additions	2,372,867	1,551,142
Accumulated amortisation	(1,945,796)	(1,309,868)
Transfer to current borrowings	(1,011,853)	(686,862)
	<hr/>	<hr/>
At 31st December 2018	5,925,554	6,510,337
	<hr/> <hr/>	<hr/> <hr/>

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

30	CURRENT BORROWINGS	2018 KShs'000	2017 KShs'000
	At start of the year	1,127,704	891,444
	Transfer from Non-current Borrowings (Note 29)	2,012,059	280,659
	Transfer from non-current Finance lease (Note 29)	1,011,853	686,862
	Amortization	(686,862)	(612,744)
	Foreign exchange on current portion of long term debt	(63,781)	(141,084)
	Repayment	(280,659)	(278,700)
	Interest on shareholder loan	23,102	301,267
	Debt Originating Cost	(3,787)	-
	Citibank Loan II	<u>2,540,745</u>	-
	Closing Balance	<u>5,680,374</u>	<u>1,127,704</u>
	Bank overdraft		
	At start of the year	431,534	493,617
	Repayments in the year	(11,985)	(62,083)
	Repayment	-	-
	Closing Balance	<u>419,549</u>	<u>431,534</u>
	Total Current Borrowings	<u>6,099,923</u>	<u>1,559,238</u>
	Current borrowings comprise:		
	Citibank loan I (Note 29)	2,012,059	280,659
	Foreign exchange on current portion of long term debt	(204,866)	(141,084)
	Current Finance lease (Note 29)	1,011,853	686,862
	Interest on shareholder loan	324,371	301,267
	Debt Originating Cost	(3,787)	-
	Citibank loan II	<u>2,540,745</u>	-
		<u>5,680,374</u>	<u>1,127,704</u>

Current borrowings consist mainly of transfers from Non-current borrowings for balances repayable within 12 months of 31 December 2018.

The overdraft facility extended by Standard Chartered Bank Kenya Limited has a limit of KShs 450 Million and bears 14% interest p.a. Interest accrues on the daily overdrawn balance and is payable monthly in arrears. As at 31st December 2018, the overdrawn balance was KShs 419.6 Million (KShs 431.5 Million as at 31st December 2017).

30. CURRENT BORROWINGS (continued)

Overdraft and undrawn facilities

At the end of the reporting period, the entity had the following financing facilities:

- a) Facility for overdraft, bonds and guarantees with a limit of KShs 490 million. The facility had an undrawn portion amounting to KShs 48.3 million
- b) Facility for structured export finance with a limit of USD 387,230.

The entity had the below contingent liabilities under the overdraft, bonds and guarantees facility with Standard Chartered PLC.

Deal number	Ksh'000'
201020123908	5,000
201020145788	1,500
201020148151	1,200
201020148160	1,269
201020157006	100
201020158808	15
201020160270	2,418
201020160289	10,626
201020160573	100
	<u>22,228</u>

The entity had the following forward deals with Standard Chartered PLC.

Deal number	Ksh'000'
2324854	104,520
2328074	207,740
2324854	1,000
2320074	2,000
2339928	207,740
2339928	2,000
2352511	207,760
2352511	2,000
2355052	51,060
2355052	500
	<u>786,320</u>

The carrying amounts of the borrowings recognized in the financial statements approximate their fair values.

31 TRADE AND OTHER PAYABLES	2018 KShs'000	2017 KShs'000
Trade payables	2,361,060	833,550
Amounts due to related parties (Note 36)	1,716,516	1,550,793
Accrued expenses and other payables	4,937,355	5,018,932
Deferred Airtime Revenue	1,057,721	936,872
Social security and others taxes	528,642	44,446
	<u>10,601,294</u>	<u>8,384,593</u>

The carrying amounts of the above payables and accrued expenses approximate their fair value due to their short term nature. The payables are not interest bearing and are normally settled as per credit terms agreed with individual vendors.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

32 PROVISIONS	2018	2017
	KShs'000	KShs'000
Provision for IT costs	4,710	16,047
Provision for VAS expenses	83,357	23,677
Provision for network expenses	288,714	118,764
Provision for call center costs	36,918	26,538
Provision for marketing costs	160,964	120,869
Provision for staff costs	316,785	234,223
Provision for legal claims and regulatory costs	353,775	388,349
Provision for tax cases	401,807	453,994
Provision for Sales and Distribution costs	1,297	1,293
Provision for Airtime Credit Services	56,563	45,534
Provision for professional fees	3,666	3,101
Other Provisions	35,533	-
	1,744,089	1,432,389

Provisions for legal and regulatory claims are made against outstanding cases. These provisions are evaluated based on facts of the cases and external inputs obtained from legal advisors.

Provisions for IT costs are made for IT costs incurred with various partners for IT support including provision for use of IT services and assets from Comviva, Avaya, IBM & Wipro.

Provisions for staff costs are mainly provision for performance bonus and year end expenses.

33 CONTINGENT LIABILITIES

(i) PAC/Tax/A-300/16/KE/004: Tax Appeal Tribunal No 158 of 2017.

In 2004 Celtel Kenya Limited (now Airtel) made an application to the **Ministry** of Finance ("Treasury") for remission of import duty and VAT on the importation of certain specified capital equipment that were to be imported by Airtel for the expansion of its telecommunication infrastructure in Kenya.

The **Minister of Finance** considered the application and approved the remission of import duty and VAT in accordance with the provision of the Customs and Excise Act. However, in a letter referenced DFN 415/402/039 of 15 February 2005, the Ministry of Finance informed Airtel that with the implementation of the East African Community Customs Management Act (EACCMA, 2004) from 1 January 2005, it would be difficult for Kenya to grant unilateral import duty exemptions.

On 15th August 2017, Kenya Revenue Authority issued a demand letter of KShs 494,963,627 claiming that some items specified by the Bills of Lading indicated in the entries, were not among the list of items granted exemptions in the exemption letters quoted to have granted exemption from VAT upon importation by Airtel, while other entries remain unperfected to date.

The Case was mentioned at the Tax Appeals Tribunal (TAT) on 15th November 2018. No indicative TAT hearing date was given.

(ii) Civil Appeal No. Sup 3 of 2015: Nyutu **Agrovet Limited Vs Airtel Networks Kenya Limited**.

The dispute between Nyutu Agrovet Limited and the then Celtel Kenya Limited arose from a Distributorship Agreement executed between the parties. The dispute was referred to Arbitration and **determined** in favour of Nyutu Agrovet Limited who was awarded KShs. 541million (the Award). Celtel successfully filed an Appeal in the High Court challenging the Award. The Award was set aside. Airtel subsequently commenced another arbitration, claiming from Nyutu Agrovet Limited KShs 4 million, being the balance of the purchase price for goods collected.

Nyutu Agrovet Limited appealed to the Court of Appeal challenging the provisions of the Arbitration Act that bar an aggrieved party from appealing against a decision of the High Court on arbitral awards. The Court of Appeal held that Nyutu Agrovet Limited had no right to challenge the decision of the High Court which set aside the Award but granted Nyutu Agrovet Limited permission to appeal to the Supreme Court under Article 163(4) of the Constitution of Kenya, where the Supreme Court can hear appeals if they are of 'general public importance.' The appeal awaits determination by the Supreme Court.

33 CONTINGENT LIABILITIES (continued)

(iii) HCCC NO.26 OF 2015: Mobile Phone Warehouse Limited Vs Airtel Networks Kenya Limited

The Claimant alleges that Airtel breached the distributorship contract by failing to deliver products and services as ordered by the plaintiff, billing him for undelivered goods, failing to remunerate him and recalling its bank guarantee. Amounts involved are Kshs 37 million. We await receipt of the award from the arbitrator.

(iv) Other contingent liabilities

In the ordinary course of business, the company is a defendant or co-defendant in various litigations and claims. Although there can be no absolute assurance, the directors believe, based on information currently available, that the ultimate resolution of these legal proceedings is not likely to have a material adverse effect on the results of its operations, financial position or liquidity. These court cases may take a long period to be determined. The disputes mainly relate to termination of distribution agreements, employee related cases and lease disputes.

34 COMMITMENTS

	2018 KShs'000	2017 KShs'000
Capital commitments		
Authorised and contracted for:		
Due within 1 year	<u>4,224,982</u>	<u>5,187,688</u>
Operating lease – Lessee		

The company has entered into lease agreements with Kenya Towers Limited and Safaricom Kenya Limited for lease of Base Transceiver Stations sites in various parts of Kenya. The leases are for an average term of 10 years with an annual average escalation of 5%. Future minimum lease payments under non-cancellable operating leases as at 31 December were as follows:

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	2018 KShs'000	2017 KShs'000
Not later than 1 year	1,727,494	1,950,642
Later than 1 year but not later than 5 years	7,818,001	6,456,867
Later than 5 years	12,182,740	13,101,367
	<u>21,728,235</u>	<u>21,508,876</u>

Operating Lease – Lessor (receivable)

The company has entered into agreements with various third parties for lease of excess office space on Parkside Towers, Mombasa Road. Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2018 KShs'000	2017 KShs'000
Not later than 1 year	39,361	32,524
Later than 1 year but not later than 5 years	41,329	37,651
	<u>80,690</u>	<u>70,175</u>

Further details of leases where the company has leased excess space to third parties were as follows:

Name of Tenant	Lease start date	Lease end date	Annual escalation
NSN	1-Nov-2012	Open ended	5% annually
Commercial Bank of Africa	1-Aug-2018	31-Jul-2023	5% annually
Barclays Bank of Kenya	1-Nov-2013	31-Jan-2019	5% annually

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

34 COMMITMENTS (continued)

Further details of leases where the company has leased towers third parties were as follows:

	2018 KShs'000	2017 KShs'000
Not later than 1 year	12,023	32,524
Later than 1 year but not later than 5 years	43,454	230,211
Later than 5 years		-
	<u>55,477</u>	<u>262,735</u>

Name of Tenant	Lease start date	Lease end date	Annual escalation
Liquid Telcom	1-Apr-2013	31-Mar-2023	5% annually

35 NOTES TO THE STATEMENT OF CASH FLOWS

	2018 KShs'000	2017 KShs'000
Loss before tax	(2,938,991)	(5,950,031)
Adjustments for:		
Depreciation on property, plant and equipment (Note 17)	3,079,773	3,070,803
Trade and other payables	2,216,700	(4,475,527)
Interest expense (Note 13)	2,229,238	2,155,976
Trade and other receivables	(1,535,113)	2,954,108
Amortisation of intangible assets (Note 18)	417,137	982,752
Amortisation for Finance Lease	-	(767,688)
Additional Provisions on trade and other receivables	312,700	556,908
Unrealised exchange loss (Note 11)	(843,545)	219,133
Inventories	(41,906)	197,015
Provisions for expenses	311,699	152,338
Provision Reversals – Debtors	95,747	4,723
Amortisation of prepaid operating lease rentals (Note 19)	18,056	18,056
Gain on disposal of property, plant and equipment	1,107	16,410
Provisions for inventories	2,034	(9,106)
Changes in Fair value of embedded Derivatives (Note 20)	5,385	(854)
Interest income (Note 9)	-	11
Non-current assets/liabilities	(12,256)	-
Income tax(provision reversal)	52,187	-
Net cash generated/used in operations	<u>3,369,952</u>	<u>(874,973)</u>

36 RELATED PARTY TRANSACTIONS

The company is controlled by Bharti Airtel International (Netherlands) BV. The ultimate parent of the company is Bharti Airtel Limited. There are other companies that are related to Airtel Networks Kenya Limited through **common** shareholding.

(i) Sale of goods and services	2018 Kshs'000	2017 Kshs'000
Bharti Airtel UK Limited	351,694	47,362
Airtel Uganda Limited	232,587	101,678
Bharti Airtel Limited	114,372	212,515
Airtel Niger	50,901	20,080
Airtel Nigeria	33,551	76,296
Airtel Tanzania Limited	30,611	16,444
Airtel Madagascar S.A	23,670	10,470
Airtel Networks Zambia Plc	20,449	27,644
Airtel Congo(RDC) S.A	19,542	113,970
Airtel Seychelles Ltd	8,669	8,923
Airtel Gabon S.A	7,673	118
Airtel Malawi Limited	7,402	9,680
Airtel Rwanda Limited	6,358	70,667
Airtel Congo S.A	6,292	19,124
Airtel Tchad S.A	3,758	25,568
Bharti Airtel Singapore P. Ltd	1,789	-
Airtel Ghana Limited	972	134,138
Jersey Airtel Limited	19	-
Bharti Airtel Lanka (Pv t Ltd)	18	-
Africa towers NV	-	1,323
Bharti Airtel International (Netherlands) B.V	-	1,080
Bharti Airtel Bangladesh	-	39
	920,326	897,119

Sales of services are negotiated with related parties on a cost-plus basis, allowing a margin of 10 % (2017: 10%). Services sold to related entities include interconnection of voice calls, roaming, short message services and goods sold include phones and handsets.

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

36 RELATED PARTY TRANSACTIONS (Continued)

(ii) Purchase of goods and services	2018 Kshs'000	2017 Kshs'000
Airtel Uganda Limited	267,764	32,901
Bharti Airtel Limited	141,718	234,140
Bharti Airtel UK Limited	141,302	11,719
Network i2i Ltd	102,733	152,794
Airtel Tanzania Limited	79,751	3,186
Airtel Niger	70,939	182
Bharti Airtel Singapore Limited	44,486	10,860
Airtel Rwanda Limited	19,609	713
Airtel Networks Zambia Plc	18,135	510
Airtel Malawi Limited	16,694	4,620
Airtel Ghana Limited	12,819	5,127
Nxtra Data Limited	8,772	23,013
Airtel Congo(RDC) S.A	8,476	166
Airtel Nigeria	7,363	293
Bharti Airtel Services Limited	3,589	7,892
Airtel Congo S.A	1,521	5,979
Airtel Seychelles Limited	1,172	11
Airtel Madagascar S.A	382	813
Airtel Tchad S.A	270	2,820
Airtel Gabon S.A	186	29
Bharti Airtel Lanka (Pv t Ltd)	151	-
Africa Towers NV	-	21
	947,834	497,789

Goods and services are bought from related companies, being entities controlled by Bharti Airtel International (Netherlands) B.V., Bharti Airtel Limited and Bharti Enterprises Limited. The company procures various services from related companies including interconnection for voice calls, roaming, Sms and the sale of assets.

36 RELATED PARTY TRANSACTIONS (Continued)

(iii) Related party relationships

Name	Relationship
Airtel T Chad S.A	Fellow subsidiary
Airtel Congo S.A	Fellow subsidiary
Airtel Congo(RDC) S.A	Fellow subsidiary
Airtel Gabon S.A	Fellow subsidiary
Airtel Rwanda Limited	Fellow subsidiary
Airtel Madagascar S.A	Fellow subsidiary
Airtel Malawi Limited	Fellow subsidiary
CelTel Niger S.A	Fellow subsidiary
Airtel Networks Limited (Nigeria)	Fellow subsidiary
Airtel Tanzania Plc	Fellow subsidiary
Airtel Uganda Limited	Fellow subsidiary
Airtel Networks Zambia Plc	Fellow subsidiary
Airtel Seychelles Limited	Fellow subsidiary
Bharti Airtel Limited	Step up parent
Network I2I Limited	Step up parent
Nxtra Data Limited	Fellow subsidiary
Africa Towers NV	Fellow subsidiary
Airtel Ghana*	Joint venture
Bharti Airtel services Limited	Fellow subsidiary
Bharti Airtel (UK) Limited	Fellow subsidiary
Jersey Airtel Limited	Fellow subsidiary
Bharti Airtel International (Netherlands) BV	Step up parent
Bharti Airtel Kenya Holding BV	Immediate Parent
Airtel Mobile Commerce (Kenya)Limited	Subsidiary of Airtel Networks Kenya Ltd
Bharti Airtel Bangladesh	Fellow subsidiary
Bharti Airtel Lanka	Fellow subsidiary
Bharti International (Singapore) Pte Ltd	Fellow subsidiary
Airtel Money Transfer Limited	Subsidiary of Airtel Networks Kenya Ltd

* Relationship status changed from fellow subsidiary to joint venture of the group. (Ghana)

(iv) Key management compensation

	2018	2017
	KShs'000	KShs'000
Employment benefits	244,905	274,185
Further details on key management compensation are as follows:		
Total Salaries and Allowances	203,991	190,444
Annual Performance Bonuses	20,245	23,424
Long Term Incentive (LTI)	2,642	26,103
Director's remuneration	10,141	13,726
Social Security – Pension	4,196	4,154
Medical Expenses	3,691	3,937
Termination Dues	-	12,397
	244,905	274,185

Annual performance bonus is awarded based on achievement of set earnings before interest, tax, depreciation and amortisation, EBITDA, whereas long term incentive is meant to align senior management performance with the vision of the company. As at 31 December 2018, the provision for long term incentive was KShs 2.6 million (2017: KShs 26.1 million).

AIRTEL NETWORKS KENYA LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2018

36 RELATED PARTY TRANSACTIONS (Continued)

	2018 Kshs'000	2017 Kshs'000
(v) Outstanding balances arising from sale and purchase of goods/services		
(a) Receivable from related parties		
Bharti Airtel International (Netherlands) B.V	5,182,464	3,616,311
Airtel Networks Limited(Nigeria)	323,402	311,670
Bharti Airtel UK Limited	260,190	47,362
Airtel Tanzania Limited	236,944	227,660
Airtel Rwanda Limited	202,747	211,154
Airtel Malawi Limited	149,136	146,458
Airtel Uganda Limited	144,563	71,284
Celtel Niger S.A	119,907	115,773
Airtel Madagascar S.A	72,560	50,932
Celtel Congo S.A	53,756	49,315
Celtel Congo(RDC) S.A	52,484	68,617
Bharti Airtel Limited	48,862	311,845
Airtel Gabon S.A	35,310	29,526
Airtel Networks Zambia Plc	23,732	34,374
Airtel Seychelles Ltd	17,067	8,943
Airtel Tchad S.A	15,646	12,945
Bharti Int. Singapore	1,034	-
Bharti Airtel Lanka (Pvt Limited)	7	1
Africa towers NV	-	1,323
Bharti Airtel Bangladesh	-	39
	6,939,811	5,315,532
(b) Payable to related parties		
Airtel Tanzania Limited	936,902	895,008
Network i2i Ltd	269,648	184,522
Airtel Uganda Limited	160,049	131,703
Bharti Airtel Limited, India	144,139	243,322
Bharti Airtel UK Limited	76,486	11,719
Airtel Congo(RDC) S.A	30,874	26,669
Nxtra Data Limited	29,943	23,013
Bharti Airtel Singapore P. Limited	28,607	10,860
Airtel Mobile Commerce BV	13,097	-
Airtel Networks Zambia Plc	9,281	5,165
Airtel Rwanda Limited	5,227	1,363
Bharti Airtel Services Limited	4,158	6,494
Airtel Networks Limited(Nigeria)	3,689	2,890
Airtel Malawi Limited	2,737	216
Airtel Congo S.A	631	6,020
Airtel (Seychelles) Limited	552	140
Celtel Niger S.A	268	280
Africa towers NV	124	21
Airtel Tchad S.A	37	85
Airtel Gabon S.A	32	55
Airtel Madagascar S.A	19	489
Bharti Airtel (Lanka) Limited	16	23
Jersey Airtel Limited	-	725
Airtel Bangladesh Ltd	-	11
	1,716,516	1,550,793

36 RELATED PARTY TRANSACTIONS (Continued)

	2018 KShs'000	2017 KShs'000
(vi) Shareholder's loans		
Payable to Bharti Airtel Kenya B.V.	47,504,323	43,434,755
Interest expense incurred on shareholder's loans	<u>324,482</u>	<u>301,267</u>

Terms and conditions of the loan are detailed in Note 28.

37 (i) OTHER NON CURRENT ASSETS

	KShs'000	KShs'000
Paid under protest (legal case deposit)	1,237	-
Prepaid expenses more than 1 year	1,129	-
Security deposit	33,418	29,727
	<u>35,784</u>	<u>29,727</u>

(ii) INVESTMENT IN SUBSIDIARY

Airtel Money Transfer Limited	Country of incorporation	Principal business	2018 KShs '000
100% owned	Kenya	International Mobile money transfer (dormant in 2018)	<u>20,000</u>

The financial statements of Airtel Money Transfer Limited have not been consolidated in these financial statements as the amounts involved are not material and would be of no real value to the users of the financial statements. The subsidiary has a bank balance of Sh 20 million which is equal to the investment made by Airtel Networks Kenya Limited.

The company has 99% shareholding in Airtel Money Transfer Limited. However, consolidated financial statements of the company and its subsidiaries are not prepared as the company does not have power, directly or indirectly, to govern the financial and operating activities of this entity so as to obtain benefits from the activities. Control over these entities lies with the Government of Kenya through the Central Bank of Kenya.

The company is incorporated in Kenya.

38 Details of other non-current liabilities are as below;

	2018 Kshs'000	2017 Kshs'000
Rent equalization liability	31,235	28,534
Asset retirement obligation	8,411	17,312
	<u>39,646</u>	<u>45,846</u>

39 COMPARATIVES

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The table below illustrates the reclassification made to the prior year balances for presentation purposes in the current year. Where necessary, comparative figures have been adjusted or excluded to conform to changes in presentation in the current year.

	KES'000 As Previously stated	Reclassification	KES'000 Reclassified amount	Notes
Profit & Loss				
Administrative costs	3,363,161	1,305,637	2,057,524	11
Cost of sales	5,357,101	1,563,739	3,793,362	8
Distribution costs	1,561,278	(1,772,243)	3,333,520	10
Finance costs	2,093,680	(318,331)	2,412,010	13
Operating expenses	10,258,618	(879,027)	11,137,644	12
Other income	75,373	73,621	1,752	9
Revenue	(16,759,179)	26,602	(16,785,781)	7
Balance Sheet				
Trade and other receivables	5,931,389	(1,501,270)	7,432,660	23
Other Non-current Asset	-	(29,727)	29,727	37
Provisions	(1,449,701)	(17,312)	(1,432,389)	32
Other Non-current Liabilities	-	45,846	(45,846)	38
Shareholder loans	(40,120,791)	3,313,964	(43,434,755)	28
ST Borrowings	(1,257,971)	301,267	(1,559,238)	30
Trade and other payables	(10,497,361)	(2,112,767)	(8,384,594)	31

40 OPERATING LICENCE

During the year ended 31 December 2014, The company acquired subscribers, brand name and license from Essar Telecommunication Limited. The company is operating under Essar license since January 2015, which is valid until 2025. The Company has requested the Communications Authority of Kenya (CA) to issue fresh documents incorporating new terms and conditions including roll out obligations bearing Airtel's name. In 2017, CA demanded USD 20.025 million from Airtel in license renewal fees. Airtel lodged a judicial review and the case was ruled in Airtel's favour but the CA appealed the case. The appeal is yet to be determined.

41 EVENTS AFTER THE REPORTING DATE

- (i) Bharti Airtel Limited through its subsidiary Airtel Networks Kenya Limited (Airtel Kenya) entered into an agreement as on 8th February 2019 with Telkom Kenya Limited ("Telkom Kenya") for merging their respective Mobile, Enterprise and Carrier Services businesses in Kenya to operate as 'Airtel- Telkom'. The transaction completion is subject to approval by the relevant authorities. Shareholding pattern of the new entity will be finalized based on the final enterprise value calculated for both the entities on the completion date. Completion date will be finalized post approval from the authorities.
- (ii) Following the suspected fraud involving Airtel Money in 2018, the company lodged an insurance claim out of which the insurer (AIG Kenya Insurance Ltd) has accepted to settle Kshs 86 million (net of cost) in a letter dated 1st March 2019. The funds were received in March 2019.