

AIRTEL NETWORKS ZAMBIA PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2018

AIRTEL NETWORKS ZAMBIA PLC

(incorporated in Zambia)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2018

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AIRTEL NETWORKS ZAMBIA PLC

Directors' REPORT

for the year ended 31 December 2018

The Directors present their annual report on the affairs of the Company together with the financial statements and the auditor's report for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is the provision of cellular radio telecommunication services. There have been no significant changes in the Company's business during the year.

SHARE CAPITAL

There were no changes to the authorised and issued share capital during the year.

RESULTS AND DIVIDEND

The profit for the year amounted to K64.859 million (2017: K363.978 million). The Key reason for drop in profit for the year 2018 is devaluation of Kwacha. The impact of the same is K 259.71 million. The Company paid dividends during the year amounting to K416 million in respect of the financial year ended 31 December 2017 (2017: K416 million for year 2016). The Directors recommended an interim dividend for the year ended 31 December 2018 amounting to K124.80 million (2017: nil). The interim dividend has already been paid. Further Directors will not propose a final dividend for the year ended 31 December 2018 (2017: K416 million).

Directors

The following Directors held office during the year and to the date of this report:

Name	Role	Date of appointment/resignation
K. Monica Musonda (Non-ED)	Chairperson	Appointed on 23 March 2016
Apoorva Mehrotra (ED)	Managing Director	Appointed on 1 March 2018
Peter Correia (ED)	Managing Director	Resigned on 28 February 2018
Jito Kayumba (Non-ED)	Board Member	Appointed on 23 March 2016
Jaideep Paul (ED)	Board Member	Appointed on 2 November 2016
Raghunath Mandava (ED)	Board Member	Appointed on 1 November 2017

NUMBER OF EMPLOYEES AND REMUNERATION

The total remuneration of employees during the year amounted to **K117.898 million** (2017: K128,550 million). The average number of employees for each month of the year was as follows:

Month	2018	2017
January	217	232
February	218	234
March	215	234
April	214	232
May	214	232
June	213	226
July	214	224
August	213	228
September	204	226
October	203	226
November	206	224
December	207	224

HEALTH AND SAFETY

The Company has policies and procedures to safeguard the occupational health, safety and welfare of its employees.

GIFTS AND DONATIONS

During the year the Company made donations of **K0.260 million** (2017: K0.985 million). The donations are towards corporate social responsibility.

ROAMING

Roaming revenue is earned from foreign telephone operators when their subscribers utilise the Company's network. The Company accrued roaming revenue amounting to **K31.153 million** (2017: K30.252 million).

AIRTEL NETWORKS ZAMBIA PLC

Directors' REPORT (CONTINUED)
for the year ended 31 December 2018

PROPERTY, PLANT AND EQUIPMENT

The Company purchased property, plant and equipment amounting to K535.008 million (2017: K315.190 million) during the year. In the opinion of the Directors, the recoverable amount of property and equipment is not less than the carrying value. Figures of 2018 includes Nil international bandwidth purchased on indefeasible right of use basis (2017: K107.630 million).

AUDITORS

The Company's Auditors, Messrs Deloitte & Touche, indicated their willingness to continue in office. A resolution proposing their reappointment and authorising the Directors to fix their remuneration will be put to the Annual General Meeting.

STATEMENT ON CORPORATE GOVERNANCE

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

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

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

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

By order of the Board.


Sonia Shamwana-Chinganya
COMPANY SECRETARY

Date: 18 February 2019
LUSAKA

AIRTEL NETWORKS ZAMBIA PLC

**STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2018**

The Companies Act, 2017 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its financial performance. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company. The Directors are further required to ensure the Company adheres to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Companies Act, 2017.

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The independent external auditors, Messrs Deloitte & Touche, have audited the financial statements and their report is shown on pages 4 to 7.

The Directors are also responsible for the systems of internal control. These are designed to provide reasonable but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

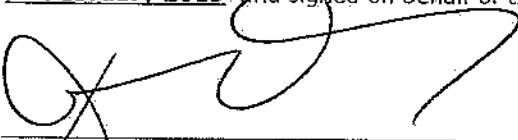
The annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern in the foreseeable future.

In the opinion of the Directors:

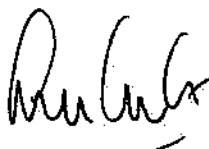
- the statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the profit of the Company for the year ended 31 December 2018;
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2018;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due;
- the financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2017; and
- the Directors have implemented and further adhered to the corporate governance principles or practices contained in Part VII, Sections 82 to 122 of the Companies Act, 2017.

Approval of the financial statements

The financial Statements of the Company as indicated above, were approved by the Directors on **18 February 2019** and signed on behalf of the Board by:



K. Monica Musonda
CHIEF PERSON



Apoorva Mehrotra
MANAGING DIRECTOR

INDEPENDENT AUDITOR'S REPORT

To the members of
Airtel Networks Zambia Plc

Report on the financial statements

Opinion

We have audited the financial statements of Airtel Networks Zambia Plc set out on pages 8 to 49, which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Airtel Networks Zambia Plc as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2017.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 ethical requirements that are relevant to our audit of the financial statements in Zambia. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
<p>Revenue recognition</p> <ul style="list-style-type: none"> • The determination of revenue relating to the usage of airtime; • Accounting treatment for promotional products and bundled products; • The revenue computation process is highly automated, complex in nature, characterised by high volume of data and dynamic; and • The revenue recording involves a manual transfer of information from the IT billing system to the general ledger. 	<p>Our procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of the company's revenue streams. • Performed walkthroughs of the different classes of revenue transactions and evaluated the design and implementation of controls. • Obtained an understanding of promotional products and bundled products configurations to identify the related revenue streams and assessed the revenue recognition criteria for each stream for compliance with the applicable accounting standards. • Involved our Risk Advisory specialist to test the controls within the billing systems and the control environment relevant to revenue. The procedures included but not limited to the following:

Key audit matters	How our audit addressed the key audit matter
<p>Revenue recognition (continued)</p> <p>As a result of the significance of this process, the timing of the revenue recognition, volume of transactional data involved, manual interference in the transfer of data from the IT billing system to the general ledger, this was considered a key audit matter.</p> <p>The revenue recognition policy is disclosed in Note 3 (c) and revenue recognised disclosed in Note 7.</p>	<ul style="list-style-type: none"> • Performed an IN (Billing system) to GL (General Ledger Financial Reporting) Reconciliation. We ensured that amount captured in IN-GL reconciliation was reflected in IN closing balance and GL in books subject to defined threshold. • Reviewed key revenue controls performed by the Company's Revenue Assurance (RA) team to address the risk of revenue leakage. We verified the RA Dashboards (templates on which control activities are performed) were prepared and signed by the RA team on predefined intervals. <p>In addition to the above we performed detailed substantive testing of journal entries processes around revenue to ensure these were appropriately authorised, complete and accurate.</p> <p>We found the operation of the controls over revenue to be effective, and our substantive testing did not reveal any material misstatements.</p>
<p>IT systems and controls over financial reporting</p>	
<p>We identified financial reporting as an area of focus as the Company's financial accounting and reporting systems are dependent on IT systems and identified a risk that automated accounting procedures and related IT dependent manual controls may not be designed and operating effectively.</p>	<ul style="list-style-type: none"> • We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. • We examined the framework of governance over the Company's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. • We assessed the logical access management and segregation of duties controls as well as checking the appropriateness of the integration of the various systems. • Where necessary we also carried out direct tests of certain aspects of the security of the Company's IT systems including access management and segregation of duties. The combination of the tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the continued and proper operation of the Company's IT systems for the purposes of our audit.

Key audit matters	How our audit addressed the key audit matter
<p>Tax matters</p> <p>The entity operates in a fairly complex tax environment. There is inherent judgement involved in determining current tax liability.</p> <p>This matter has been considered a key area of focus due to the amounts involved as shown in note 12.</p>	<p>We performed the following procedures among others:</p> <ul style="list-style-type: none"> ▪ Assessed the design of the controls and operating effectiveness around the management of the tax affairs of the company and assessment of the accuracy of the tax computations. ▪ Reviewed correspondence between the ZRA and the company to identify potential liabilities. ▪ Engaged our tax specialist to review the tax computation for the year to ensure compliance with the tax legislation. <p>Based on our audit, there were no uncorrected misstatements noted.</p>

Other information

The Directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act, 2017, which we obtained prior to the date of this auditors' report, and the annual report which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by of the Companies Act, 2017, and for such internal control as the Directors determine is necessary to enable the preparation of the 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:

Auditor's responsibilities for the audit of the financial statements (Continued)

- 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 management.
- 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 auditors' 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, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

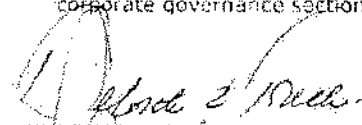
From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public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

Report on other legal and regulatory requirements

The Companies Act, 2017 requires that in carrying out our audit, we consider and report to you on the following matter: we confirm that, in our opinion, the accounting records, other records and registers required by the Act have been properly kept in accordance with the Act.

Further, Section 259 of the Companies Act, 2017 requires that in carrying out our audit, we consider and report that:

- There is no relationship, interest or debt which we have with and in the Company; and
- There are no serious breaches of corporate governance principles or practices by the Directors. This statement is made on the basis of the corporate governance provisions as enshrined in Part VII - corporate governance section of the Companies Act, 2017.


DELOITTE & TOUCHE

F. NCHIMUNYA (AUD/F0000154)
PARTNER

Date: 1 March 2019

AIRTEL NETWORKS ZAMBIA PLC**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
for the year ended 31 December 2018

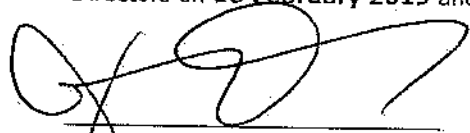
Kwacha'000		2018	2017
	Note		
Revenue	7	2 111 060	2 195 663
Cost of sales		(159 580)	(130 547)
Gross profit		1 951 480	2 065 116
Other operating income	8	2 627	1 754
Distribution costs		(819 282)	(851 930)
Administrative expenses		(555 253)	(638 329)
Operating profit		579 572	576 611
Finance income	8	793	3 740
Net exchange losses	9	(241 068)	(37 398)
Finance costs	10	(108 817)	(88 416)
Profit before tax	11	230 480	454 537
Income tax expense	12	(165 621)	(90 559)
Profit and total comprehensive income for the year		64 859	363 978
Basic and diluted earnings per share (Kwacha)	13	0.62	3.50

There were no items of other comprehensive income for the year (2017: Nil).

AIRTEL NETWORKS ZAMBIA PLC**STATEMENT OF FINANCIAL POSITION**
at 31 December 2018

Kwacha'000	Note	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	16	1 893 942	1 712 468
Intangible assets	17	96 159	106 213
Deferred tax asset (net)	15	32 616	16 581
		<u>2 022 717</u>	<u>1 835 262</u>
Current assets			
Inventories	18	675	1 836
Trade and other receivables	19	128 993	226 784
Contract assets	20	33 415	28 125
Derivative financial instruments	33	665	2 467
Amounts due from related parties	29	151 772	137 591
Bank and cash balances	21	32 258	2 591
		<u>347 778</u>	<u>399 394</u>
Total assets		<u>2 370 495</u>	<u>2 234 656</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	14	1 040	1 040
Share premium	14	24 962	24 962
Retained earnings		(37 784)	438 157
Total equity		<u>(11 782)</u>	<u>464 159</u>
Non-current liabilities			
Obligation under finance lease	27	751 766	703 049
Current liabilities			
Bank overdraft	21	32 449	21 657
Short term borrowings	24	715 608	209 979
Trade and other payables	22	522 097	531 108
Contract liabilities	23	101 608	101 646
Derivative financial instruments	33	3 730	3 237
Amounts due to related parties	29	65 372	17 417
Obligation under finance lease	27	91 310	69 040
Current tax payable (net)	12	98 337	113 364
		<u>1 630 511</u>	<u>1 067 448</u>
Total liabilities		<u>2 382 277</u>	<u>1 770 497</u>
Total equity and liabilities		<u>2 370 495</u>	<u>2 234 656</u>

The responsibilities of the Company's Directors with regard to the preparation of the financial statements are set out on page 3. The financial statements on pages 8 to 49 were approved for issue by the Board of Directors on **18 February 2019** and were signed on its behalf by:



K. Monica Musonda
CHAIRPERSON



Apoorva Mehrotra
MANAGING DIRECTOR

AIRTEL NETWORKS ZAMBIA PLC**STATEMENT OF CHANGES IN EQUITY**
for the year ended 31 December 2018

Kwacha'000

	Notes	Share capital	Share premium	Dividend reserve	Retained earnings	Total
Balance at 1 January 2017		1 040	24 962	-	490 179	516 181
Total comprehensive income for the year		-	-	-	363 978	363 978
Final dividend declared for 2016		-	-	416 000	(416 000)	-
Transfer to dividend payable	30	-	-	(416 000)	-	(416 000)
Balance at 31 December 2017		1 040	24 962	-	438 157	464 159
Balance at 1 January 2018		1 040	24 962	-	438 157	464 159
Total comprehensive income for the year		-	-	-	64 859	64 859
Final dividend declared for 2017		-	-	416 000	(416 000)	-
Interim dividend declared for 2018	30	-	-	124 800	(124 800)	-
Transfer to dividend payable	30	-	-	(540 800)	-	(540 800)
At 31 December 2018		1 040	24 962	-	(37 784)	(11 782)

AIRTEL NETWORKS ZAMBIA PLC**STATEMENT OF CASH FLOWS**

for the year ended 31 December 2018

Kwacha'000	Note	2018	2017
Cash flows from operating activities			
Cash generated from operations	28	1 077 195	772 612
Interest received	8	793	3 740
Interest paid	10	(27 226)	(6 890)
Income tax paid	12	(196 683)	(249 425)
Net cash generated from operating activities		854 079	520 037
Cash flows from investing activities			
Purchase of property and equipment	16	(535 008)	(207 560)
Purchase of intangible assets	17	-	(107 630)
Net cash flows used in investing activities		(535 008)	(315 190)
Cash flows from financing activities			
Proceeds from short term borrowings	24	938 570	397 125
Repayment of short term borrowings	24	(554 659)	(211 800)
Interest paid on finance lease	10	(81 591)	(81 526)
Repayment of finance lease	27	(61 716)	(56 035)
Dividends paid to shareholders	30	(540 800)	(416 673)
Net cash flows used in financing activities		(300 196)	(368 909)
Movement in cash and cash equivalents			
Net increase/(decrease) in cash and cash equivalents		18 875	(164 062)
Cash and cash equivalents at beginning of the year		(19 066)	144 996
Cash and cash equivalents at end of the year	21	(191)	(19 066)

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. CORPORATE INFORMATION

Airtel Networks Zambia plc is incorporated in Zambia under the Companies Act, 2017 as a public limited company, and is domiciled in Zambia. The Company is listed on the Lusaka Stock Exchange and was incorporated in 1997 as Celtel Zambia Plc. In April 2013, there was a change of name and the address of its registered office is:

Airtel House
Corner of Addis Ababa Drive
and Great East Road, Stand 2375
P.O. Box 320001
Lusaka

The Company's principal activities are disclosed on page 1 of the director's report.

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on **18 February 2019**.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 New and amended Standards that are effective for the current year

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.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below.

The Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, 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 as the impact has been deemed to be insignificant.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are 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;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 New and amended Standards that are effective for the current year (Continued)

Impact of initial application of IFRS 9 Financial Instruments (Continued)

(a) Classification and measurement of financial assets (Continued)

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Company has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had an insignificant impact on the Company's financial assets as regards their classification and measurement:

- financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(b) 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. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortised cost or at FVTOCI;
- (2) Lease receivables;
- (3) Trade receivables and contract assets; and
- (4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 New and amended Standards that are effective for the current year (Continued)

Impact of initial application of IFRS 9 Financial Instruments (Continued)

(b) Impairment of financial assets (Continued)

For the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognised on the date of initial application of IFRS 9 (i.e. 1 January 2018), the directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 January 2017.

The result of the assessment is as follows:

Items existing as at 01/01/18 that are subject to the impairment provisions of IFRS 9	Note	Credit risk attributes 1 January 2017 and 1 January 2018
Amount due from related parties	29	Amounts due from related parties are assessed regarding credit risk at each reporting date. As the same are closely monitored and controlled by the same management, there is no provision matrix being followed on ageing basis. There have been no instances observed in the past where collection are assumed to be at risk for such related party receivable.
Trade and other receivables	19	The Company uses a provision matrix to measure the expected credit loss of trade receivables. Based on the industry practices and the business environment in which the entity operates, management considers that the trade receivables are credit impaired if the payments are more than 90 days past due (Interconnect more than 9 Months).
Contract assets	20	
Cash and bank	21	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 has had no impact on the classification and measurement of the Company's financial liabilities.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 New and amended Standards that are effective for the current year (Continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Company has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Company's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Company has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 9 requires hedging gains and losses to be recognised as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 Presentation of Financial Statements and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorised as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. This is consistent with the Company's practice prior to the adoption of IFRS 9.

Consistent with prior periods, when a forward contract is used in a cash flow hedge or fair value hedge relationship, the Company has designated the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument.

When the option contracts are used to hedge the forecast transactions, the Company designates only the intrinsic value of the options as the hedging instrument. Under IAS 39 the changes in the fair value of time value of option (i.e. non-designated component) were recognised immediately in profit or loss. Under IFRS 9, the changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised in other comprehensive income and accumulated in the cost of hedging reserve within equity. The amounts accumulated in equity are either reclassified to profit or loss when the hedged item affects profit or loss or removed directly from equity and included in the carrying amount of non-financial item. IFRS 9 requires that the accounting for non-designated time value of option should be applied retrospectively. This only applies to hedging relationships that existed at 1 January 2017 or were designated thereafter.

(e) 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. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of IFRS 9.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Company's financial statements are described below.

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 New and revised Standards in issue but not yet effective (continued)

Impact of application of IFRS 15 Revenue from Contracts with Customers (continued)

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 1 January 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 Company 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.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Company has adopted the terminology used in IFRS 15 to describe such balances.

The Company's accounting policies for its revenue streams are disclosed in detail in note 3 below. Apart from providing more extensive disclosures for the Company's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Company.

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these 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.

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.

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19 Employee	Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax Treatments

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:

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 New and revised Standards in issue but not yet effective (continued)

IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements 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 for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Company will be 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The Company has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Company will not reinstate the comparative information.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Company will:

- a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
- c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Company will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 New and revised Standards in issue but not yet effective (continued)

IFRS 16 Leases (continued)

Impact on Lessor Accounting (continued)

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change the Company will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognised on the finance lease receivables. The leased assets will be derecognised and finance lease asset receivables recognised. This change in accounting will change the timing of recognition of the related revenue (recognised in finance income).

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's financial statements.

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 remeasurement 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 remeasured under IAS 19.99 with the discount rate used in the remeasurement (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's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 New and revised Standards in issue but not yet effective (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

The Annual Improvements include amendments to four Standards.

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's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition

Company's revenue arises from billing customers for monthly subscription, airtime usage, connections, reconnection fees and sale of simcards, handsets and accessories and interconnection revenue.

Revenue is measured at the fair value of the consideration received or receivable for the sale/provision of goods and services in the ordinary course of the company's activities. Revenue is shown net of value-added tax (VAT), excise duties, discount and rebates.

Revenue is recognised upon transfer of control of promised products or services to the customer at the consideration which the Company has received or expects to receive in exchange of those products or services, net of any taxes / duties, 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.

Service revenues include amounts invoiced for usage charges, fixed monthly subscription charges and very small aperture terminal ('VSAT')/internet usage charges, bandwidth services, roaming charges, activation fees, processing 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 and data messaging services.

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. Subscription charges is being recognised over the estimated customer relationship period or subscription pack validity period, whichever is lower. Activation revenue and related activation costs, is recognized upfront.

Service revenues from the internet and VSAT business comprise revenues from registration, installation and provision of internet and VSAT services. Registration fee and installation charges is recognized upfront. Service revenue is recognised from the date of satisfactory installation of equipment and software at the customer site and provisioning of internet and VSAT services.

Monthly subscription fees are recognised on a cash cap method and Value Added Services are recognised net of taxes and other statutory obligations.

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

Deferred revenue includes amount received in advance from customers which would be recognised over the periods when the related services are expected to be rendered.

Equipment sales consist primarily of revenues from sale of telecommunication equipment and related accessories to customers. Revenue from equipment sales transactions are recognised when the significant risks and rewards of ownership are transferred to the buyer and when no significant uncertainty exists regarding realisation of consideration.

(d) Segment Reporting

A business segment is a Company of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(e) Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the foreign exchange rate ruling at that date. Exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the closing date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss and other comprehensive income as net exchange (losses) / gains.

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment

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

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. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Impairment losses on property, plant and equipment are recognized in profit or loss during the period. Reversals of impairment losses are recognized in profit or loss during the period. In addition, impairment losses on revalued assets are recognized in other comprehensive income during the period.

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

The carrying amount of property, plant and equipment that is disposed off is derecognized when the criteria for sale of goods in IAS 18 is met.

When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes 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. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

Categories	Years
Leasehold buildings	20
Network equipment	3 - 20
Computer equipment	3
Office furniture and equipment	2 - 5
Customer premises equipment	5 - 6

Gains and losses arising from retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement and disposal.

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. For lessors lease income from operating leases is recognised in income on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

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

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

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost method, and includes all expenditure incurred in bringing the inventories to their present value and condition, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

The amount of any write down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write down or loss occurs.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

(J) Cash and cash equivalents

Cash and cash equivalent includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts measured at amortised costs.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Statement of cash flows

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

(l) Borrowings

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

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

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

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(m) Financial instruments

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

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

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

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

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial instruments (continued)

Financial assets (continued)

Classification of financial assets (continued)

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

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

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

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

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

(i) Amortised cost and effective interest method

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

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

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

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

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

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial instruments (continued)

Financial assets (continued)

Foreign exchange gains and losses

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

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

Impairment of financial assets

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

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

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

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

(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. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial instruments (continued)

Financial assets (continued)

(i) Significant increase in credit risk (continued)

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligation

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

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

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

(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.

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the trade receivables has crossed the law of limitation period past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial instruments (continued)

Financial assets (continued)

(v) Measurement and recognition of expected credit losses

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

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

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

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.

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 recognised at the proceeds received, net of direct issue costs.

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

Financial liabilities

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

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial instruments (continued)

Financial liabilities (continued)

Foreign exchange gains and losses

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

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

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

Hedge accounting

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

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

Fair value hedges

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

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

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

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial Instruments (continued)

Hedge accounting (continued)

Cash flow hedges

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

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

The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

(n) Share capital and Share premium

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

(o) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Employee benefits

1. Retirement benefit obligations

The company operates a defined contribution scheme for all its employees. The company and all its employees also contribute to the National Pension Scheme Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the company pays fixed contributions into a separate 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 contributions to the defined contribution schemes are recognised in profit or loss in the year in which they fall.

2. Other entitlements

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

(q) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (continued)

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

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

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

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

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Intangible assets

The Company's intangible assets comprise of licenses and indefeasible right of use (IRU). Licenses & IRU are recognised as an asset when it is probable that future economic benefits from the asset will flow to the entity and the cost of the license can be reliably measured.

Licenses are initially measured at cost and subsequently amortised on a straight-line basis over their useful lives. Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation periods are reviewed annually and adjusted prospectively as required. Gains or losses arising from derecognition of licenses are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised. Licenses are amortised over a period of 15 years.

Indefeasible intangible assets are recognised when the Company controls the assets, it is probable that future economic benefits from the asset will flow to the entity and the cost of the asset can be reliably measured.

At initial recognition, the separately acquired intangible assets are recognised at cost. Following initial recognition, the intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Gains or losses arising from derecognition of the assets 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. Indefeasible right of use (IRU) are amortised over a period of 10 to 15 years.

(s) Impairment of non-financial assets

Property, plant and equipment (PPE) and Intangible assets

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Impairment of non-financial assets (continued)

Reversal of impairment losses

Impairment losses are reversed and the carrying value is increased to its revised recoverable amount provided that this amount does not exceed the carrying value that would have been determined had no impairment loss been recognised for the said asset in previous years.

(t) Dividends

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

(u) Provisions

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(v) Contingencies

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised and disclosed only where an inflow of economic benefits is probable.

(w) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(x) Earning per share (EPS)

The Company presents the Basic and Diluted EPS data. Basic EPS is computed by dividing the profit for the period attributable to the shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted EPS is computed by adjusting, the profit for the year attributable to the shareholders and the weighted average number of shares considered for deriving Basic EPS, for the effects of all the shares that could have been issued upon conversion of all dilutive potential shares. The dilutive potential shares are adjusted for the proceeds receivable had the shares been actually issued at fair value. Further, the dilutive potential shares are deemed converted as at beginning of the period, unless issued at a later date during the period.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) Critical accounting estimates and assumptions

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(i) Critical accounting estimates and assumptions (continued)

Receivables

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables. Factors taken into consideration in making such judgments include historical trends and the number of days a debt is past its due date for payment. The carrying amount of impaired receivables is set out in Note 19.

Taxes

1. Current income tax

Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date.

2. Deferred tax

Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the reporting date.

Determination of residual values and useful lives

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

(ii) Critical judgments in applying the entity's accounting policies

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

- the classification of financial assets and leases.
- revenue recognition allocation to different components.
- determining whether assets are impaired, or not.

(a) Multiple element contracts with vendors

The Company has entered into multiple element contracts for supply of goods and rendering of services. In certain cases, the consideration paid is determined independent of the value of supplies received and services availed. Accordingly, the supplies and services are accounted for based on their relative fair values to the overall consideration. The supplies with finite life under the contracts have been accounted under Property, Plant and Equipment and / or as Intangible assets, since the Company has economic ownership in these assets and represents the substance of the arrangement.

(b) Arrangement containing lease

The Company assesses the contracts entered with telecom operators / passive infrastructure services providers to share tower infrastructure services so as to determine whether these contracts that do not take the legal form of a lease convey a right to use an asset or not. The Company has determined, based on an evaluation of the terms and conditions of the arrangements that such contracts are in the nature of leases. Most of these leases are classified as operating unless the term of the agreement is for the major part of the estimated economic life of the leased asset, which is accounted for as finance lease.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks: Market risk (including Foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors.

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk

(i) Foreign exchange risk

The company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

Currency exposure arising from liabilities denominated in foreign currencies is managed primarily through the holding of bank balances in the relevant foreign currencies and hedging through foreign currency forward contract. Policy is consistent with previous period.

The sensitivity analysis has been prepared on the basis that the trade receivables, payables and borrowings and the proportion of financial instruments in foreign currencies are all constant.

The assumption in calculation of the sensitivity analysis is that: the sensitivity of the relevant statement of profit or loss is the effect of the assumed changes in the respective market risk, the sensitivity of equity is calculated by considering the effects of the assumed changes of the underlying risks.

At 31 December 2018, if the Kwacha had weakened/strengthened by 5% against the US dollar with all other variables held constant, post tax profit for the period would have been **K35.246 million** (2017: K10.830 million) lower/higher, mainly as a result of US dollar denominated trade receivables, payables and borrowings. There would be no impact on equity.

Exposure to currency risk

The company's exposure to foreign currency risk was as follows:

Exposure to currency risk

	2018	2017
Cash & cash equivalents (net) (note 21)	291	(25 200)
Trade and other receivables (note 19)	93 834	58 986
Trade and other payables (note 22)	(83 445)	(40 405)
Short term borrowings (note 24)	(715 608)	(209 979)
	<u>(704 929)</u>	<u>(216 598)</u>

The following US Dollar exchange rates applied during the period:

Average Rate	10.464	9.533
Closing Rate	<u>11.927</u>	<u>9.999</u>

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The company's interest bearing financial liabilities were the overdraft of **K32.449 million** (2017: K21.657 million) and the borrowing of **K715.608 million** at year end (2017: K209.979 million) which was at fixed rates for an agreed period (subject to the significant change in market condition) and on which it was therefore not exposed to cash flow interest rate risk. The Company regularly monitors financing options available to ensure optimum interest rates are obtained. At 31 December 2018, if effective interest rates on borrowings had been 2% higher/lower with all other variables held constant, pre tax profit would have been **K14.961 million** (2017: K 4.633 million) lower/higher.

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the company and arises from cash equivalents and deposits with financial institutions and principally from credit exposures to customers relating to outstanding receivables. For banks and financial institutions, only reputable institutions are used.

The company is not significantly exposed to credit risk on the retail side since the majority of its customers are on the prepaid plan and majority of the distributors /dealers are primarily on cash basis, or their credit is covered by a bank guarantee.

The interconnection between the company and other telecommunications operators (both local and foreign) is on credit basis and the number of credit days is governed by the agreement between the parties. The utilisation of credit limits is regularly monitored.

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit risk (continued)

The amount that best represents the company's maximum exposure to credit risk at 31 December 2018 is made up as follows:

	Note	2018	2017
Cash and cash equivalents	21	32 258	2 591
Trade receivables (net)	19	62 818	66 064
		<u>95 076</u>	<u>68 655</u>

Impairment losses

The aging of trade receivables at the reporting date was:

	2018 K'000 Gross amount	2018 K'000 Impaired	2017 K'000 Gross amount	2017 K'000 Impaired
30 days	45 502	-	44 716	-
60 days	15 720	-	21 544	-
90 days and above	111 664	110 068	107 118	107 314
	<u>172 886</u>	<u>110 068</u>	<u>173 378</u>	<u>107 314</u>

Collateral is held for some of the above assets namely distributors with bank guarantees of K9.65 million, K1.114 million post-paid deposits and K4.461 million channel partner deposits as at 31 December 2018 (2017: K14.85 million bank guarantees and K1.044 million post-paid deposits and K0.764 million channel partner deposits respectively). Trade receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are either past due or impaired except for the following interconnect, one network, roaming and distributor amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced):

	2018	2017
Past due but not impaired:		
- by up to 30 days	9 431	13 166
- by 31 to 90 days	6 290	8 378
- by 91 days and over	1 488	3 404
Total past due but not impaired	<u>17 209</u>	<u>24 947</u>

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the finance department maintain flexibility in funding by maintaining availability under committed credit lines.

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

	Note	Less than 1 year K'000	Between 1 and 2 years K'000	Between 2 and 5 years K'000	Over 5 years K'000
At 31 December 2018					
- Trade and other payables	22	522 097	-	-	-
- Contract liability	23	101 608	-	-	-
- Related company payables	29(v)	65 372	-	-	-
- Bank overdrafts	21	32 449	-	-	-
- Borrowings	24	715 608	-	-	-
At 31 December 2017					
- Trade and other payables	22	531 108	-	-	-
- Contract liability	23	101 646	-	-	-
- Related company payables	29(v)	17 417	-	-	-
- Bank overdrafts	21	21 657	-	-	-
- Borrowings	24	209 979	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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6. CAPITAL MANAGEMENT

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

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

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

	2018	2017
Total borrowings (including bank overdraft and finance lease)	1 591 133	1 003 725
Less: cash and cash equivalents	<u>(32 258)</u>	<u>(2 591)</u>
Net debt	1 558 875	1 001 134
Total equity	<u>(11 782)</u>	464 159
Total capital	1 547 093	1 465 293
Gearing ratio	101%	68%

7. REVENUE

The Entity derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the following major product lines.

Analysis of revenue by category:

Airtime revenue	1 248 550	1 350 943
Data revenue	530 358	521 888
Interconnect revenue	211 131	192 580
Short Messaging Services	49 006	63 496
Roaming revenue	31 153	30 252
Handsets and accessories	12 559	15 856
Value added services content	16 636	11 523
Connection revenue	11 667	9 125
	<u>2 111 060</u>	<u>2 195 663</u>

Management expects that amounts relating to unsatisfied contracts as of the year ended 31 December 2018 on Bundled Handsets will be recognised as revenue during the next reporting period.

8. OTHER OPERATING & FINANCE INCOME

Finance/interest income	793	3 740
Other operating income	2 627	1 754
	<u>3 420</u>	<u>5 494</u>

9. NET EXCHANGE (LOSSES)/GAIN

Net exchange (loss)/gain arose on:		
Borrowings and cash and cash equivalents	(122 969)	(37 002)
Other balances	18 639	1 498
Finance leases	<u>(136 738)</u>	<u>(1 894)</u>
	<u>(241 068)</u>	<u>(37 398)</u>

10. FINANCE COSTS

Finance lease charges	81 591	81 526
Interest expense on borrowings	27 226	6 890
	<u>108 817</u>	<u>88 416</u>

AIRTEL NETWORKS ZAMBIA PLC.**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 31 December 2018

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11. PROFIT BEFORE TAX		
Profit before tax is stated after crediting:		
Interest income (note 8)	793	3 740
and after charging:		
Depreciation on property and equipment (Note 16)	345 780	400 533
Employee benefits expense	117 898	128 550
Operating lease rentals	31 098	32 038
Amortisation of intangible assets (Note 17)	10 054	5 981
Receivables – provision for impairment losses (note 19)	2 754	(323)
Auditors' remuneration	2 072	2 344

12. INCOME TAX		
Current income tax	181 110	230 033
Prior year additional tax charge	546	11 482
Prior year excess deferred tax liability reversal (note 15)	(6 296)	(138 178)
Deferred income tax (Note 15)	(9 739)	(12 778)
Income tax expense	<u>165 621</u>	<u>90 559</u>

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

Profit before income tax	230 480	454 537
Tax calculated at the statutory income tax rate of 40%	92 192	181 815
Tax effect of:		
Origination and reversal of timing differences (note 15)	(16 035)	(150 956)
Expenses not deductible for tax purposes (net)	89 464	59 700
Income tax expense	<u>165 621</u>	<u>90 559</u>

Income tax payable*Current income tax movement in the statement of financial position:*

At January	113 364	121 274
Current income tax charge	181 110	230 033
Prior year additional tax charge	546	11 482
Payments during the year	(196 683)	(249 425)
At end of the year	<u>98 337</u>	<u>113 364</u>

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income tax provisional returns have been filed with the Zambia Revenue Authority (ZRA) for the year ended 31 December 2018. Quarterly payments for the year ended 31 December 2018 were made on the due dates during the period.

13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. There were no potentially dilutive shares outstanding at 31 December 2018 and 31 December 2017. Diluted earnings per share is therefore the same as basic earnings per share.

Profit attributable to the equity holders of the Company	<u>64 859</u>	<u>363 978</u>
Weighted average number of ordinary shares (Nos '000)	<u>104 000</u>	<u>104 000</u>
Basic/diluted earnings per share (Kwacha)	<u>0.62</u>	<u>3.50</u>

AIRTEL NETWORKS ZAMBIA PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
for the year ended 31 December 2018

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14. SHARE CAPITAL

	Number of shares (million)	Ordinary shares (K 000)	Share premium (K 000)
At 31 December 2018	104	1 040	24 962
At 31 December 2017	104	1 040	24 962

The total authorised number of ordinary shares is 104 million with a par value of K0.01 per share. All issued shares are fully paid.

15. DEFERRED TAX

Deferred tax liability is calculated using the enacted income tax rate of 40% (2017: 40%). The movement on the deferred tax account is as follows:

	2018	2017
1 January		
Prior year excess liability reversal (i)	(16 581)	134 375
Charge to profit or loss	(6 296)	(138 178)
	(9 739)	(12 778)
At 31 December	(32 616)	(16 581)

Deferred income tax (assets) liabilities, deferred income tax charge/(credit) in profit or loss, and deferred income tax charge/(credit) in equity are attributable to the following items:

	At 1 January K'000	Charged/(cre dited) to profit/loss K'000	At 31 December K'000
2018			
Deferred income tax liabilities			
Property and equipment	169 044	251 148	420 192
Unrealised exchange gains	(481)	1 855	1 374
Deferred income tax assets			
Other temporary deductible differences	(123 231)	(194 713)	(317 944)
Other provisions	(56 339)	5 164	(51 175)
Unrealised exchange losses	(5 574)	(79 489)	(85 063)
Net deferred income tax liability (asset)	(16 581)	(16 035)	(32 616)
2017			
Deferred income tax liabilities			
Property and equipment	165 000	4 044	169 044
Unrealised exchange gains	132 123	(138 178)	(6 055)
Deferred income tax assets			
Other temporary deductible differences	(108 657)	(14 574)	(123 231)
Other provisions	(54 091)	(2 248)	(56 339)
Net deferred income tax liability (asset)	134 375	(150 956)	(16 581)

- (i) In Year 2018 Company has computed the deferred tax basis balance sheet approach, which has resulted into the excess liability reversal of **K6.296 million** (2017 : 138.178 million)

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2018

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16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings	Equipment under finance lease at cost	Telecom equipment (ii)	Fixture, fittings, office & other IT equipment	Capital work in progress (i)	Total
Historical Cost :						
At 1 January 2017	133 154	820 952	2 460 682	514 166	42 367	3 971 321
Additions	-	-	-	-	207 560	207 560
Transfers	-	-	124 321	6 777	(131 098)	-
Asset retirement	-	(8 556)	(3 605)	-	-	(12 161)
At 31 December 2017	133 154	812 396	2 581 398	520 943	118 829	4 166 720
At 1 January 2018	133 154	812 396	2 581 398	520 943	118 829	4 166 720
Additions	-	-	-	-	535 008	535 008
Transfers	(72)	13 087	413 070	42 603	(468 688)	-
Asset retirement	-	(10 623)	-	-	-	(10 623)
At 31 December 2018	133 082	814 860	2 994 468	563 546	185 149	4 691 105
Depreciation						
At 1 January 2017	33 594	108 379	1 465 240	444 220	7 654	2 059 087
Charge for the year (ii)	7 244	82 208	262 686	47 291	1 103	400 533
Asset retirement	-	(1 762)	(3 605)	-	-	(5 367)
At 31 December 2017	40 838	188 825	1 724 321	491 511	8 757	2 454 252
At 1 January 2018	40 838	188 825	1 724 321	491 511	8 757	2 454 252
Charge for the year	6 472	81 223	230 181	28 608	(704)	345 780
Asset retirement	-	(2 869)	-	-	-	(2 869)
At 31 December 2018	47 310	267 179	1 954 502	520 119	8 053	2 797 163
Carrying amount:						
At 31 December 2018	85 772	547 681	1 039 966	43 427	177 096	1 893 942
At 31 December 2017	92 316	623 571	857 077	29 432	110 072	1 712 468

A schedule listing of the properties as required by section 279 and the second schedule of the Companies Act, 2017 is available for inspection by the members or their authorised representatives at the registered office of the Company.

(i) The charge relates to the obsolescence of the capital inventory.

(ii) The Company embarked on a massive project in the year ended 31 December 2017 which required the upgrade of its network equipment. Accordingly, Company has initiated network modernisation drive by refarming of 900 MHz spectrum and launch of 4G LTE in Zambia. The modernisation will lead to improved connectivity, better experience for customers and remain competitive in the market. The cost of K64.398 million is attributable to the subsequent accelerated depreciation of the old equipment which have been replaced in depreciation charge for the year.

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

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17. INTANGIBLE ASSETS

	Indefeasible right of use (IRU) (i)	Cellular license	Internet service provider license	Total
Cost				
At 1 January 2017	-	7 372	125	7 497
Additions (i)	107 630	-	-	107 630
At 31 December 2017	107 630	7 372	125	115 127
At 31 December 2018	107 630	7 372	125	115 127
Amortization				
At 1 January 2017	-	2 808	125	2 933
Charge for the year	5 519	462	-	5 981
At 31 December 2017	5 519	3 270	125	8 914
At 1 January 2018	5 519	3 270	125	8 914
Charge for the year	9 592	462	-	10 054
At 31 December 2018	15 111	3 732	125	18 968
At 31 December 2018	92 519	3 640	-	96 159
At 31 December 2017	102 111	4 102	-	106 213

(i) In 2017 Company has taken international bandwidth on indefeasible right of use basis which is being amortised over a period of 10 to 15 years.

18. INVENTORIES

	2018	2017
Merchandise held for sale	23 827	25 789
Less provision for obsolete stock	(23 152)	(23 953)
	675	1 836

The cost of inventories recognized as an expense and included in 'cost of sales' amounted to **K19.06 million** (2017: K32.01 million).

There was inventory write down in the year ended 31 December 2018 of **K11.017 million** (2017: nil). In addition, there were reversals of inventory write down **K Nil million** (2017: K2.3271 million).

19. TRADE AND OTHER RECEIVABLES

Trade receivables	172 886	173 378
Less provision for impairment losses	(110 068)	(107 314)
Net trade receivables	62 818	66 064
Prepayments	46 303	49 193
Other receivables	19 872	111 527
	128 993	226 784

The average credit period on sales of goods is 30 days. No interest is charged on outstanding trade receivables. The expected credit loss (ECL) is mainly based on the ageing of the receivable balances and historical experience. The receivables are assessed on an individual basis or grouped into homogeneous groups and assessed for impairment collectively, depending on their significance. Moreover, trade receivables are written off on a case to case basis if deemed not to be collectible on the assessment of the underlying facts and circumstances.

The Company uses a provision matrix to measure the expected credit loss of trade receivables. Refer below note for details on the impairment of trade receivables. Based on the industry practices and the business environment in which the entity operates, management considers that the trade receivables are credit impaired if the payments are more than 90 days past due (Interconnect more than 9 months).

AIRTEL NETWORKS ZAMBIA PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 31 December 2018

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19. TRADE AND OTHER RECEIVABLES (CONTINUED)

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. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amount due. Where the financial asset has been written-off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit and loss.

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

The entity writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables has crossed the law of limitation period past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

As the entity's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Entity's different customer base.

	2018	2017
Balance as at 1 January	107 314	107 637
Transfer to credit-impaired	6 457	1 987
Amounts recovered	<u>(3 703)</u>	<u>(2 310)</u>
Balance as at 31 December	<u>110 068</u>	<u>107 314</u>

20 CONTRACT ASSETS

Revenue from post paid customers	8 478	11 037
Revenue from interconnect customers	15 201	16 579
Revenue from roaming customers	1 438	509
Revenue from sale of handsets to corporate/enterprise Customers	8 298	-
Current	<u>33 415</u>	<u>28 125</u>
Non-Current	<u>-</u>	<u>-</u>

Amounts relating to contract assets are balances due from customers under Sale of Bundled Handsets Contracts, Post Paid contracts, Interconnect Contract and Roaming Contract that arise when the Company receives payments from customers in line with a series of performance related milestones. The Company will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

The directors of the Company always measure the Expected Credit Loss on the amounts due from customers, taking into account the ageing of receivables, historical default experience and the industry practices and the business environment in which the entity operates. None of the amounts due from customers at the end of the reporting period is past due.

21 CASH AND CASH EQUIVALENTS

	2018	2017
Cash and bank balances	32 258	2 591
Bank overdrafts	<u>(32 449)</u>	<u>(21 657)</u>
	<u>(191)</u>	<u>(19 066)</u>

For the purposes of the cash flow statement, cash and cash equivalents comprise the cash in hand, and deposits held at call with the bank, net of bank overdraft. Deposits held at call earn interest at the respective held at call rates. Cash at banks earns interest at floating rates based on daily bank deposit rates.

AIRTEL NETWORKS ZAMBIA PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 31 December 2018

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21 CASH AND CASH EQUIVALENTS (CONTINUED)

The Company has four overdraft facilities with limits of up to **K40 million** and **\$12.36 million** as shown below. These facilities are subject to annual review.

(i) Citibank Zambia Limited	\$ 10 million	3 Months Libor + 1.65%
(ii) Standard Chartered Bank Zambia PLC	\$ 2.36 million	1 Months Libor + 2 %
(iii) Barclays Bank Zambia PLC	K 20 million	MPR +7%
(vi) Stanbic Bank Zambia Limited	K 20 million	MPR + 5 %

The Company had drawn amounts as at the year-end of **K 25.656 million** and **US\$ 0.680 million** (2017: K Nil and US\$ 2.166 million).

The overdraft limit was not exceeded at any time during the period and all the overdraft facilities are not secured.

22 TRADE AND OTHER PAYABLES

	2018	2017
Trade payables	413 819	421 173
Accrued expenses	100 895	101 686
Other payables	7 383	8 249
	<u>522 097</u>	<u>531 108</u>

Trade payables are non interest bearing and are normally settled on 60 day terms. Accrued expenses and other payables are non interest bearing and have an average term of six months.

The carrying amount of the above payables and accrued expenses approximate their fair values because of their short term nature.

23 CONTRACT LIABILITIES

	2018	2017
Amounts received in advance from prepaid customers for delivery of internet and voice service.		
Deferred income	<u>101 608</u>	101 646
Current	101 608	101 646
Non-current	-	-
	<u>101 608</u>	<u>101 646</u>

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

24 SHORT TERM BORROWINGS

	2018	2017
Short term loan	<u>715 608</u>	<u>209 979</u>

The short term borrowings is due to the following commercial banks:

	Standard Chartered bank Zambia Plc	Citibank Zambia Limited	Total
At 1 January 2017	-	-	-
Draw down during the year	-	397 125	397 125
Repayments in the year	-	(211 800)	(211 800)
Unrealized foreign exchange difference	-	24 654	24 654
At 31 December 2017	-	209 979	209 979
Draw down during the year	647 725	290 845	938 570
Repayments in the year	(59 634)	(495 025)	(554 659)
Unrealized foreign exchange difference	127 517	(5 799)	121 718
At 31 December 2018	715 608	-	715 608

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2018

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24 SHORT TERM BORROWINGS (CONTINUED)

In May 2018 & July 2018 the Company obtained a short term credit facility from SCB Bank for **US\$ 50 Million** and **US\$ 15 million** respectively. The Loan carries an interest rate of 6 month Libor + 2.5 % per annum. The facility is repayable within 12 months. The loan is unsecured.

In July 2017 the Company obtained a short term credit facility from CITI Bank for US\$ 50 million at an interest rate of 1 month Libor + 1.25 % per annum. The facility was repayable within 12 months. The loan was unsecured. The Company repaid the loan taken from Citi Bank in the July 2018.

25 CONTINGENT LIABILITIES

Legal proceedings

The Company had some pending legal proceedings as at 31 December 2018. The management is of the opinion having obtained relevant legal advice that there will be no material losses arising from pending proceedings against the Company.

Tax proceedings

During the year, Zambia Revenue Authority (ZRA) issued administrative assessments totaling to ZMW 2.466 million relating to Withholding tax, Excise Duty and Value Added Tax (VAT). The Company filed the responses with supporting evidence and, currently awaiting the ZRA's position.

However, on the basis of evaluation of above said assessments, no provision has been made in the financial statements as the Company's management does not consider that there is probable loss to the Company.

Taxes, duties and other demands (Under adjudication / appeal / dispute)	2018	2017
Income Tax	1 183	-
Value Added Tax	395	148 700
Excise Duty	888	-
TOTAL	2 466	148 700

26 CAPITAL COMMITMENTS

Capital expenditure contracted (gross) for at the reporting date but not recognised in the financial statements is as follows:

	2018	2017
At 31 December	253 337	297 086

27 LEASES

(a) Finance lease commitments

Finance lease commitments-As a Lessee 2018

Particulars	Future minimum lease payment	Interest	Present/Fair value
Not later than 1 year	175 819	84 509	91 310
Later than 1 year and not later than 5 years	702 697	225 045	477 652
Later than 5 years	301 597	27 482	274 115
Total	1 004 294	252 527	751 766
	1 180 113	337 036	843 076

Finance lease commitments-As a Lessee 2017

Particulars	Future minimum lease payment	Interest	Present/Fair value
Not later than 1 year	147 040	78 000	69 040
Later than 1 year and not later than 5 years	588 160	227 017	361 143
Later than 5 years	393 858	51 952	341 906
Total	982 018	278 969	703 049
	1 129 058	356 969	772 089

(b) Obligations under finance lease

	2018	2017
Current finance lease payable	91 310	69 040
Non-current finance lease payable	751 766	703 049
	843 076	772 089

AIRTEL NETWORKS ZAMBIA PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
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27 LEASES (CONTINUED)**(b) Obligations under finance lease (continued)**

2018 2017

The movement for the year is as follows:

At the beginning of the year	(772 089)	(836 610)
(Additions)/retirement during the year	(4 455)	7 303
Repayments during the year	61 716	56 035
Unrealised exchange gain / (losses) gains	(128 244)	1 183
Gross investment in finance leases	(843 076)	(772 089)
Less: Unearned future finance income on finance leases	-	-
Net obligations under finance lease	(843 076)	(772 089)

The Company enters into finance leasing arrangements. The average term of finance leases entered into is 10 years. Unguaranteed residual dues of assets leased under the finance leases at the balance sheet date are estimated at K Nil.

The interest rate inherent in the leases is fixed/variable at the contract date for all of the lease term.

The Directors consider that the fair value of the leases is equal to their carrying values as reflected in the balance sheet.

28 STATEMENT OF CASH FLOWS**(a) Cash generated from operations**

Profit before income tax	230 480	454 537
Adjustments for:		
Interest income (note 8)	(793)	(3 740)
Interest expense (note 10)	108 817	88 416
Depreciation expense (note 16)	345 780	400 533
Impairment loss recognised on trade receivables (note 19)	2 754	(323)
Amortisation of intangible assets (note 17)	10 054	5 981
Unrealised forex (gain)/loss	262 172	22 967
Changes in working capital:		
- trade and other receivables	77 368	32 392
- inventories	1 161	32 738
- trade and other payables	39 402	(260 888)
Cash generated from operations	1 077 195	772 612

(b) Reconciliation of liabilities arising from financing activities

	1 January 2018	Financing cash flows	Non-cash changes	31 December 2018
Loans from financial institutions	209 979	383 911	121 718	715 608
Forward contracts	-	-	-	-
Other borrowings	-	-	-	-
Finance leases	772 089	(61 716)	132 699	843 072

29 RELATED PARTY DISCLOSURES

The company is owned by Bharti Airtel Zambia Holdings BV (BAZHBV) which has 96.36% control of the shares. The remaining 3.64% are owned by public investors through the Lusaka Stock Exchange (LuSE).

The following transactions were carried out with related parties:

AIRTEL NETWORKS ZAMBIA PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
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29 RELATED PARTY DISCLOSURES**i) Purchase of goods and services**

Name of related party	Country of incorporation	Relationship to Company	2018	2017
Airtel (Seychelles) Limited	Seychelles	Fellow subsidiary	5	8
Airtel Congo (RDC) S.A. ((formerly known as Celfel Congo (RDC) S.a.r.l.)	Congo (DRC)	Fellow subsidiary	1 187	2 000
Airtel Congo S.A.	Congo B	Fellow subsidiary	2	1
Airtel Gabon S.A.	Gabon	Fellow subsidiary	-	1
Airtel Madagascar S.A.	Madagascar	Fellow subsidiary	6	8
Airtel Malawi Limited	Malawi	Fellow subsidiary	1 794	2 886
Airtel Mobife Commerce Limited	Zambia	Fellow subsidiary	36 866	2 484
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	2 719	3 021
Airtel Networks Limited	Nigeria	Fellow subsidiary	360	46
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	46	15
Airtel Tanzania Limited	Tanzania	Fellow subsidiary	509	1 770
Airtel Uganda Limited	Uganda	Fellow subsidiary	35	38
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	12 582	1 623
Bharti Airtel Lanka (Private) Limited	Sri Lanka	Fellow subsidiary	-	4
Bharti Airtel Limited	India	Step up parent	4 133	10 778
Bharti Airtel Services Limited	India	Fellow subsidiary	-	399
Network 12i Ltd.	Mauritius	Step up parent	5 155	98 491
Nxtra Data Limited	India	Fellow subsidiary	414	-
Bharti Airtel Zambia Holdings B.V.	Netherlands	Holding Company	2 701	-
Airtel (Ghana) Limited (**)	Ghana	Joint Venture	-	13
Centum Learning Limited	India	* Other related party	1 698	1 680
			70 212	125 268

ii) Sale of goods and services

Name of related party	Country of incorporation	Relationship to Company	2018	2017
Airtel (Seychelles) Limited	Seychelles	Fellow subsidiary	-	2
Airtel Congo (RDC) S.A. ((formerly known as Celfel Congo (RDC) S.a.r.l.)	Congo (DRC)	Fellow subsidiary	9 907	9 045
Airtel Congo S.A.	Congo B	Fellow subsidiary	4	6
Airtel Gabon S.A.	Gabon	Fellow subsidiary	1	3
Airtel Madagascar S.A.	Madagascar	Fellow subsidiary	5	7
Airtel Malawi Limited	Malawi	Fellow subsidiary	7 486	2 523
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	1 954	851
Airtel Networks Limited	Nigeria	Fellow subsidiary	4 403	62
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	12	8
Airtel Tanzania Limited	Tanzania	Fellow subsidiary	655	6 386
Airtel Tchad S.A.	Chad	Fellow subsidiary	1	2
Airtel Uganda Limited	Uganda	Fellow subsidiary	180	66
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	30 659	2 574
Bharti Airtel Limited	India	Step up parent	8 896	28 018
Celfel Niger S.A.	Niger	Fellow subsidiary	1	2
Jersey Airtel Limited	Jersey	Fellow subsidiary	1	5
Airtel (Ghana) Limited (**)	Ghana	Joint Venture	-	14
Airtel Mobile Commerce Limited	Zambia	Fellow subsidiary	4 135	-
			68 300	49 574

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2018

Kwacha'000 2018 2017

29. RELATED PARTY DISCLOSURES (CONTINUED)

iii) Management fees expenses

Bharti Airtel International (Netherlands) B.V.	Netherlands	Holding Company	<u>42 262</u>	<u>39 877</u>
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iv) Receivable from related parties

Name of related party	Country of incorporation	Relationship to Company		
Airtel (Seychelles) Limited	Seychelles	Fellow subsidiary	0.03	1.45
Airtel Congo (RDC) S.A. ((formerly known as Cotel Congo (RDC) S.a.r.l.)	Congo (DRC)	Fellow subsidiary	23 363	11 480
Airtel Congo S.A.	Congo B	Fellow subsidiary	11	8
Airtel Gabon S.A.	Gabon	Fellow subsidiary	11	9
Airtel Madagascar S.A.	Madagascar	Fellow subsidiary	1	1
Airtel Malawi Limited	Malawi	Fellow subsidiary	15 230	7 313
Airtel Mobile Commerce Limited	Zambia	Fellow subsidiary	61 465	80 432
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	1 062	501
Airtel Networks Limited	Nigeria	Fellow subsidiary	4 084	738
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	14	13
Airtel Tanzania Limited	Tanzania	Fellow subsidiary	35 809	29 815
Airtel Tchad S.A.	Chad	Fellow subsidiary	0.1	0.1
Airtel Uganda Limited	Uganda	Fellow subsidiary	196	36
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	9 650	6 576
Bharti Airtel Lanka (Private) Limited	Sri Lanka	Fellow subsidiary	0.3	0.02
Bharti Airtel Limited	India	Step up parent	855	618
Bharti Hexacom Limited	India	Fellow subsidiary	-	33
Cotel Niger S.A.	Niger	Fellow subsidiary	0.69	0.38
Jersey Airtel Limited	Jersey	Fellow subsidiary	-	0.48
Robi Axiata Limited (Associates company of BISPL w.e.f. November 16, 2016)	Singapore	Fellow subsidiary	-	0.09
Airtel (Ghana) Limited (**)	Ghana	Joint Venture	3	-
Singapore Telecommunication Limited	Singapore	Significant Influence Company	16	14.53
			<u>151 772</u>	<u>137 591</u>

v) Payable to related parties

Name of related party	Country of incorporation	Relationship to Company		
Airtel (Seychelles) Limited	Seychelles	Fellow subsidiary	0.52	0.34
Airtel Congo (RDC) S.A. ((formerly known as Cotel Congo (RDC) S.a.r.l.)	Congo (DRC)	Fellow subsidiary	256	115
Airtel Congo S.A.	Congo B	Fellow subsidiary	0.37	88
Airtel Gabon S.A.	Gabon	Fellow subsidiary	0.02	0.03
Airtel Madagascar S.A.	Madagascar	Fellow subsidiary	130	109
Airtel Malawi Limited	Malawi	Fellow subsidiary	2 794	2 242
Airtel Mobile Commerce Limited	Zambia	Fellow subsidiary	35 340	498
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	2 753	630
Airtel Networks Limited	Nigeria	Fellow subsidiary	1 094	886
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	620	1.48
Airtel Tanzania Limited	Tanzania	Fellow subsidiary	2 059	1 769
Airtel Tchad S.A.	Chad	Fellow subsidiary	1.63	1.37
Airtel Uganda Limited	Uganda	Fellow subsidiary	10.60	9.08
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	2 690	2 036
Bharti Airtel International (Netherlands) B.V.	Netherlands	Holding Company	7 504	5 321

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

Kwacha'000

29. RELATED PARTY DISCLOSURE (CONTINUED)

v) Payable to related parties (continued)

Name of Related Party	Country of incorporation	Relationship to Company	2018	2017
Bharti Airtel Limited	India	Step up parent	635	981
Bharti Airtel Services Limited	India	Fellow subsidiary	-	44
Bharti International (Singapore) Pte Ltd	Singapore	Fellow subsidiary	-	5
Celtel Niger S.A.	Niger	Fellow subsidiary	0.15	0.06
Jersey Airtel Limited	Jersey	Fellow subsidiary	0.20	0.15
Network i2i Ltd.	Mauritius	Step up parent	5 431	1 465
Bharti Airtel Zambia Holdings B.V.	Netherlands	Holding Company	2 701	-
Africa Towers N.V.	Netherlands	Fellow subsidiary	10	10
Nxtra Data Limited	India	Fellow subsidiary	339	492
Centum Learning Limited	India	* Other related party	1 002	710
			65 372	17 417

No provisions for impairment losses have been required in 2018 and 2017 for any related party receivables.

Amounts due from/to related parties carry no interest, are receivable/payable on demand and are at arm length.

* Other related parties though not 'Related Parties' as per the definition under IAS 24, 'Related party disclosures', have been included by way of a voluntary disclosure, following the best corporate governance practices.

(**) In 2017, there was a change in relationship from fellow subsidiary to joint venture of the group.

vi) Key management compensation

Salaries and other short-term employment benefits	35 517	42 186
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vii) Compensation of directors for the year ended 31 December 2018

	Sitting Fees	Basic Salary	Performance Bonus (i)	Out of Country Allowance	Housing Allowance	Others	Total
Non-Executive							
Jito Kayumba	466	-	-	-	-	-	466
Monica K. Musonda	593	-	-	-	-	-	593
Executive							
Apoorva Mehrotra	-	2 361	1 352	115	526	734	5 088
Peter Correia *	-	598	-	-	123	317	1 038
	1 059	2 960	1 352	115	649	1 050	7 185

Compensation of directors for the year ended 31 December 2017

Non-Executive							
Jito Kayumba	566	-	-	-	-	-	566
Monica K. Musonda	593	-	-	-	-	-	593
Executive							
Peter Correia *	-	3 204	1 826	1 009	673	813	7 525
	1 159	3 204	1 826	1 009	673	813	8 684

* Resigned as a Director of the Board.

(i) Bonus for the year 2018 is on accrual basis/provisional figure. Actual may differ at the time of annual performance review.

AIRTEL NETWORKS ZAMBIA PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 31 December 2018

Kwacha'000	2018	2017
30. DIVIDENDS PROPOSED AND PAID		
At 1 January	-	673
Final dividends declared for the previous year	416 000	416 000
Interim dividend declared for the current year	124 800	-
Dividends paid	<u>(540 800)</u>	<u>(416 673)</u>
At 31 December	<u>-</u>	<u>-</u>
<i>Proposed for approval at the Annual General Meeting</i>		
Proposed dividends for 2018: Nil (2017: K4.00) per share	<u>-</u>	<u>416 000</u>

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (FINANCIAL INSTRUMENTS)

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

Classes and categories of financial instruments and their fair values

The following table combines information about:

- classes of financial instruments based on their nature and characteristics;
- the carrying amounts of financial instruments;
- fair values of financial instruments (except financial instruments when carrying amount approximates their fair value); and
- fair value hierarchy levels of financial assets and financial liabilities for which fair value was disclosed.

Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (FINANCIAL INSTRUMENTS) (CONTINUED)

	Carrying value				Fair value Level		
	Financial assets		Financial liabilities		1	2	3 Total
	FVTPL - mandatorily measured	Amortised cost	FVTPL - mandatorily measured	Amortised cost			
31 December 2018							
Cash and bank balances	-	32 258	-	-	-	-	-
Trade and other receivables	-	64 846	-	-	-	-	-
Contract assets	-	33 415	-	-	-	-	-
Amounts due from related parties	-	149 935	-	-	-	-	-
Derivative financial Assets	665	-	-	-	-	665	665
Other financial Assets	-	1 941	-	-	-	-	-
Bank overdraft	-	-	-	(32 449)	-	-	-
Trade and other payables	-	-	-	(443 033)	-	-	-
Amounts due to related parties	-	-	-	(59 957)	-	-	-
Obligation under finance lease	-	-	-	(843 074)	-	-	-
Short term borrowings	-	-	-	(715 608)	-	-	-
Derivative financial Liability	-	-	(3 730)	-	-	(3 730)	(3 730)
Other financial liabilities	-	-	-	(9 488)	-	-	-
31 December 2017							
Cash and bank balances	-	2 591	-	-	-	-	-
Trade and other receivables	-	96 890	-	-	-	-	-
Contract assets	-	28 125	-	-	-	-	-
Amounts due from related parties	-	137 577	-	-	-	-	-
Derivative financial Assets	2 467	-	-	-	-	-	-
Other financial assets	-	1 728	-	-	-	2 467	2 467
Bank overdraft	-	-	-	(21 657)	-	-	-
Trade and other payables	-	-	-	(435 171)	-	-	-
Amounts due to related parties	-	-	-	(16 694)	-	-	-
Obligation under finance lease	-	-	-	(772 089)	-	-	-
Short term borrowings	-	-	-	(209 979)	-	-	-
Derivative financial Liability	-	-	(3 545)	-	-	(3 545)	(3 545)
Other financial liabilities	-	-	-	(8 615)	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2018

31. FAIR VALUE AND FINANCIAL ASSETS AND LIABILITIES (FINANCIAL INSTRUMENTS)

Fair value of the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Valuation technique(s) and key inputs(s)	Significant unobservable input(s)	Relationship and sensitivity of unobservable inputs to fair value
Foreign currency forward contracts	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

Foreign exchange forward contracts

It is the policy of the Company to enter into foreign exchange forward contracts to manage the foreign currency risk associated with anticipated sales and purchase transactions of the exposure generated.

For the hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Company performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates.

Foreign currency forward contract assets and liabilities are presented in the line 'Derivative financial instruments' (either as asset or as liabilities) within the statement of financial position.

AIRTEL NETWORKS ZAMBIA PLC**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
for the year ended 31 December 2018

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32. EMPLOYEE BENEFIT EXPENSE	2018	2017
<i>The following contributions to pensions/funds were included within the employee benefits expenses:</i>		
Aon Zambia Pension Fund Administrators Limited	7 333	7 308
National Pension Scheme Authority	2 429	2 390

33. DERIVATIVE FINANCIAL INSTRUMENTS

The details of derivative financial instruments are as follows:

Foreign currency forward contracts (assets)	665	2 467
Foreign currency forward contracts (liabilities)	(3 730)	(3 237)

34. SEGMENT REPORTING

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

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

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

The breakdown of the revenue from all services is shown in note 7.

35. EVENTS AFTER REPORTING DATE

There were no material subsequent events for the year ended 31 December 2018. The directors are not aware of any other matter or circumstances since the financial year end and the date of this report, not otherwise dealt with in the financial statements, which significantly affects the financial position of the company and the results of its operations.