

AIRTEL NETWORKS KENYA LIMITED
ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2022

Airtel Networks Kenya Limited Annual Report and Accounts 2022

Annual Report and Financial Statements

(All amounts are in KSH'000, unless stated otherwise)

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Airtel Networks Kenya Limited Annual Report and Accounts 2022

Company Information

(All amounts are in KSH'000, unless stated otherwise)

DIRECTORS

Mr. Daddy Mukadi**
Mr. Alok Bafna***
Mr. Louis Otieno* (Appointed on 16th February 2022)
Mr. Ashish Malhotra*** (Appointed on 30th June 2022)
Mr. Apoorva Mehrotra *** (Appointed on 14 October 2022)
Mr. Prasanta Das Sarma*** (Resigned on 30th June 2022)
Mr. Ian Ferrao**** (Resigned on 30th September 2022)

*Kenyan

**Congolese

***Indian

****British

REGISTERED OFFICE

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

COMPANY SECRETARY

Scribe Services Secretaries
P.O. Box 3085 – 00100
NAIROBI, KENYA

LAWYERS

Acorn Law LLP formerly Ojiambo & Co Advocates
P.O. Box 1021 - 00100
NAIROBI, KENYA

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

Hamilton Harris & Mathews
P. O Box 30333-00100
NAIROBI, KENYA

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

Ngatia & Associates Advocates
P.O Box 56688-00200
NAIROBI, KENYA

AUDITORS

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

PRINCIPAL BANKERS

NCBA Bank Kenya PLC

P.O. Box 44286 – 00100
NAIROBI, KENYA

KCB Bank (Kenya) Limited

Kencom House, 6th Floor, Wing B
P.O. Box 48400 – 00100
NAIROBI, KENYA

Standard Chartered Bank PLC

48 Westlands Road, Chiromo
P.O. Box 30003 – 00100
NAIROBI, KENYA

ABSA Bank Kenya PLC

P.O. Box 46661 – 00100
NAIROBI, KENYA

Citibank N.A.

Citibank House, Upper Hill Road
P.O. Box 30711 – 00100
NAIROBI, KENYA

Equity Bank (Kenya) Limited

Equity Centre, Hospital Road, Upper Hill
P.O. Box 75104 – 00200
NAIROBI, KENYA

Airtel Networks Kenya Limited Annual Report and Accounts 2022
Directors' Report (Continued)
(All amounts are in KSH'000, unless stated otherwise)

The directors submit their report together with the audited annual financial statements for the year ended 31 December 2022, which disclose the state of affairs of the company.

1. PRINCIPAL ACTIVITIES

The principal activity of the company is the provision of GSM mobile telecommunications network services in Kenya.

2. RESULTS

The results for the year are set out in page 9.

	For the year ended	
	31 Dec 2022	31 Dec 2021
Income	40,085,192	32,884,318
Loss before tax	(896,939)	(3,831,336)
Tax Income/(expense)	10,129,836	-
Income/(Loss) after tax	9,232,897	(3,831,336)

3. DIVIDEND

The directors do not recommend payment of a dividend in the year. (2021: Nil).

4. RESERVES

The reserves for the company are set out on page 11.

5. DIRECTORS

The directors who held office during the year and to the date of this report are included on page 2.

6. COVID – 19

Effective Apr'2022, ANKL staff returned to work from office as against work from home which was adopted during pandemic. The company conducted several camps for vaccination inviting staff and their family members. As seen globally the society moved to a more digital way of communication and mobile money transaction. During this crisis Airtel Kenya put a stringent focus to ensure seamless network availability and followed norms laid down by government. The health safety measures were implemented to ensure safety of our employees and all customer touch points. Partnering with our strategic and operations partners, we continuously worked to keep the network running to provide essential telecom service across Kenya.

7. HEALTH AND SAFETY

The Company has policies and procedures to safeguard the occupational health, safety and welfare of its employees. To safeguard its employees against the Covid-19 pandemic, the Company has measures in place in line with the country's health guidelines which are monitored regularly. Company arranged Covid -19 Vaccination Camp for Employees & Family.

8. AUDITORS

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

9. DISCLOSURE OF INFORMATION TO AUDITORS

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

By Order of the Board



29th March 2023

SCRIBE SERVICES SECRETARIES

Airtel Networks Kenya Limited Annual Report and Accounts 2022

Notes to the Financial Statements (continued)

(All amounts are in KSH'000, unless stated otherwise)

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

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

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

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

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

Approved by the board of directors on 29th March 2023 and signed on its behalf by:


Ashish Malhotra
Director


Louis Otieno
Director

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

Report on the audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Airtel Networks Kenya Limited, ("the Company"), set out on pages 9 to 57, which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Relating to Going Concern

We draw attention to Note 2 to the financial statements which indicates that the company made a loss before tax of Ksh 0.9 billion (2021: loss of Ksh 3.8 billion), and a profit after tax of Ksh 9.2 billion (2021: loss of Ksh 3.8 billion) and, as of that date, the company's current liabilities exceeded its current assets by Ksh 40.04 billion (2021: Ksh 22.28 billion) and it had accumulated losses of Ksh 4.1 billion (2021: Ksh 81.2 billion). These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



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

Report on the audit of the Financial Statements (Continued)

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

Report on the audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other matters prescribed by the Kenya Companies Act, 2015

In our opinion, the information given in the Report of the Directors on pages 3 to 4 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is **CPA Freda Mitambo - Practicing certificate No. 2174.**

Freda Mitambo

**For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi**

30 March **2023**

Airtel Networks Kenya Limited Annual Report and Accounts 2022
Statement of Profit or Loss and Other Comprehensive Income
(All amounts are in KSH'000, unless stated otherwise)

	Notes	For the year ended	
		31 Dec 2022	31 Dec 2021
Income			
Revenue	7	39,821,559	32,876,722
Other income		263,633	7,596
		40,085,192	32,884,318
Expenses			
Network operating expenses	8	8,197,393	6,582,416
Access charges	9	5,513,197	6,233,408
License fee / spectrum usage charges		3,070,977	4,966,405
Employee benefits expenses	10	2,098,251	2,092,339
Sales and marketing expenses	11	4,321,707	3,944,478
Provision for impairment losses	23	(149,319)	(41,581)
Other expenses	12	1,049,199	706,146
Depreciation and amortization	13	7,885,431	6,178,914
		31,986,836	30,662,525
Operating profit before finance cost/income and exchange gains/losses		8,098,356	2,221,793
Finance costs	14	(4,176,078)	(3,686,570)
Finance income	14	19,772	20,936
Foreign exchange loss		(4,838,989)	(2,387,495)
Loss before tax		(896,939)	(3,831,336)
Deferred tax Income/(expense)	16	10,093,360	-
Tax (expense)/Credit	16	36,476	-
Gain/(loss) for the year		9,232,897	(3,831,336)
Other comprehensive income for the year		-	-
Total comprehensive income/(loss) for the year		9,232,897	(3,831,336)
Loss before tax (as presented above)		(896,939)	(3,831,336)
Add: Exceptional items (net) (Note 38)		-	2,271,321
Underlying loss before tax		(896,939)	(1,560,015)
Gain/(loss) after tax (as presented above)		9,232,897	(3,831,336)
Add: Exceptional items (net) (Note 38)		(10,093,360)	2,271,321
Underlying gain/(loss) after tax		(860,463)	(1,560,015)

Airtel Networks Kenya Limited
Statement of Financial Position
(All amounts are in KSH'000, unless stated otherwise)

	Notes	As at	
		31 Dec 2022	31 Dec 2021
Assets			
Non-current assets			
Property Plant and Equipment	17	23,932,590	18,142,612
Capital work-in-progress	17	1,287,946	2,856,232
Right of use asset	19	18,427,666	14,079,269
Intangible assets	18	8,215,902	2,539,568
Investment in subsidiary	36(i)	40,000	40,000
Deferred Tax Asset	16	10,093,360	-
Other non-current assets	36(ii)	895,832	741,379
		62,893,296	38,399,060
Current assets			
Inventories	22	208,026	15,835
Derivative financial asset	20	304	2,141
Income tax recoverable	15	327,892	319,304
Trade and Other receivables	23	3,863,480	2,292,480
Other Current Assets	36(ii)	3,951,545	3,361,305
Cash and cash equivalents	24	499,000	1,448,776
		8,850,248	7,439,841
Total assets		71,743,543	45,838,901
Equity and Liabilities			
Equity			
Share capital	25	400,586	3,350,000
Share premium - Ordinary shares	26	-	3,406,676
Redeemable preference shares	27	-	22,611,513
Share premium – Redeemable preference shares	27	-	4,259,023
Accumulated Losses		(4,182,290)	(81,240,698)
		(3,781,704)	(47,613,486)
Non-current liabilities			
Borrowings	30	3,702,000	10,740,463
Lease liabilities	29	17,205,414	13,194,714
Other Non-current liabilities	37	925,517	1,172,684
Provisions	32	79,032	67,562
Shareholders' loan	28	4,726,084	38,553,878
		26,638,047	63,729,301
Current liabilities			
Borrowings	30	29,540,492	13,209,957
Lease liabilities	29	4,051,020	2,902,832
Derivative Financial Liability	20	59,150	15,464
Trade and other payables	31	10,758,704	8,759,157
Deferred revenue	37	1,489,574	1,436,157
Other Current Liabilities	37	2,609,303	3,022,914
Provision for income tax	32	10,546	-
Provisions	32	368,411	376,605
		48,887,200	29,723,086
Total liabilities		75,525,247	93,452,387
Total Equity and Liabilities		71,743,543	45,838,901

The financial statements on pages 9 to 57 were approved and authorised for issue by the Board of directors on 29 March 2023 and signed on its behalf by:


Director
Ashish Malhotra


Director
Louis Otieno

Airtel Networks Kenya Limited
Statement of Changes in Equity
(All amounts are in KSH'000, unless stated otherwise)

	Ordinary Share capital	Preference share capital	Share premium – Ordinary shares	Share premium – Redeemable preference shares	Accumulated losses	Total
Year ended 31 December 2021						
As at 1 January 2021	3,350,000	22,611,513	3,406,676	4,259,023	(77,409,362)	(43,782,150)
Total comprehensive loss for the year	-	-	-	-	(3,831,336)	(3,831,336)
Balance as at 31 December 2021	3,350,000	22,611,513	3,406,676	4,259,023	(81,240,698)	(47,613,486)
Year ended 31 December 2022						
Conversion of loan to Equity	6,449,000	28,214,375	-	-	-	34,663,375
Equity offset with losses	(9,398,414)	(50,825,888)	(3,406,676)	(4,259,023)	67,890,001	-
Stamp Duty on Issuance of shares	-	-	-	-	(64,490)	(64,490)
Total comprehensive profit for the year	-	-	-	-	9,232,897	9,232,897
Balance as at 31 December 2022	400,586	-	-	-	(4,182,290)	(3,781,704)

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

Airtel Networks Kenya Limited
Statement of Cash Flows

(All amounts are in KSH'000, unless stated otherwise)

	For the year ended	
	31 Dec 2022	31 Dec 2021
Cash flows from operating activities		
Loss before tax	(896,939)	(3,831,336)
Adjustments for -		
Depreciation and amortization	13 7,885,431	6,178,914
Finance cost	14 4,176,078	3,686,570
Finance Income	14 (19,772)	(20,936)
Foreign exchange loss	2,888,013	1,799,206
Other adjustments	(55,702)	(4,869)
Operating cash flow before changes in working capital	13,977,109	7,807,549
Changes in working capital		
Increase in trade and other receivables	(1,571,000)	(37,237)
Increase in inventories	(192,191)	(4,406)
Increase in trade and other payables	1,999,547	517,534
Increase /(Decrease) in provisions	50,298	(277,057)
Increase/(decrease) in other current and non-current liabilities	(1,096,781)	3,001,231
Increase in other current and non-current assets	(742,856)	(455,435)
Net cash generated from operations before tax	12,444,126	10,552,179
Income taxes paid	15 (8,588)	(8,097)
Net cash generated from operating activities (a)	12,435,538	10,544,082
Cash flows from investing activities		
Purchase of property, plant and equipment and capital work-in-Progress	17 (8,536,312)	(7,947,847)
Proceeds from Sale of Assets	17 313,806	-
Purchase of intangible assets	18 (5,867,000)	(19,084)
Interest Received	14 19,772	20,936
Net cash used in investing activities (b)	(14,069,734)	(7,945,995)
Cash flows from financing activities		
Proceeds from borrowings	30 20,158,600	16,267,425
Repayment of borrowings	30 (13,123,290)	(4,981,586)
Repayment of lease liabilities	29 (3,837,653)	(3,526,245)
Interest and other finance charges paid	(1,914,495)	(1,136,999)
Repayment of borrowings to related parties	28 (1,170,120)	(10,984,000)
Net cash used in financing activities (c)	113,042	(4,361,405)
Decrease in cash and cash equivalents during the period (a+b+c)	(1,541,154)	(1,763,318)
Cash and cash equivalents as at beginning of the period	(454,738)	1,308,580
Cash and cash equivalents as at end of the period	24 (1,995,892)	(454,738)

Airtel Networks Kenya Limited Annual Report and Accounts 2022

Notes to the Financial Statements

(All amounts are in KSH'000, unless stated otherwise)

1. CORPORATE INFORMATION

Airtel Networks Kenya Limited (the company) is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability company and is domiciled in Kenya. The address of the registered office is:

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

The immediate holding company is Bharti Airtel Kenya B.V., a company incorporated in Netherlands. The step up parent company is Airtel Africa PLC., a company incorporated in England and Wales and Bharti Airtel Limited, a company incorporated in India. The principal activity of the company is the provision of a public GSM mobile telecommunications network and mobile financial services in Kenya.

2. GOING CONCERN

In the year ended 31 December 2022, company has made a Profit after Tax of KShs 9.23 billion and loss before tax KShs 0.89 billion (2021: Kshs 3.83 billion). As at that date, company has accumulated losses of Kshs 4.18 Bn (2021: Kshs 81.24 Bn) and the Company was in a net liability position of Kshs 3.78 Bn (2021: Kshs 47.61 Bn) and its current liabilities exceeded its current assets by Kshs 40.04 Bn (2021: Kshs 22.28 Bn).

It may be noted that net Liability position includes Shareholder's loan of Ksh 4.7 Bn (2021: Kshs 38.55 Bn) as disclosed in Note 28. After considering shareholder's loan which fall due for repayment in Dec'26 and external committed facilities, management is comfortable that there is sufficient liquidity to manage the operations over the course of next twelve months .

In the year, the shareholders have converted shareholders loan worth Ksh34.66 Bn into equity and have adjusted historic losses worth Ksh67.89Bn against equity in line with long term commitment

In order to support business growth, the company has acquired spectrum of 10 MHz in 2100 Band and 60 MHz in 2600 band.

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

- a) Will generate cash inflows from operations of at least the amount projected in the management's annual operating plan. The generation of sufficient cash flows from operations is driven by and is dependent on management achieving operational targets on subscriber numbers, churn rate and average revenue per user;
- b) Will continue to obtain funding from lenders whenever required.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Kenyan Companies Act, 2015.

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

The accounting policies, as set out in the following paragraphs of this note, have been consistently applied, by the company, to all the periods presented in these financial statements unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of measurement

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 based on the fair value of the consideration given in exchange for goods and services.

Fair value measurement

Fair value is the price at the measurement date, at which an asset can be sold or paid to transfer a liability, in an orderly transaction between market participants. The company's accounting policies require, measurement of certain financial/non-financial assets and liabilities at fair value (either on a recurring or non-recurring basis). Also, the fair values of financial instruments measured at amortised cost are required to be disclosed.

The company is required to classify the fair valuation method of the financial/non-financial assets and liabilities, either measured or disclosed at fair value in the financial statements, using a three level

fair-value hierarchy (which reflects the significance of inputs used in the measurement). Accordingly, the company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The three levels of the fair-value-hierarchy are described below:

- Level 1- Quoted (unadjusted) prices for identical assets or liabilities in active markets
- Level 2 - Significant inputs to the fair value measurement are directly or indirectly observable
- Level 3 - Significant inputs to the fair value measurement are unobservable.

Going Concern

Based on this assessment of the Directors made on Note no. 2 above the company continues to adopt going concern basis of accounting in preparing the financial statements.

3.3 Basis of consolidation

a. Subsidiaries

The company controls an entity when it is exposed to or has right to variable return from its involvement with the entity and has the ability to affect those returns through its power (that is, existing rights that give it the current ability to direct the relevant activities) over the entity.

The subsidiary of the company is immaterial. The investment in the company's subsidiary is stated at cost less accumulated impairment losses.

3.4 Foreign currency transactions

a. Functional and presentation currency

The items included in the financial statements of the company are measured using the currency of primary economic environment in which the company operates (i.e. 'functional currency'). The financial statements are presented in Kenya Shillings, which is also the functional, and presentation currency of the company.

b. Transactions and balances

Transactions in foreign currencies are initially recorded in Kenya Shillings at the rates prevailing at the date of the transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Foreign currency transactions (continued)

b. Transactions and balances (continued)

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the closing exchange rate prevailing as at the reporting date with the resulting foreign exchange differences, on subsequent re-statement/settlement, recognised in the Statement of Comprehensive Income within finance costs/finance income. Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate prevalent, at the date of initial recognition (in case they are measured at historical cost) or at the date when the fair value is determined (in case they are measured at fair value) – with the resulting foreign exchange difference, on subsequent re-statement/settlement, recognised in the profit and loss, except to the extent that it relates to items recognised in the other comprehensive income or directly in equity.

The equity items denominated in foreign currencies are translated at historical exchange rate.

3.5 Current versus non-current classification

The company presents assets and liabilities in the statement of financial position based on current/non-current classification.

All assets and liabilities which are not current (as discussed in the below paragraphs) are classified as non-current assets and liabilities.

An asset is classified as current when it is expected to be realised or intended to be sold or consumed in normal operating cycle, held primarily for the purpose of trading, expected to be realised within twelve months after the reporting period, or cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is classified as current when it is expected to be settled in normal operating cycle, it is held primarily for the purpose of trading, it is due to be settled within 12 months after the reporting period, or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

Derivatives designated in hedging relationship are classified based on the hedged item and the host contract respectively.

3.6 Property, plant and equipment ('PPE') and capital work-in-progress

An item is recognised as an asset, if and only if, it is probable that the future economic benefits associated with the item will flow to the company and its cost can be measured reliably. PPE is initially recognised at cost.

The initial cost of PPE comprises its purchase price (including non-refundable duties and taxes but excluding any trade discounts and rebates), and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Further, it includes assets installed on the premises of customers as the associated risks, rewards and control remain with the company.

Subsequent to initial recognition, PPE is stated at cost less accumulated depreciation and any impairment losses. When significant parts of PPE are required to be replaced at regular intervals, the company recognises such parts as separate component of assets. When an item of PPE is replaced, then its carrying amount is de-recognised from the statement of financial position and cost of the new item of PPE is recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment ('PPE') and capital work-in-progress (continued)

The expenditures that are incurred after an item of PPE has been put to use, such as repairs and maintenance, are normally charged to the consolidated statement of comprehensive income in the period in which such costs are incurred. However, in situations where the said expenditure can be measured reliably and is probable that future economic benefits associated with it will flow to the company, it is included in the asset's carrying value or as a separate asset, as appropriate.

Depreciation on PPE is computed using the straight-line method over the estimated useful lives. Freehold land is not depreciated as it has an unlimited useful life. The company has established the estimated range of useful lives for different categories of PPE as follows:

Categories	Years
Leasehold improvement	Period of lease or 10 -20 years, as applicable, whichever is less
Buildings	20
Plant and equipment	
- Network equipment (including passive infrastructure)	3 - 25
Computer equipment	3 - 5
Furniture & fixture and Office equipment	1 - 5
Vehicles	3 - 5

The useful lives, residual values and depreciation method of PPE are reviewed, and adjusted appropriately, at least, as at each reporting date so as to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets. The effect of any change in the estimated useful lives, residual values and/or depreciation method are accounted prospectively, and accordingly, the depreciation is calculated over the PPE's remaining revised useful life. The cost and the accumulated depreciation for PPE sold, scrapped, retired or otherwise disposed of are de-recognised from the statement of financial position and the resulting gains/(losses) are included in the consolidated statement of comprehensive income within other expenses/other income.

PPE in the course of construction is carried at cost, less any accumulated impairment and presented separately as capital work-in-progress ('CWIP') including capital advances in the statement of financial position until capitalised. Such cost comprises of purchase price (including non-refundable duties and taxes but excluding any trade discounts and rebates), and any directly attributable cost.

3.7 Intangible assets

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

Intangible assets are recognised at cost. These assets having a definite useful life are carried at cost less accumulated amortisation and any impairment losses. Amortisation is computed using the straight-line method over the expected useful life of intangible assets.

The company has established the estimated useful lives of different categories of intangible assets as follows:

- **Software**

Software are amortised over the period of the license, generally not exceeding three years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Intangible assets (continued)

- **Licences (including spectrum)**

Acquired licenses and spectrum are amortised commencing from the date when the related network is available for intended use in the relevant jurisdiction. The useful lives range from two to fifteen years.

In addition, the company incurs a fee on licenses/spectrum that is calculated based on the revenue amount of the period or as per the actual usage. Such revenue-share based fee is recognised as a cost in the consolidated statement of comprehensive income when incurred.

- **Other acquired intangible assets**

Other acquired intangible assets include the following:

YU Brand & Customer Base - On 21 December 2014, the company acquired YU brand and customer base. YU brand and Customer base were recognised at their cost as at 21 December 2014 and are being amortised over a period of 2 years and 4 years respectively starting 21 December 2014. These are fully amortised as at 31 December 2017 with the YU customer base being subjected to accelerated amortisation in 2017. The carrying amount of an intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

The useful lives and amortisation method are reviewed, and adjusted appropriately, at least at each financial year end so as to ensure that the method and period of amortisation are consistent with the expected pattern of economic benefits from these assets. The effect of any change in the estimated useful lives and/or amortisation method is accounted prospectively, and accordingly, the amortisation is calculated over the remaining revised useful life. Further, the cost of intangible assets under development includes the amount of spectrum allotted to the company and related costs for which services are yet to be rolled out and are presented separately in the statement of financial position.

3.8 Impairment of non-financial assets

- a. **Property, plant and equipment, Right-of-use assets, Intangible assets and intangible assets under development**

At each reporting period date, the company reviews the carrying amounts of its PPE, right-of-use assets, CWIP and finite lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets under development are tested for impairment, at-least annually or earlier, in case circumstances indicate that it may be impaired.

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 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 comprehensive income 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Impairment of non-financial assets (continued)

b. Reversal of impairment losses

Impairment losses, other than goodwill, are reversed in the statement of comprehensive income 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/CGU in previous years.

3.9 Financial instruments

a. Recognition, classification and presentation

Financial instruments are recognised in the statement of financial position when the company becomes a party to the contractual provisions of the financial instrument.

The company determines the classification of its financial instruments at initial recognition.

The company classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost. The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

The company has classified all non-derivative financial liabilities as measured at amortised cost.

Financial assets and liabilities arising from different transactions are off-set against each other and the resultant net amount is presented in the statement of financial position, if and only when, the company currently has a legally enforceable right to set-off the related recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

b. Measurement - Non-derivative financial instruments

I. Initial measurement

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Other transaction costs are expensed as incurred in the Statement of Comprehensive Income.

II. Subsequent measurement - financial assets

The subsequent measurement of non-derivative financial assets depends on their classification as follows:

• Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest rate ('EIR') method (if the impact of discounting/any transaction costs is significant). Interest income from these financial assets is included in finance income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (continued)

b. Measurement - Non-derivative financial instruments (continued)

II. Subsequent measurement - financial assets (continued)

• Financial assets measured at amortised cost (continued)

EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the gross carrying amount of the financial asset or to the amortised cost of a financial liability.

• Financial assets at fair value through profit or loss ('FVTPL')

All equity instruments and financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income ('FVTOCI') are measured at FVTPL. Interest (basis EIR method) and dividend income from financial assets at FVTPL is recognised in the profit and loss within finance income/finance costs separately from the other gains/losses arising from changes in the fair value.

Impairment

The company assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost and debt instrument carried at FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition. If credit risk has not increased significantly, 12 month expected credit loss ('ECL') is used to provide for impairment loss, otherwise lifetime ECL is used.

However, only in case of trade receivables, the company applies the simplified approach which requires expected lifetime losses to be recognised from initial recognition of the receivables.

III. Subsequent measurement - financial liabilities

Financial liabilities are subsequently measured at amortised cost using the EIR method (if the impact of discounting/any transaction costs is significant).

a. Measurement - derivative financial instruments

Derivative financial instruments are classified as financial instruments at fair value through profit or loss. Such derivative financial instruments are initially recognised at fair value. They are subsequently measured at their fair value, with changes in fair value being recognised in profit or loss within finance income/finance costs. The company uses certain derivative financial instruments (e.g. foreign currency forwards, options, swaps) to manage their exposure to foreign exchange and price risk.

Derecognition

Financial liabilities are derecognised from the statement of financial position when the underlying obligations are extinguished, discharged, lapsed, cancelled, expires or legally released. The financial assets are derecognised from the statement of financial position when the rights to receive cash flows from the financial assets have expired, or have been transferred and the company has transferred substantially all risks and rewards of ownership. The difference in the carrying amount and consideration is recognised in the consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Leases

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

a. company as a lessee

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

Subsequently, the lease liability is measured at amortised cost using the effective interest method. It is re measured when there is a change in future lease payments including due to changes in CPI or if the company changes its assessment of whether it will exercise a purchase, extension or termination option or when the lease contract is modified and the lease modification is not accounted for as a separate lease. The corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the related right-of-use asset has been reduced to zero.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Subsequent to initial recognition, right-of-use asset are stated at cost less accumulated depreciation and any impairment losses and adjusted for certain re measurements of the lease liability. Depreciation is computed using the straight-line method from the commencement date to the end of the useful life of the underlying asset or the end of the lease term, whichever is shorter. The estimated useful lives of right-of-use assets are determined on the same basis as those of the underlying property and equipment.

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

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

Short-term leases

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Leases (continued)

b. Company as a lessor

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

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

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

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

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

3.11 Taxes

The income tax expense comprises of current and deferred income tax. Income tax is recognised in the profit and loss, except to the extent that it relates to items recognised in the same or a different period, outside profit or loss, in other comprehensive income or directly in equity, in which case the related income tax is also recognised accordingly.

a. Current tax

Current tax is calculated on the basis of the tax rates, laws and regulations, which have been enacted or substantively enacted as at the reporting date in the country. The payment made in excess/(shortfall) of the respective income tax obligation for the respective periods are recognised in the statement of financial position under income tax assets/income tax liabilities, respectively. Any interest, related to accrued liabilities for potential tax assessments are not included in Income tax charge or (credit), but are rather recognised within finance costs.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable or based on expected value approach, as applicable. The assessment is based on the judgement of tax professionals within the company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

b. Deferred tax

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, deferred tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Further, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Taxes (continued)

b. Deferred tax (continued)

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences, tax losses and tax credits can be utilised. Moreover, deferred tax is recognised on temporary differences arising on investments in subsidiaries, joint ventures and associate - unless the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets, recognised and unrecognised, are reviewed at each reporting date and assessed for recoverability based on best estimates of future taxable profits. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Income tax assets and liabilities are off-set against each other and the resultant net amount is presented in the statement of financial position, if and only when, (a) the company currently has a legally enforceable right to set-off the current income tax assets and liabilities, and (b) when it relate to income tax levied by the same taxation authority and where there is an intention to settle the current income tax balances on net basis.

3.12 Inventories

Inventories are stated at the lower of cost (determined using the first-in-first-out method) and net realisable value. The costs comprise its purchase price and any directly attributable cost of bringing it to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated variable costs necessary to make the sale.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank balances and any deposits with original maturities of three months or less (that are readily convertible to known amounts of cash and cash equivalents and subject to an insignificant risk of changes in value). However, for the purpose of the statement of cash flows, in addition to above items, any bank overdrafts that are integral part of the company's cash management is also included as a component of cash and cash equivalents.

3.14 Share capital/Share premium

Ordinary shares are classified as 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. Share premium account is used to record the premium on issue of shares.

3.15 Employee benefits

The company's employee benefits mainly include wages, salaries, bonuses, defined contribution to plans, other long term benefits including compensated absences and share-based payments. The employee benefits are recognised in the year in which the associated services are rendered by the employees. Short-term employee benefits are recognised in Statement of comprehensive income at undiscounted amounts during the period in which the related services are rendered. Details of long term employee benefits are provided below:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Employee benefits (continued)

- **Defined contribution plans**

The contributions to defined contribution plans are recognised in profit or loss as and when the services are rendered by employees. The company has no further obligations under these plans beyond its periodic contributions.

- **Other long-term employee benefits**

The employees of the company are entitled to compensated absences as well as other long-term benefits. Compensated absences benefit comprises encashment and the availing of leave balances that were earned by the employees over the period of past employment.

The company provides for the liability (presented under provisions) towards the said benefits on the basis of actuarial valuation carried out quarterly as at the reporting date, by an independent qualified actuary using the projected-unit-credit method. The related re-measurements are recognised in the statement of profit and loss in the period in which they arise.

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

3.16 Provisions

- a. General**

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

Provisions are measured at the present value of the expenditures expected to be required to settle the relevant obligation, using a pre-tax rate that reflects current market assessments of the time value of money (if the impact of discounting is significant) and the risks specific to the obligation. The increase in the provision due to un-winding of discount over passage of time is recognised within finance costs.

- b. Provision for legal, tax and regulatory matters**

The company is involved in various legal, tax and regulatory matters, the outcome of which may not be favourable to the company. Management, in consultation with the legal, tax and other advisers, assess the likelihood that a pending claim will succeed. The company recognises a provision in cases where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations arising from such claims.

- c. Asset Retirement Obligation ('ARO')**

ARO are recognised for those lease arrangements where the company has an obligation at the end of the lease period to restore the leased premises in a condition similar to inception of lease. ARO are provided at the present value of expected costs to settle the obligation and are recognised as part of the cost of that particular asset. The estimated future costs of decommissioning are reviewed annually and any changes in the estimated future costs or in the discount rate applied are adjusted from the cost of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 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 unless virtually certain and disclosed only where an inflow of economic benefits is probable.

3.18 Revenue

Revenue is recognised upon transfer of control of promised products or services to the customer at the consideration which the company has received or expects to receive in exchange of those products or services, net of any taxes/duties and discounts. When determining the consideration to which the company is entitled for providing promised products or services via intermediaries, the company assesses whether the intermediary is a principal or agent in the onward sale to the end customer. To the extent that the intermediary is considered a principal, the consideration to which the company is entitled is determined to be that received from the intermediary. To the extent that the intermediary is considered an agent, the consideration to which the company is entitled is determined to be the amount received from the customer; the upfront discount provided to the intermediary is recognised as a cost of sale.

The company has entered into certain multiple-element revenue arrangements, which involve the delivery or performance of multiple products, services or rights to use assets. At the inception of the arrangement, all the deliverables therein are evaluated to determine whether they represent distinct performance obligations, and if so, they are accounted for separately. Total consideration related to the multiple element arrangements is allocated to each performance obligation based on their relative standalone selling prices. The stand-alone selling prices are determined based on the list prices at which the company sells equipment and network services separately. Revenue is recognised when, or as, each distinct performance obligation is satisfied. The main categories of revenue and the basis of recognition are as follows:

- **Service revenue**

Service revenue is derived from the provision of telecommunication services and mobile money services to customers. The majority of the customers of the company subscribe to the services on a pre-paid basis.

Telecommunication service revenues mainly pertain to usage, subscription charges for voice, data, messaging and value added services and customer on boarding charges, which include activation charges.

Telecommunication services (comprising voice, data and SMS) are considered to represent a single performance obligation as all are provided over the company's network and transmitted as data representing a digital signal on the network. The transmission consumes network bandwidth and therefore, irrespective of the nature of the

communication, the customer ultimately receives access to the network and the right to consume network bandwidth.

Customers pay in advance for services of the company, these cash amounts are recognised in deferred income on the consolidated statement of financial position and transferred to the consolidated income statement when the service obligation has been performed/when the usage of services becomes remote.

The company recognises revenue from these services over time as they are provided. Revenue is recognised over time based on actual units of telecommunication services provided during the reporting period as a proportion of the total units of telecommunication services to be provided.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Revenue (continued)

- **Service revenue (continued)**

Subscription charges are recognised over the subscription pack validity period. Customer on boarding revenue is recognised upon successful on boarding of customers i.e. upfront.

Revenues recognised in excess of amounts invoiced are classified as unbilled revenue. If amounts invoiced/collected from a customer are in excess of revenue recognised, a deferred revenue/advance income is recognised.

Service revenues also includes revenue from interconnection/roaming charges for usage of the company's network by other operators for voice, data, messaging and signalling services. These are recognised upon transfer of control of services being transferred over time.

Revenues from long distance operations comprise voice services and bandwidth services (including installation), which are recognised on provision of services and over the period of respective arrangements.

The company has interconnect agreements with local and foreign operators. This allows customers from either network to originate or terminate calls to each other's network. Revenue is earned and recognised as per bilateral agreements when other operators' calls are terminated to the company's network i.e. the service is rendered.

As part of the mobile money services, the company earns commission from merchants for facilitating recharges, bill payments and other merchant payments. It also earns commissions on transfer of monies from one customer wallet to another. Such commissions are recognised as revenue at a point in time on fulfilment of these services by the company. During the year from 1st Jul'2022, mobile money business has been carved out to a separate legal entity.

- **Costs to obtain or fulfil a contract with a customer**

Company has estimated that the historic average customer life is longer than 12 months and believes that its churn rate provides the best indicator of anticipated average customer life and has changed its policy on cost deferral recognition in these financial statements. Accordingly, the company has deferred such costs over expected average customer life - for more details refer note 36 (iii).

- **Equipment sales**

Equipment sales mainly pertain to sale of telecommunication equipment and related accessories for which revenue is recognised when the control of equipment is transferred to the customer i.e. transferred at a point in time.

3.19 Borrowing costs

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

3.20 Operating profit

Operating profit is stated as revenue less operating expenditure including depreciation and amortisation and operating exceptional items. Operating profit excludes finance income, finance costs, non-operating income and share of results of joint ventures/ associate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Dividends

Dividend to shareholders of the company is recognised as a liability and deducted from equity, in the year in which the dividends are approved by the shareholders. Interim dividends are deducted from the retained earnings when they are paid. Currently the company has paid no dividend to its shareholders.

3.22 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The estimates and judgements used in the preparation of these financial statements are continuously evaluated by the company, and are based on historical experience and various other assumptions and factors (including expectations of future events), that the company believes to be reasonable under the existing circumstances. These estimates and judgements are based on the facts and events, that existed as at the reporting date, or that occurred after that date but provide additional evidence about conditions existing as at the reporting date.

Although the company regularly assesses these estimates, actual results could differ materially from these estimates - even if the assumptions underlying such estimates were reasonable when made, if these results differ from historical experience or other assumptions do not turn out to be substantially accurate. The changes in estimates are recognised in the financial statements in the year in which they become known.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are discussed below:

- **Uncertain tax treatments**

Uncertainties exist with respect to the interpretation of complex tax regulations. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The company establishes provisions/contingencies, based on reasonable estimates, for potential consequences of matters which are subject to audits by the tax authorities of the respective countries in which it operates as well as where the probability of acceptability of such matters by tax authorities is in doubt. The amount of such provisions/contingencies is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority, which may be subject to a material change within the next financial year. For details on provisions and contingencies, refer to notes 32 and 33 respectively.

- **Deferred tax assets**

Deferred tax assets are recognised by the company, for the unused tax losses and temporary differences for which there is probability of utilisation against the taxable profit. Uncertainties exist in determination of amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, future tax planning strategies and recent business performances and developments.

- **Useful lives of PPE**

As described at 3.6 above, the company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. After considering market conditions, industry practice, technological developments and other factors, the company determined that the current useful lives of its PPE remain appropriate. However, changes in economic conditions of the markets, competition and technology, among others, are unpredictable and they may significantly impact the useful live of PPE and therefore the depreciation charges. Refer note no. 17.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

- **Contingent liabilities and provisions**

The company is involved in various legal, tax and regulatory matters, the outcome of which may not be favourable to the company. Management in consultation with the legal, tax and other advisers to assess the likelihood that a pending claim will succeed. The company has applied its judgement and has recognised liabilities based on whether additional amounts will be payable and has included contingent liabilities where economic outflows are considered possible but not probable. However, given the nature of these matters, there may be a risk of a material change within the next financial year. For further detail on provisions & contingencies, refer to notes 32 and 33 respectively. The critical judgements, which the management has made in the process of applying the accounting policies and have the most significant impact on the amounts recognised in the financial statements, are discussed below:

- **Determining the incremental borrowing rate for lease contracts**

The company has recognised lease liabilities at present value using the incremental borrowing rate (IBR) based on considerations specific to the lease agreement. Since determination of incremental borrowings is not directly available, the company has used judgement in determining the IBR by taking into consideration risk free borrowing rate based on USD bonds and adjusting it for country and company specific risk premiums.

- **Separating lease and non-lease components**

The consideration paid by the company in telecommunication towers lease contracts include the use of land, passive infrastructure as well as maintenance, security etc. services. Therefore, in determining the allocation of consideration between lease and non-lease components, for the additional services that are not separately priced, the company performs detailed analysis of cost split to arrive at relative stand-alone prices of each of the components.

- **Determining the lease term**

Under IFRS 16 if it is reasonably certain that a lease will be extended, the company is required to estimate the expected lease period in excess of the current contractual terms. The company has various lease agreements with a right to extend /renew wherein it considers the nature of the contractual terms and economic factors to determine. The company has used judgement in determining the lease period considering such factors and the lease liability has been calculated using the remaining contractual lease period for all of such lease contracts.

3.23 Comparatives

Where necessary, comparative figures of 2021 are been adjusted to conform to changes in presentation in the current year.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

4.1 New and amended Standards that are effective for the current year:

No new IFRS issued during the year is applicable to the Company. Amendments to existing IFRSs have been applied by the Company as required, however, these amendments do not have any material impact on the Company's financial statements. The list of newly issued amendments is as follows:

- Amendments to IAS 37 in relation to 'Onerous contracts- cost of fulfilling contracts'

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

4.2 New accounting pronouncements to be adopted on or after 1 Jan 2023

The following pronouncements issued by the IASB are relevant to the Company and effective for annual periods beginning on or after 1 January 2023. The Company's financial statements will be presented in accordance with these requirements, which are being evaluated but are not expected to have a material impact on the results, financial position or cash flows of the Company. These pronouncements have been issued by IASB, but are not yet effective:

- Amendments to IAS 1 in relation to 'classification of liabilities as current and non-current'
- Amendments to IAS 12 in relation to 'deferred tax related to assets and liabilities arising from a single transaction'
- Amendments to IFRS 16 in relation to Sale and leaseback accounting.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company has liabilities in the form of borrowings, guarantees, trade and other payables as well as receivables in the form of loan and other receivables, trade and other receivables, and cash and deposits, these arise as a part of the business activities and operations of the company.

The company's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market prices of the company's products. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. Further, the company uses certain derivative financial instruments to mitigate some of these risk exposures.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk - currency rate risk, interest rate risk and other price risks, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, investments, and derivative financial instruments.

The company's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. The company may use derivative financial instruments such as foreign exchange forward contracts to manage its exposures to foreign exchange fluctuations and interest rates.

The sensitivity of the relevant Statement of Comprehensive Income item (i.e. Profit/ loss before tax and other comprehensive income/ loss) is the effect of the assumed changes in the respective market risks. This is based on the financial assets and financial liabilities held as of 31 Dec 2022 and 2021.

i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company transacts business in U.S. dollars with parties of other countries and strategic vendor purchases are in U.S. dollars. The company has obtained foreign currency loans and has foreign currency trade payables and receivables and is therefore exposed to foreign exchange risk. The company may use foreign exchange forward contracts towards hedging risk resulting from changes and fluctuations in foreign currency exchange rate. These foreign exchange contracts, carried at fair value, may have varying maturities depending upon the primary host contract requirement and risk management strategy of the company. The company manages its foreign currency risk by hedging a certain proportion of its foreign currency exposure, as approved by Board as per established risk management policy or higher as considered appropriate and whenever necessary.

Unmatured Forward Contracts as on 31 December 2022: USD 32.50 Mn (2021: USD 24.50 Mn).

Airtel Networks Kenya Limited Annual Report and Accounts 2022

Notes to the Financial Statements

(All amounts are in KSH'000, unless stated otherwise)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

i) Foreign exchange risk (continued)

The company manages foreign exchange risk by converting its foreign currency balances into local currency on an on-going basis to cater for its operational requirements.

The 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 2022, if the KShs. had weakened/strengthened by 5% against the US dollar with all other variables held constant, post tax profit for the period would have been KShs 2.12 billion (2021: KShs 3.44 billion) lower/higher, mainly as a result of US dollar denominated trade receivables, payables, bank balances and borrowings. There would be no impact on equity.

The balances in foreign currencies at year end were as follows:

	As of	
	31 Dec 2022	31 Dec 2021
Assets in foreign currencies		
Trade and other receivables	2,385,374	1,920,522
Bank balances	107,199	1,140,335
	2,492,573	3,060,857
Liabilities in foreign currencies		
Trade and other payables	6,716,774	6,855,192
Shareholder's loan	4,726,084	38,553,878
Borrowings	19,127,000	15,778,768
Lease Liabilities	14,305,490	10,632,716
	44,875,348	71,820,554
Net foreign currency liability	(42,382,775)	(68,759,697)

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

ii) Price risk

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

iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's exposure to the risk of changes in market interest rates relates primarily to the company's debt interest obligations with floating interest rates. The company limits interest rate risk by monitoring changes in interest rates in the currencies in which loans are denominated.

The company's only variable interest bearing financial liabilities are its external borrowings of KShs 33.24 Billion (2021: KShs 23.95 Billion) which are set at variable rates, and it is therefore exposed to cash flow interest rate risk. The company also relies on funding from shareholders of KShs 4.72 Billion (2021: 38.55 Billion) which is at a fixed rate and therefore not exposed to cash flow interest rate risk. The company regularly monitors financing options available to ensure optimum interest rates are obtained.

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Notes to the Financial Statements

(All amounts are in KSH'000, unless stated otherwise)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

iv) Cash flow and fair value interest rate risk (Continued)

At 31 December 2022, an increase/decrease of 100 basis points would have resulted in a decrease/increase in pre-tax profit of KShs 332.42 million (2021: KShs 239.59 million).

The balances of interest-bearing liabilities at year end were as follows:

Financial Liabilities	As of	
	31 Dec 2022	31 Dec 2021
HSBC- Mauritius loan	-	1,697,250
Citibank loan	5,116,150	5,492,143
Standard Chartered Bank loan	10,206,450	2,419,800
Bank Overdraft	2,494,892	1,903,514
JP Morgan	3,085,000	3,394,500
Axis Bank Ltd	6,170,000	3,394,500
BOA	6,170,000	5,657,500
	33,242,492	23,959,207
Shareholder's loans	4,726,084	38,553,878

Refer Note 30 for further detail on external borrowings.

v) Credit risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The company is exposed to credit risk from its operating activities, primarily from trade receivables but also from cash, other banks balances, derivative financial instruments other financial receivables.

As there is no independent credit rating of the customers available with the company, the management reviews the credit-worthiness of its customers based on their financial position, past experience, ageing and other factors. Credit risk related to trade receivables is managed/mitigated in accordance with the policies and procedures established, by setting appropriate payment terms and credit period, and by setting and monitoring internal limits on exposure to individual customers. The credit period provided by the company to its customers generally ranges from 14-30 days. The company uses a provision matrix to measure the expected credit loss of trade receivables, which comprise a very large numbers of small balances.

The company's treasury maintains its cash and cash equivalents and deposits and enters into derivative financial instruments - with banks, financial and other institutions, having good reputation and past track record, and high/sovereign credit rating. Similarly, inter group receivables carry either negligible or very minimal credit risk.

Further, the company reviews the credit-worthiness of the all the above assets on an on-going basis, and if required, takes necessary mitigation measures.

Airtel Networks Kenya Limited Annual Report and Accounts 2022**Notes to the Financial Statements***(All amounts are in KSH'000, unless stated otherwise)***5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Market risk (continued)****iv) Credit risk (continued)**

The tables below detail the Company's maximum exposure to credit risk:

As of 31 Dec 2022

Particulars	Gross carrying amount	Less allowance	Net amount
Trade Receivables	1,954,699	1,437,523	517,176
Other receivables	537,929	13,487	524,442
Cash and cash equivalents	499,000	-	499,000
Due from related parties	2,821,862	-	2,821,862
	5,813,490	1,451,010	4,362,480

As of 31 Dec 2021

Particulars	Gross carrying amount	Less allowance	Net amount
Trade receivables	1,866,101	1,586,842	279,259
Other Receivables	394,281	13,487	380,794
Cash and cash equivalents	1,448,776	-	1,448,776
Due from related parties	1,632,428	-	1,632,428
Total	5,341,586	1,600,329	3,741,256

Trade receivables are typically non-interest bearing unsecured and derived from sales made to a large number of independent customers. As the customer base is widely distributed both economically and geographically, there is no concentration of credit risk. Refer note 23 for details on the impairment of trade receivables.

Based on the industry practices and the business environment in which the company operates, management considers trade receivables are credit impaired if the payments are more than 270 days past due in case of interconnect customers and 90 days past due in other cases. In determining the amount of impairment, management considers the collateral against such receivables and any amount payable to such customers.

The following table details the risk profile of trade receivables based on the company's provision matrix:

Particulars	Less than 30 days	30 to 60 days	60 to 90 days	Above 90 days	Total
Trade Receivable as of 31 Dec 2022	134,897	93,256	48,678	1,677,867	1,954,699
Trade Receivable as of 31 Dec 2021	128,783	89,030	46,471	1,601,817	1,866,101

Airtel Networks Kenya Limited Annual Report and Accounts 2022**Notes to the Financial Statements***(All amounts are in KSH'000, unless stated otherwise)***5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****v) Liquidity risk**

Liquidity risk is the risk that the company may not be able to meet its present and future obligations as and when due, without incurring unacceptable losses. The company's prudent liquidity risk management objective is to; at all times maintain optimum levels of liquidity to meet its cash and collateral requirements. The company closely monitors its liquidity position and deploys a robust cash management system. It maintains adequate sources of financing including term loans, debts and overdraft from both domestic and international banks at an optimised cost and the availability of funding from the principal shareholders. Management monitors rolling forecasts of the company's liquidity reserves on the basis of expected cash flows.

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

	Less than 1 year	Between 1 and 2 years	More than 2 Years	Totals
As of 31 December 2022:				
Liabilities				
Shareholder's loans	-	-	4,726,084	4,726,084
External borrowings	27,045,600	2,468,000	1,234,000	30,747,600
Lease Liabilities	4,051,020	4,334,591	12,870,823	21,256,434
Bank overdraft	2,494,892	-	-	2,494,892
Accrued expenses and other payables	3,470,404	-	-	3,470,404
Amounts due to related companies	2,681,296	-	-	2,681,296
Trade payables	4,569,895	-	-	4,569,895
Total financial liabilities (contractual maturity dates)	44,313,107	6,802,591	18,830,907	69,946,605
As of 31 December 2021:				
Liabilities				
Shareholder's loans	-	-	38,553,878	38,553,878
External borrowings	11,306,443	9,052,000	1,697,250	22,055,693
Lease Liabilities	2,902,832	3,127,420	10,067,294	16,097,546
Bank overdraft	1,903,514	-	-	1,903,514
Accrued expenses and other payables	5,508,451	-	-	5,508,451
Amounts due to related companies	2,054,309	-	-	2,054,309
Trade payables	3,162,522	-	-	3,162,522
Total financial liabilities (contractual maturity dates)	26,838,071	12,179,420	50,318,422	89,335,913

vi) Capital management

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

The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, or issue new shares. No changes were made in the objectives, policies or processes during the year ended December 31, 2022 and December 31, 2021. The company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as total lease liabilities and loans and borrowings less cash and cash equivalents.

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Notes to the Financial Statements

(All amounts are in KSH'000, unless stated otherwise)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

vi) Capital management (Continued)

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

The gearing ratios at 31 December 2022 and 2021 were as follows.

	As of	
	31 Dec 2022	31 Dec 2021
Lease liabilities	21,256,434	16,097,546
Loans and borrowings	37,968,576	62,513,084
Less: Cash and cash equivalents	(499,000)	(1,448,776)
Net Debt	58,726,010	77,161,854
Equity	(6,190,150)	(47,613,486)
Gearing Ratio	Over 100%	Over 100%

6. SEGMENTAL INFORMATION

Until Jun'22 Airtel Money business was under Airtel Networks Kenya Limited. From 1st Jul'22 onwards it has been migrated to a separate legal entity Airtel Money Kenya Limited. As per The Central Bank of Kenya guidelines the company is required to present separate financials for Airtel Money. Therefore, we are presenting segmental information in order to comply with requirements by Central Bank of Kenya.

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

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

- Telecommunications business (GSM)
- Mobile commerce business (Airtel Money)

Airtel Networks Kenya Limited Annual Report and Accounts 2022
Notes to the Financial Statements (continued)
(All amounts are in KSH'000, unless stated otherwise)

6. SEGMENTAL INFORMATION (continued)

Segmental Performance

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	31 Dec 2022			31 Dec 2021				
	GSM	Airtel Money	Intercompany elimination	Total	GSM	Airtel Money	Intercompany elimination	Total
Revenue*	40,040,640	172,954	(128,402)	40,085,192	32,805,918	283,698	(205,298)	32,884,318
Network operating expenses	8,156,448	44,590	(3,645)	8,197,393	6,561,704	25,322	(4,610)	6,582,416
Access charges/ Cost of sales	5,513,197	-	-	5,513,197	6,233,408	-	-	6,233,408
License fee / spectrum usage charges	3,069,477	1,500	-	3,070,977	4,965,905	500	-	4,966,405
Employee benefits expense	2,033,575	64,676	-	2,098,251	1,968,352	123,987	-	2,092,339
Sales and marketing expenses	4,306,920	53,967	(39,180)	4,321,707	3,942,736	65,831	(64,089)	3,944,478
Provision for impairment losses	(149,319)	-	-	(149,319)	(41,581)	-	-	(41,581)
Other expenses	1,129,422	5,354	(85,577)	1,049,199	811,311	31,434	(136,599)	706,146
Depreciation and amortization	7,870,808	14,623	-	7,885,431	6,126,404	52,510	-	6,178,914
Total Costs	31,930,528	184,710	(128,402)	31,986,836	30,568,238	299,584	(205,298)	30,662,525
Finance costs	4,170,789	5,289	-	4,176,078	3,684,665	1,906	-	3,686,571
Finance Income	-	(19,772)	-	(19,772)	(1,424)	(19,512)	-	(20,936)
Foreign exchange gain/(loss)	4,898,525	(59,535)	-	4,838,989	2,424,462	(36,967)	-	2,387,495
(Loss)/profit before tax	(959,202)	62,262	0	(896,939)	(3,870,022)	38,686	0	(3,831,336)
Tax expense	(7,721,391)	-	-	(7,721,391)	-	-	-	-
(Loss)/profit after tax	6,762,190	62,262	0	6,824,452	(3,870,022)	38,686	0	(3,831,336)

*Revenue is inclusive of other income.
In the year 2022, from 1st July onwards, mobile money business has been carved out to a separate legal entity Airtel Money Kenya Limited.

Airtel Networks Kenya Limited Annual Report and Accounts 2022
Notes to the Financial Statements (continued)
(All amounts are in KSH'000, unless stated otherwise)

6. SEGMENTAL INFORMATION (continued)

STATEMENT OF FINANCIAL POSITION

	As of							
	31 Dec 2022			31 Dec 2021				
	GSM	Airtel Money	Intercompany elimination	Total	GSM	Airtel Money	Intercompany elimination	Total
Bank balance	499,000	-	-	499,000	187,966	1,260,810	-	1,448,776
Non-Current Assets	60,484,851	-	-	60,484,851	38,664,531	53,832	-	38,718,363
Other assets	8,288,985	62,262	-	8,351,247	5,875,450	116,372	(320,060)	5,671,762
Total Assets	69,272,836	62,262	-	69,335,098	44,727,947	1,431,014	(320,060)	45,838,901
Trade and other payables	10,758,704	-	-	10,758,704	8,793,448	285,768	(320,060)	8,759,156
Shareholder's loans	4,726,084	-	-	4,726,084	38,553,878	-	-	38,553,878
Loans from banks	33,242,492	-	-	33,242,492	23,950,420	-	-	23,950,420
Other liabilities	26,797,967	-	-	26,797,967	22,188,103	830	-	22,188,933
Retained earnings	(6,652,997)	62,262	-	(6,590,735)	(78,488,239)	(2,752,459)	-	(81,240,698)
Share capital and share premium	400,586	-	-	400,586	29,730,337	3,896,875	-	33,627,212
Total equity and liabilities	69,272,836	62,262	-	69,335,098	44,727,947	1,431,014	(320,060)	45,838,901

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Notes to the Financial Statements (continued)
(All amounts are in KSH'000, unless stated otherwise)

7 REVENUE	As of	
	31 Dec 2022	31 Dec 2021
Voice revenues	18,500,943	15,498,427
Data revenues	13,729,782	10,348,031
Interconnect revenues	3,041,262	3,329,986
Roaming revenues	174,691	130,434
Site sharing Income (leased site)	17,070	15,324
Other service revenues	708,314	667,712
Sales of goods (handsets & accessories)	36,270	49,398
Messaging & Vas Revenue	3,313,730	2,608,088
Revenue earned from Mobile Virtual Network	299,497	229,322
	39,821,559	32,876,722

Performance obligations that are unsatisfied (or partially unsatisfied) amounting to Kes 1,489.57 Mn at 31 December 2022 and Kes1,436.16 Mn as at 31 December 2021 will be satisfied within a period of one year, respectively.

Revenue recognized that was included in the deferred revenue at the beginning of the year is Kes 1,436.16.64 Mn (2021: Kes 1,409.64 Mn).

Transfer from unbilled revenue recognized at the beginning of the period to receivables is Kes.366.89 Mn for 2022 (2021: Kes.355.40).

8 NETWORK OPERATING EXPENSES	For the year ended	
	31 Dec 2022	31 Dec 2021
Network operation and maintenance costs	7,602,533	6,097,282
Leased lines	594,860	485,134
	8,197,393	6,582,416
9 ACCESS CHARGES		
Interconnect costs	5,426,568	6,203,361
Roaming charges	86,629	30,047
	5,513,197	6,233,408

During the year, The Communications Authority directed that the Mobile termination rates be reduced from KSh 0.99 to KSh 0.58, the directive came into effect as from 1 August 2022.

10 EMPLOYEE BENEFITS EXPENSES	For the year ended	
	31 Dec 2022	31 Dec 2021
Salaries		
Defined contribution plan cost	59,504	55,681
Defined benefit plan cost*	20,618	18,242
Staff Welfare Expense	159,514	104,596
Other staff related costs	769,421	831,526
	2,098,251	2,092,339

Defined benefit plan cost movement during the year

Opening Balance	81,575	67,970
Charge for the year	20,618	18,242
Payments for the year	(8,928)	(4,637)
Closing Balance	93,265	81,575

* Defined benefit plan cost includes only benefit paid for compensated absences.

Airtel Networks Kenya Limited Annual Report and Accounts 2022
Notes to the Financial Statements (continued)
(All amounts are in KSH'000, unless stated otherwise)

11 SALES AND MARKETING EXPENSES

	For the year ended	
	31 Dec 2022	31 Dec 2021
Sales Commission	2,680,259	2,823,630
Marketing costs	565,096	463,068
Sim Cost	705,790	297,012
VAS Content	370,562	360,768
	4,321,707	3,944,478

12 OTHER EXPENSES

	For the year ended	
	31 Dec 2022	31 Dec 2021
Travel costs		
Professional fees	(24,286)	53,689
Auditors' remuneration	7,771	9,789
Repairs and maintenance costs	9,148	7,118
Directors Remuneration	6,229	-
Insurance expenses	28,242	12,994
Cost of handsets and accessories	33,505	34,567
Customer experience costs	199,544	93,894
Rates, Fees and Taxes	(328,523)	367,134
Other administrative costs*	125,010	118,416
Management Fees	975,889	-
	1,049,199	706,146

*Other administrative costs include mainly Office Administrative Expenses e.g. Rent, Electricity etc.

13 DEPRECIATION AND AMORTIZATION

	For the year ended	
	31 Dec 2021	31 Dec 2021
Depreciation –property, plant & equipment and Right of use assets	7,179,133	5,581,776
Amortization – intangible assets	706,298	597,138
	7,885,431	6,178,914

14 FINANCE COSTS

	For the year ended	
	31 Dec 2021	31 Dec 2021
Interest on lease liabilities	1,487,298	1,135,378
Interest on borrowings	2,504,926	2,420,241
Amortization of loan Origination Cost	34,728	4,974
Net loss on derivative financial instruments	26,777	113,356
Bank charges	9,308	12,621
Interest on Tax Cases and Demand	113,041	-
	4,176,078	3,686,570

FINANCE INCOME

Interest income	(19,772)	(20,936)
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(All amounts are in KSH'000, unless stated otherwise)

15 Income Tax Recoverable

Statement of financial position	For the year ended	
	31 Dec 2021	31 Dec 2021
As at 1 January	319,304	311,207
Paid during the year	8,588	8,097
Tax recoverable	327,892	319,304

16 Tax Expense

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

	For the year ended	
	31 Dec 2021	31 Dec 2021
Loss before income tax	(896,939)	(3,831,336)
Tax calculated at the statutory income tax rate of 30% (2021: 30%)	(269,082)	(1,149,401)
Net tax effect of:		
Impact of permanent difference	1,546,008	5,142,569
Items on which tax not recognized	(1,276,926)	(3,993,168)
Deferred income tax asset recognized	(10,093,360)	-
Settlement of Various Disputes	(36,476)	-
Income tax (Asset)/expense	(10,129,836)	-

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(All amounts are in KSH'000, unless stated otherwise)

17. Property, plant and equipment ('PPE')

The following table presents the reconciliation of changes in the carrying value of PPE for the year ended 31 Dec 2022 and 31 Dec 2021:

	Leasehold improvements	Land	Technical assets	Motor vehicles	Office, IT equipment & others	Furniture & fittings	TOTAL	Capital work in progress**
Gross Carrying Value								
As of January 1, 2021	1,105,051	85,000	46,591,038	11,571	8,812,113	250,552	56,855,325	2,519,319
Additions	-	-	7,309,314	2,150	166,591	132,876	7,610,931	7,947,844
Transfer to PPE	-	-	-	-	-	-	-	(7,610,931)
Disposal / Adjustments*	-	-	(751,502)	-	-	-	(751,502)	-
As of December 31, 2021	1,105,051	85,000	53,148,850	13,721	8,978,704	383,428	63,714,754	2,856,232
Additions	-	-	8,707,757	-	1,151,220	245,452	10,104,429	8,536,143
Transfer to PPE	-	-	-	-	-	-	-	(10,104,429)
Disposal / Adjustment*	-	-	(2,868)	-	(62,082)	(355,821)	(420,771)	-
As of December 31, 2022	1,105,051	85,000	61,853,739	13,721	10,067,842	273,059	73,398,412	1,287,946
Accumulated Depreciation								
As of January 1, 2021	1,004,363	-	33,394,453	9,692	8,475,682	226,840	43,111,030	-
Charge for the year	16,707	-	2,909,140	906	257,754	28,107	3,212,614	-
Adjustment*	-	-	(751,502)	-	-	-	(751,502)	-
As of December 31, 2021	1,021,070	-	35,552,091	10,598	8,733,436	254,947	45,572,142	-
Charge for the year	12,524	-	3,506,826	1,326	458,608	39,004	4,018,288	-
Adjustment*	-	-	(2,184)	-	(61,458)	(60,966)	(124,608)	-
As of December 31, 2022	1,033,594	-	39,056,733	11,924	9,130,586	232,985	49,465,822	-
NET CARRYING VALUE:								
As of December 31, 2021	83,981	85,000	17,596,759	3,123	245,268	128,481	18,142,612	2,856,232
As of December 31, 2022	71,457	85,000	22,797,006	1,797	937,256	40,074	23,932,590	1,287,946

* Adjustments consists of reversal of gross carrying value and accumulated depreciation on retirement of PPE and reclassification from one category of asset to another.

** The carrying value of capital work-in-progress as at December 31, 2022 & December 31, 2021 mainly pertains to plant and equipment.

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Notes to the Financial Statements (continued)

(All amounts are in KSH'000, unless stated otherwise)

18 Intangible Assets

	License	YU brand	YU customer base	Total
Gross Carrying Value				
At January 1, 2021	5,900,082	16,180	1,289,300	7,205,562
Additions	19,084	-	-	19,084
Disposal / Adjustments*	-	-	-	-
At December 31, 2021	5,919,166	16,180	1,289,300	7,224,646
Additions	5,867,000	-	-	5,867,000
Adjustments	671,814	-	-	671,815
Disposal	(146,265)	-	-	(146,265)
At December 31, 2022	12,311,715	16,180	1,289,300	13,617,195
Accumulated Depreciation				
At January 1, 2021	2,782,460	16,180	1,289,300	4,087,940
Charge for the year	597,138	-	-	597,138
Disposal / Adjustments*	-	-	-	-
At December 31, 2021	3,379,598	16,180	1,289,300	4,685,078
Charge for the year	706,298	-	-	706,298
Adjustments	138,708	-	-	138,708
Disposal	(128,791)	-	-	(128,791)
At December 31, 2022	4,095,813	16,180	1,289,300	5,401,293
NET CARRYING VALUE:				
At December 31, 2021	2,539,568	-	-	2,539,568
At December 31, 2022	8,215,902	-	-	8,215,902

YU brand and customer base fully amortized as of 31st Dec 2017.

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Notes to the Financial Statements (continued)
(All amounts are in KSH'000, unless stated otherwise)

19 Right of use Assets

	Plant and equipment	Others	Total
Gross Carrying Value			
As of January 1, 2021	15,961,618	693,540	16,655,158
Additions	5,424,340	890,786	6,315,126
Retirement	(64,087)		(64,087)
As of December 31, 2021	21,321,871	1,584,326	22,906,197
Additions	4,717,008	2,792,235	7,509,243
As of December 31, 2022	26,038,879	4,376,561	30,415,440
Accumulated Depreciation			
As of January 1, 2021	6,255,168	213,962	6,469,130
Charge for the year	1,858,550	510,612	2,369,162
Retirement	(11,364)	-	(11,364)
As of December 31, 2021	8,102,354	724,574	8,826,928
Additions	2,928,731	232,115	3,160,846
As of December 31, 2022	11,031,085	956,689	11,987,774
NET CARRYING VALUE:			
As of December 31, 2021	13,219,517	859,752	14,079,269
As of December 31, 2022	15,007,794	3,419,872	18,427,666

20 DERIVATIVE FINANCIAL INSTRUMENTS

	As of	
	31 Dec 2021	31 Dec 2022
ASSETS		
As of Jan 1 2022	2,141	182
Charge/credit to profit or loss	(1,837)	1,959
At December 31 2022	304	2,141
LIABILITY		
As of January 1 2022	15,464	37,142
Charge/(Credit) to profit or loss	43,686	(21,678)
At December 31 2022	59,150	15,464

21 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted rate of 30% (2021:30%). The movement in the deferred income tax account is as follows:

	As of	
	31 Dec 2021	31 Dec 2022
At start of year	11,264,120	14,287,347
Movement in deferred tax	2,567,328	(3,023,227)
Unrecognized asset	(3,738,088)	(11,264,120)
At end of year	10,093,360	-

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

For the year ended 31 December 2022	1 Jan 2022	31 Dec 2022
Temporary differences on property, plant and equipment	(1,391,301)	(2,541,831)
Doubtful Debts	(1,724,274)	(1,586,237)
Inventory obsolescence	(105,527)	(63,659)
Accrued leave	(78,271)	(93,265)
Provision for bonuses	(112,603)	(162,819)
Provision for network removal (ARO)	(8,591)	(8,791)
Provision for tax cases	(174,215)	-
Provision for legal cases	(272,702)	(168,285)
PRA Discount Receivable Provision	(15,212)	(21,040)
Roaming TAP-IN (Out roamer) Provision	(2,286)	(4,641)
IBM embedded derivative gain	-	-
ESOP Provision	(13,600)	(10,526)
Provision for Minimum tax	(328,715)	(192)
Provision for Employee incentives	(35,520)	(22,337)
unrealized exchange losses - loans	(299,463)	(992,854)
Net unrealized exchange differences	1,118,650	(1,169,385)
Provision for Airtel Money/ Bank/ Cash balance	(590,570)	(0)
ROU asset - IFRS 16	14,079,270	18,427,666
Lease Liability IFRS 16	(15,985,875)	(21,256,433)
Tax Losses carried forward net of Expired Losses	(31,606,262)	(36,430,200)
Total timing difference	(37,547,067)	(46,104,828)
Deferred income Tax asset no recognized	11,264,120	3,738,088
Net deferred income tax assets	-	(10,093,360)

A deferred tax asset of KShs 6,203 million (2021: KShs 11,264 mn) has not been recognized in the financial statements. The company's tax losses can be carried forward indefinitely.

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Notes to the Financial Statements (continued)
(All amounts are in KSH'000, unless stated otherwise)

21 DEFERRED INCOME TAX (continued)

For the year ended 31 December 2021	1 Jan 2021	31 Dec 2021
Temporary differences on property, plant and equipment	(353,311)	(1,391,301)
Doubtful Debts	(1,683,021)	(1,724,274)
Inventory obsolescence	(96,217)	(105,527)
Accrued leave	(67,969)	(78,271)
Provision for bonuses	(101,362)	(112,603)
Provision for network removal (ARO)	(8,389)	(8,591)
Provision for tax cases	(372,162)	(174,215)
Provision for legal cases	(273,489)	(272,702)
PRA Discount Receivable Provision	(14,101)	(15,212)
Roaming TAP-IN (Out roamer) Provision	(2,590)	(2,286)
IBM embedded derivative gain	(1,820)	-
ESOP Provision	(63,443)	(13,600)
Provision for Minimum tax	-	(328,715)
Provision for Employee incentives	-	(35,520)
unrealized exchange losses - loans	(3,832,702)	(299,463)
Net unrealized exchange differences	(444,040)	1,118,650
Provision for Airtel Money/ Bank/ Cash balance	(590,570)	(590,570)
ROU asset - IFRS 16	10,186,027	14,079,270
Lease Liability IFRS 16	(12,226,010)	(15,985,875)
Tax Losses carried forward net of Expired Losses	(56,394,836)	(31,606,262)
Total timing difference	(56,394,836)	(37,547,067)
Deferred income Tax asset no recognized	16,918,451	11,264,120
Net deferred income tax assets	-	-

22 INVENTORIES

	As of	
	31 Dec 2022	31 Dec 2022
Stock-in-trade*	271,685	121,363
Provision for stock obsolescence	(31,023)	(58,349)
Stock write-down	(32,636)	(47,179)
	208,026	15,835

From 2022 onwards Sim inventory is being recorded at net realisable value (2021 : It was fully expensed off upon purchase).

*Stock in trade includes handsets, SIM cards, scratch cards and routers.

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Notes to the Financial Statements (continued)

(All amounts are in KSH'000, unless stated otherwise)

23 TRADE AND OTHER RECEIVABLES

	As of	
	31 Dec 2022	31 Dec 2021
Trade Receivables	1,954,699	1,866,101
Provision for Doubtful Debts Allowance	(1,437,523)	(1,586,842)
Net Trade Receivables (a)	517,176	279,259
Other receivables*	537,929	394,281
Provision for impairment losses on other receivables (b)	(13,487)	(13,487)
	524,442	380,794
Receivable from related parties – note 35(iii) (C)	2,821,862	1,632,428
Total Trade and other receivables (a+b+c)	3,863,480	2,292,480

*Other receivables mainly include Unbilled revenue, claims receivables & Interest Receivable.

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

	As of	
	31 Dec 2022	31 Dec 2021
Movement of Provision Doubtful Debts Allowance		
Opening balance	1,586,842	1,543,550
Additional provision	(149,319)	43,292
Closing balance	1,437,523	1,586,842
Movement of Provision for impairment losses		
Opening balance	13,487	98,360
(Reduction)/Additional Provision	-	(84,873)
Closing balance	13,487	13,487
Overall movement in Provisions		
Opening balance	1,600,329	1,641,910
(Reduction)/Additional Provision	(149,319)	(41,581)
Closing balance	1,451,010	1,600,329

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

24. CASH AND CASH EQUIVALENTS

	As of	
	31 Dec 2022	31 Dec 2021
Balances with Bank		
On current accounts	478,318	186,412
Fixed Deposits	-	1,108,870
Cash in hand	20,682	153,494
	499,000	1,448,776

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

Bank Balance	478,318	1,295,282
Cash in hand	20,682	153,494
Bank overdraft (Note 30)	(2,494,892)	(1,903,514)
	(1,995,892)	(454,738)

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(All amounts are in KSH'000, unless stated otherwise)

25 ORDINARY SHARE CAPITAL

	Number of shares	Par value KShs	Ordinary Shares KShs'000
As of 31 December 2021	3,350,000	1,000	3,350,000
As of 31 December 2022	400,486	1,000	400,486

26 SHARE PREMIUM

	Ordinary shares	Redeemable pref. shares	Total
As of 31 December 2021	3,406,676	4,259,023	7,665,699
As of 31 December 2022	-	-	-

In the year 2022, all share premium has been netted off with retained earnings (Refer note 39 (i)).

27 REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Preference shares KShs'000
As of 31 December 2021	22,611,513	22,611,513
As of 31 December 2022	-	-

In the year 2022, all preference shares have been netted off with retained earnings, (Refer note 39 (i)).

28 SHAREHOLDERS' LOANS

	As of	
	31 Dec 2022	31 Dec 2021
Balance at start of year	38,553,878	52,360,109
Interest capitalized	774,285	1,414,192
Foreign exchange loss	1,231,416	1,264,253
Conversion of loan to Equity (Refer note 39 (i))	(34,663,375)	
Netting off receivables from group company	-	(5,500,676)
Shareholders' Loan repayment	(1,170,120)	(10,984,000)
Total shareholders' loans at end of year	4,726,084	38,553,878

These are loans from the immediate holding company, Bharti Airtel Kenya B.V. Loan is repayable as on 31 December 2026. The loans are unsecured and bear 3% interest per annum.

29. LEASE LIABILITIES

i.) As a lessee

(a) Analysed as;

	As of	
	31 Dec 2022	31 Dec 2021
Non-current	17,205,414	13,194,714
Current	4,051,020	2,902,832
	21,256,434	16,097,546

(b) Maturity analysis:

Less than one year	5,590,206	3,720,799
Later than one year but not later than two years	4,743,347	3,550,793
Later than two years but not later than five years	9,004,322	7,245,627
Later than five years but not later than nine years	8,033,361	4,220,539
Later than nine years	416,784	409,638
Total undiscounted lease liabilities	27,788,020	19,147,397

Lease liabilities included in the statement of financial position	21,256,434	16,097,546
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Amounts recognised in profit or loss

Interest on lease liabilities	1,487,298	1,135,378
	1,487,298	1,135,378

Lease Liability movement

Opening Balance	16,097,546	12,226,010
Additions (Net of adjustment)	7,509,243	6,262,403
Interest on lease liabilities	1,487,298	1,135,378
Repayment of Lease Liabilities	(3,837,653)	(3,526,245)
Closing Balance	21,256,434	16,097,546

ii.) As a lessor

The Company's lease arrangements as a lessor mainly pertain to passive infrastructure. Certain of these lease arrangements have escalations up to 7 % per annum.

Operating Lease

	As of	
	31 Dec 2022	31 Dec 2021
Lease income recognized in profit or loss	40,429	36,219
Income from sub-leasing right-of-use assets	17,070	15,324
Lease income recognized in profit or loss	57,499	51,543

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

29. LEASE LIABILITIES (Continued)

ii) As a lessor

Operating Lease

Disclosure

Less than one year
 One to two years
 Two to three years
 Three to four years
 Four to five years

	As of	
	31 Dec 2022	31 Dec 2021
	48,799	53,688
	21,108	48,799
	6,467	21,108
	5,841	6,467
	-	5,841
	82,215	135,903

30 BORROWING

Non-Current

Term loans
 Less: Current portion (a)
 Less: Debt Origination Cost

	As of	
	31 Dec 2022	31 Dec 2021
	14,684,600	13,515,768
	(10,982,600)	(2,766,518)
	-	(8,787)
	3,702,000	10,740,463

Current maturities of long-term borrowings (a)

	10,982,600	2,766,518
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Current

Term loans (a)
 Short Term loans
 Bank overdraft

	10,982,600	2,766,518
	16,063,000	8,539,925
	2,494,892	1,903,514
	29,540,492	13,209,957

Current borrowings consist mainly of external loans from SCB Bank, JP Morgan, Citi Bank and Bank of America repayable within 12 months of 31 December 2022.

The overdraft facility extended by Standard Chartered Bank Kenya Limited has a limit of KShs 2Bn and bears 8.90 % interest per annum, Citi Bank limit is Ksh, 1.23 Bn at an interest rate of 12.33%, Access Bank limit is Ksh 255Mn at an interest rate of 9.50%, Interest accrues on the daily overdrawn balance and is payable monthly in arrears. As at 31st December 2022, the overdrawn balance was KShs 2,494.9 Mn (KShs 1,903.5 Million as at 31st December 2021).

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30 BORROWINGS (continued)

Detail of all borrowings is as below: -

	Movement in loan									
	Citi Bank	Hongkong & Shanghai Bank	Chartered Bank	JP Morgan Chase bank	Bank of America	AXIS Bank	Bank Overdraft	Total		
As of 1 January 2021	5,407,528	1,640,302	1,000,000	2,187,069	-	-	702,745	10,937,644		
Drawn down during the year	3,857,125	-	1,419,800	2,159,000	5,509,500	3,322,000	1,200,770	17,468,195		
Repayments in the year	(3,854,800)	-	-	(1,126,786)	-	-	-	(4,981,586)		
Net exchange loss	82,290	56,948	-	175,217	148,000	72,500	-	534,955		
As of 31 December 2021	5,492,143	1,697,250	2,419,800	3,394,500	5,657,500	3,394,500	1,903,514	23,959,207		
As of 1 January 2022	5,492,143	1,697,250	2,419,800	3,394,500	5,657,500	3,394,500	1,903,514	23,959,207		
Drawn down during the year	5,075,450	-	11,944,850	860,300	-	2,278,000	591,378	20,749,978		
Repayments in the year	(5,586,790)	(1,833,000)	(4,339,700)	(1,363,800)	-	-	-	(13,123,290)		
Net exchange loss	135,347	135,750	181,500	194,000	512,500	497,500	-	1,656,597		
As of 31 December 2022	5,116,150	-	10,206,450	3,085,000	6,170,000	6,170,000	2,494,892	33,242,492		

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31 TRADE AND OTHER PAYABLES

	As of	
	31 Dec 2022	31 Dec 2021
Trade payables	4,569,894	3,162,522
Due to related parties – note 35 (iv)	2,682,174	2,054,309
Accrued expenses and other payables	3,470,404	3,237,130
Interest Accrued but not Due	36,232	305,196
	10,758,704	8,759,157

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

32 PROVISIONS

	As of	
	31 Dec 2022	31 Dec 2021
Non-Current		
Asset retirement obligation	8,791	8,590
Employee benefits - leave encashment	70,241	58,972
	79,032	67,562
Current		
Provision for sub-judice matters	345,387	357,306
Employee benefits - leave encashment	23,024	19,299
Provision for income tax	10,546	-
	378,957	376,605

33 CONTINGENT LIABILITIES

In the ordinary course of business, the company is a defendant or co-defendant in various litigations & claims and issues Performance Guarantee to customers for bidding the contracts. Although there can be no absolute assurance, the directors believe, based on information currently available, that the ultimate resolution of these legal proceedings is not likely to have a material adverse effect on the results of its operations, financial position or liquidity. The disputes mainly relate to tax and legal matters.

	As of	
	31 Dec 2022	31 Dec 2021
<u>Tax litigations</u>		
Income Tax, Import duty and VAT	651	95,957
<u>Legal litigations</u>		
Civil and other legal cases	11,500	12,980
Performance Bonds	21,952	16,393

34 COMMITMENTS

The capital expenditure contracted as at the reporting date is as follows;

	As of	
	31 Dec 2022	31 Dec 2021
Capital commitments		
Authorised and contracted for:		
Due within 1 year	6,114,100	5,265,100

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35 RELATED PARTY TRANSACTIONS

The company is controlled by Airtel Africa Plc which is the parent company. The ultimate parent of the company is Bharti Airtel Limited.

	As of		
	31 Dec 2022	31 Dec 2021	
(i) Sale of goods and services			
Bharti Airtel (UK) Limited	414,654	351,034	Fellow subsidiary
Airtel Money Kenya Limited	414,067	-	Fellow subsidiary
Airtel Uganda Limited	342,101	293,611	Fellow subsidiary
Airtel Tanzania Limited	24,635	7,774	Fellow subsidiary
Airtel Madagascar S.A.	24,095	11,694	Fellow subsidiary
Bharti Airtel International Netherland Limited Kenya Branch	23,051	31,244	Step up parent
Bharti Airtel Limited	14,663	10,142	Step up parent
Airtel Malawi Limited	6,594	1,747	Fellow subsidiary
Airtel DRC Limited	6,133	-	Fellow subsidiary
Airtel Rwanda Limited	5,929	1,202	Fellow subsidiary
Airtel Networks Limited (Nigeria)	5,125	6,229	Fellow subsidiary
Airtel (Seychelles) Limited	2,416	-	Fellow subsidiary
Airtel Networks Zambia Plc	1,597	3,922	Fellow subsidiary
Bharti International (Singapore) Pte Ltd	527	3,255	Fellow subsidiary
Singapore Telecommunication Limited	319	-	Fellow subsidiary
Airtel Africa Services (UK) Limited	176	-	Fellow subsidiary
Airtel Congo S.A	116	103	Fellow subsidiary
Airtel Gabon S.A.	116	149	Fellow subsidiary
Airtel Niger Limited.	100	136	Fellow subsidiary
Airtel Tchad S.A	73	69	Fellow subsidiary
Jersey Airtel Limited	34	7	Fellow subsidiary
Bharti Hexacom Limited	23	5	Fellow subsidiary
Airtel Congo (RDC) S.A	-	5,510	Fellow subsidiary
Airtel Ghana Limited*	-	22	Fellow subsidiary
Bharti Airtel Lanka (Pvt Ltd), Sri Lanka	-	4	Fellow subsidiary
	1,286,544	727,859	

*The entity has ceased to be a related party

Sales of services are negotiated with related parties on a cost-plus basis, allowing a margin of 10 % (2021: 10%). Services sold to related entities include interconnection of voice calls, roaming, short message services and goods sold include phones and handsets.

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35 RELATED PARTY TRANSACTIONS (Continued)

(ii) Purchase of goods and services	As of		
	31 Dec 2022	31 Dec 2021	
Airtel Africa Services (UK) Limited	786,100	-	Fellow subsidiary
Bharti Airtel (UK) Limited	183,361	190,802	Fellow subsidiary
Airtel Money Kenya Limited	148,472	-	Fellow subsidiary
Airtel Uganda Limited	126,277	99,014	Fellow subsidiary
Airtel Tanzania Limited	115,258	42,661	Fellow subsidiary
Network i2i Ltd.	85,385	108,631	Step up parent
Bharti Airtel Limited	20,297	9,774	Step up parent
Bharti Airtel International Netherland Limited Kenya Branch	19,082	16,089	Step up parent
Airtel Congo (RDC) S.A	18,581	9,885	Fellow subsidiary
Airtel Networks Limited (Nigeria)	10,791	5,073	Fellow subsidiary
Airtel Rwanda Limited	7,773	5,036	Fellow subsidiary
Nxtra Data Limited	7,130	-	Fellow subsidiary
Airtel (Seychelles) Limited	4,631	1,556	Fellow subsidiary
Airtel Networks Zambia Plc	4,558	4,842	Fellow subsidiary
Bharti International (Singapore) Pte Ltd	2,165	6,697	Fellow subsidiary
Airtel Malawi Limited	1,771	3,599	Fellow subsidiary
Airtel Madagascar S.A.	402	289	Fellow subsidiary
Bharti Hexacom Limited	278	44	Fellow subsidiary
Airtel Gabon S.A.	229	213	Fellow subsidiary
Airtel Tchad S.A	221	456	Fellow subsidiary
Celtel Niger S.A	191	510	Fellow subsidiary
Airtel Congo S.A	109	87	Fellow subsidiary
Jersey Airtel Limited	-	1	Fellow subsidiary
Bharti Airtel (France) SAS	-	94,963	Fellow subsidiary
Bharti Airtel Lanka (Pvt Ltd), Sri Lanka	-	3	Fellow subsidiary
	1,543,062	612,985	

Goods and services are bought from related companies, being entities controlled by Airtel Africa PLC. Bharti Airtel Limited and Bharti Enterprises. The company procures various services from related companies including interconnection for voice calls, roaming, SMS and the sale of assets.

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35 RELATED PARTY TRANSACTIONS (Continued)

Outstanding balances arising from sale and purchase of goods/services

(iii) Receivable from related parties (Note 23)

	As of		Relationship
	31 Dec 2022	31 Dec 2021	
Airtel Money Kenya Limited	818,623	-	Fellow subsidiary
Bharti Airtel (UK) Limited	411,134	297,141	Fellow subsidiary
Airtel Uganda Limited	389,425	262,239	Fellow subsidiary
Airtel Networks Limited (Nigeria)	314,114	288,889	Fellow subsidiary
Airtel Rwanda Limited	235,606	215,902	Fellow subsidiary
Celstel Niger S.A	165,799	152,029	Fellow subsidiary
Airtel Tanzania Limited	99,072	85,760	Fellow subsidiary
Bharti Airtel International (Netherlands) B.V Kenya Branch	96,644	98,315	Step up parent
Airtel Congo (RDC) S.A	61,319	52,714	Fellow subsidiary
Bharti International (Singapore) Pte Ltd	51,052	17,142	Fellow subsidiary
Airtel Malawi Limited	46,264	37,976	Fellow subsidiary
Bharti Airtel Limited	33,517	33,609	Step up parent
Airtel Madagascar S.A.	30,522	4,852	Fellow subsidiary
Airtel (Seychelles) Limited	23,666	19,507	Fellow subsidiary
Airtel Networks Zambia Plc	21,970	20,317	Fellow subsidiary
Airtel Tchad S.A	9,576	8,781	Fellow subsidiary
Airtel Congo S.A	6,329	5,789	Fellow subsidiary
Bharti Hexacom Limited	4,972	72	Fellow subsidiary
Nxtra Data Limited	2,229	-	Fellow subsidiary
Airtel Gabon S.A.	21	7,363	Fellow subsidiary
Jersey Airtel Limited	8	3	Fellow subsidiary
Airtel Money Transfer Limited	-	24,024	Subsidiary
Bharti Airtel Lanka (Private) Limited	-	3	Fellow subsidiary
Total	2,821,862	1,632,428	

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35 RELATED PARTY TRANSACTIONS (Continued)

(i) Payable to related parties (Note 31)

	As of		Relationship
	31 Dec 2022	31 Dec 2021	
Airtel Tanzania Limited	777,067	667,845	Fellow subsidiary
Airtel Uganda Limited	451,415	556,934	Fellow subsidiary
Airtel Africa Services (UK) Limited	411,536	-	Fellow subsidiary
Bharti Airtel Africa B.V.	364,384	332,589	Step up parent
Airtel Money Kenya Limited	328,536	-	Fellow subsidiary
Network i2i Ltd.	125,399	97,791	Step up parent
Airtel Rwanda Limited	65,975	56,905	Fellow subsidiary
Airtel Congo (RDC) S.A	52,233	46,353	Fellow subsidiary
Bharti Airtel (UK) Limited	28,908	53,797	Fellow subsidiary
Airtel Networks Zambia Plc	16,388	12,908	Fellow subsidiary
Bharti Airtel (France) SAS	10,715	94,963	Fellow subsidiary
Airtel Networks Limited (Nigeria)	8,527	3,031	Fellow subsidiary
Bharti Airtel Limited	6,959	19,683	Step up parent
Airtel Malawi Limited	6,495	5,480	Fellow subsidiary
Nxtra Data Limited	5,999	6,457	Fellow subsidiary
Airtel Tchad S.A	5,353	4,806	Fellow subsidiary
Bharti Hexacom Limited	5,045	31	Fellow subsidiary
Bharti Airtel Services Limited	5,035	458	Fellow subsidiary
Bharti Airtel International (Netherlands) B.V Kenya Branch	3,077	73,078	Step up parent
CelTel Niger S.A	1,488	1,388	Fellow subsidiary
Airtel (Seychelles) Limited	1,011	901	Fellow subsidiary
Airtel Madagascar S.A.	321	534	Fellow subsidiary
Airtel Congo S.A	176	210	Fellow subsidiary
Airtel Gabon S.A.	126	349	Fellow subsidiary
Bharti Airtel Lanka (Private) Limited	5	1	Fellow subsidiary
Airtel Money Transfer Limited	-	16,319	Subsidiary
Airtel Ghana Ltd*	-	1,498	Joint venture
	2,682,173	2,054,309	

*The entity has ceased to be a related party.

(ii) Key management compensation

	As of	
	31 Dec 2022	31 Dec 2021
Employment benefits	375,564	452,136
Details on key management compensation are as follows:		
Total Salaries and Allowances	270,481	296,902
Annual Performance Bonuses	55,806	86,759
Long Term Incentive	13,652	34,318
Director's remuneration	6,229	13
Social Security – Pension	7,839	6,441
Medical Expenses	8,063	6,758
Termination Dues	13,494	20,945
	375,564	452,136

35 RELATED PARTY TRANSACTIONS (Continued)

(v) Key management compensation (continued)

Annual performance bonus is awarded based on achievement of set earnings before interest, tax, depreciation and amortisation, EBITDA, whereas long term incentive is meant to align senior management performance with the vision of the company. As at 31 December 2022, the provision for long term incentive was KShs 34 million (2021: KShs 12 million).

(iii) Shareholder's loans

	As of	
	31 Dec 2022	31 Dec 2021
Payable to Bharti Airtel Kenya B.V. (Note 28)	4,726,084	38,553,878

36 (i) INVESTMENT IN SUBSIDIARY

	Country of incorporation	Principal business	Additional investment	As of	
				31 Dec 2022	31 Dec 2021
Airtel Money Transfer Limited	Kenya	International Mobile money transfer	-	40,000	40,000
100% owned					

The company started operations in March 2019.

The financial statements of Airtel Money Transfer Limited have been prepared separately. As per CBK requirement, during 2021 there was additional Share capital infused of KSH 20 Mn. No further investment in 2022.

The company has 100% shareholding in Airtel Money Transfer Limited which has been incorporated in Kenya.

Preparation of Separate financial statements and Group financial statements

The company meets the conditions for exemption from preparation of consolidated financial statements as per IFRS 10. Accordingly, the company has utilised these exemptions available to it in preparation of separate financial statements. The company holds investment in its sole subsidiary Airtel Money Transfer Limited which is accounted for at cost as per note 36(i).

The company is also exempt from preparing consolidated financial statements as per section 640(1) of the Kenyan Companies Act, 2015 as the financial information of the subsidiary is included in the consolidated financial statements of Airtel Africa PLC (United Kingdom) which are prepared in accordance with the IFRSs. Airtel Africa PLC is a company registered in the United Kingdom and its principal place of business is Africa, with their financial statements available to the public at their physical address and on the Company's website in the United Kingdom https://africa.airtel.com/assets/pdf/fullreport-2022/Full_Report-2022.pdf

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36 (ii) OTHER CURRENT ASSETS

	As of	
	31 Dec 2022	31 Dec 2021
Prepaid expenses	3,286,856	2,503,970
Input VAT	385,177	485,813
Other advances to employees and vendors	279,512	371,522
	3,951,545	3,361,305

OTHER NON CURRENT ASSETS

Paid under protest (legal case deposit)	5,383	6,621
Prepaid expenses aged more than 1 year	863,683	712,897
Security deposits	26,766	21,861
	895,832	741,379

36 (iii) Deferred customer acquisition cost

At the beginning of the year	959,577	644,815
Additions	2,622,851	1,927,073
Amortization	(1,975,329)	(1,612,311)
	1,607,099	959,577

Deferred customer acquisition cost

- Current	1,373,027	959,577
- Non-current	234,072	-
	1,607,099	959,577

The Company defers costs to obtain contracts with customers over expected average customer life determined based on customer churn rate.

37 OTHER LIABILITY

	As of	
	31 Dec 2022	31 Dec 2021
CURRENT		
Taxes Payable	1,922,955	1,859,156
Deferred Spectrum payable	686,348	1,163,758
	2,609,303	3,022,914

Taxes payable includes value added tax, excise, withholding taxes and other taxes payable. Deferred Spectrum payable refers to current liability payable towards spectrum.

37. OTHER LIABILITY (Continued)

	As of	
	31 Dec 2022	31 Dec 2021
Deferred Revenue**	1,489,574	1,436,157

** This refers to deferred revenue on recharges.

NON CURRENT

Employee leave encashment benefit	5,269	65,121
Deferred Spectrum payable	920,248	1,107,563
	925,517	1,172,684

38. EXCEPTIONAL ITEMS

(i) OPERATING LICENSE

In Feb'22, Airtel Kenya entered into a settlement agreement with the CA regarding its 10-year operating licence. Under such settlement, Airtel Kenya agreed to pay a total of USD 20.025 Mn in four instalments over the next three years. The cost of the operating license has been charged to the statement of comprehensive income and presented as an exceptional item in year 2021. Additionally, a corresponding deferred payment liability has been recognised in the statement of financial position.

(ii) DEFERRED TAX ASSET

The Company had carried forward losses and temporary differences on which deferred tax was not previously recognised. Considering the Company's profitability trends, that tax losses have recently been utilised and on the basis of forecast future taxable profits, the Company has determined that it is now probable that taxable profits will be available against which the tax losses and temporary differences can be utilised. Consequently, the deferred tax asset recognition criteria are met, leading to the recognition of an additional deferred tax asset of Ksh 10,093 Mn during the year ended 31 December 2022.

39. MAJOR EVENTS DURING THE YEAR

(i) Equity Restructuring

Airtel Networks Kenya Limited received an approval from the Communications Authority in March 2022 to restructure its equity by converting a portion of its existing shareholder loan into ordinary shares and converting its preference shares to ordinary shares. Following steps were taken: -

- Conversion of Shareholders' Loan KSHs 34.66 Bn to Ordinary Share Capital
- Conversion of Redeemable Preference Share Capital KSHs 26.87 Bn to Ordinary Share Capital
- Reduction of Ordinary Share Capital by KSHs 67.83 Bn to offset against accumulated losses.

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(ii) Airtel Money Carve Out

As from 1 July 2022, Airtel Networks Kenya Limited (ANKL) completed the separation of its mobile money business from the telecommunications business and has since been transferred to a new entity, Airtel Money Kenya Limited (AMKL).

Both AMKL and ANKL are incorporated in Kenya as separate subsidiaries of Airtel Africa Plc.

The completion of this restructuring enables AMKL to ring-fence its operations and focus exclusively on its mobile money business.

(iii) Spectrum Purchase

To enhance customer experience, Airtel has acquired additional 70 MHz spectrum in L2100 (10 MHz) & L2600 (60 MHz) bands for USD 50 Mn which has been booked as intangible assets.

40. EVENTS AFTER THE REPORTING DATE

There are no material events after reporting date that would require adjustment or disclosure in these financial statements.