

AIRTEL NETWORKS ZAMBIA PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2020

AIRTEL NETWORKS ZAMBIA PLC

(incorporated in Zambia)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2020

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AIRTEL NETWORKS ZAMBIA PLC

DIRECTORS' REPORT

for the year ended 31 December 2020

The Directors present their annual report on the affairs of Airtel Networks Zambia Plc (the 'Company') together with the financial statements and the auditor's report for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

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

SHARE CAPITAL

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

DIVIDEND

The Company did not pay any dividends during the year. Further Directors do not propose a final dividend for the year ended 31 December 2020 (2019: Nil).

RESULTS

The loss for the year ended 31 December 2020 amounted to **K340.558 million** (2019: Profit K15.743 million) and the operating profit for the year ended 31 December 2020 amounted to **K718.945 million** (2019: K669.629 million). The loss for the year 2020 was mainly on account of the devaluation of Kwacha. The impact of the same is **K768.305 million** (2019: K269.398 million).

The Company continues to accelerate its revenue growth momentum with a 20.61% YoY growth led by growth across all its product lines. In the new world order post COVID-19, the Company remains excited about the business and continues to invest to ensure strong and sustainable growth.

ALLOTMENT OF RADIO SPECTRUM

The Zambia Information and Communications Technology Authority ("ZICTA") has allotted 10Mhz radio spectrum in the 800Mhz frequency band at a cost of USD12.5 million on 18 January 2021. As of 31 December 2020, the Company had paid initial license fees of USD3.75 million and the remaining USD8.75 million will be paid by 31 March 2021.

A competitive process was used in which all telecom operators participated and the Company emerged as the winner. The increased spectrum allocation will assist to make a more robust telecom network and thus providing best in class services to the subscribers. The allotment of the spectrum will help keep pace with the recent exponential growth in mobile voice and data traffic which is expected to continue as more social economic activities are increasingly conducted entirely on online platforms.

DIRECTORS

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

Name	Role	Date of appointment/resignation
K. Monica Musonda (Non-ED)	Chairperson	Appointed on 23 March 2016
Apoorva Mehrotra (ED)	Managing Director	Appointed on 1 March 2018
Jito Kayumba (Non-ED)	Board Member	Appointed on 23 March 2016
Jaideep Paul (ED)	Board Member	Appointed on 2 November 2016
Ian Ferrao (ED)	Board Member	Appointed on 23 September 2019
Rogany Ramiah (ED)	Board Member	Appointed on 16 July 2019

NUMBER OF EMPLOYEES AND REMUNERATION

The total remuneration of employees during the year amounted to **K203.403 million** (2019: K149.143 million). The average number of employees for each month of the year was as follows:

Month	2020	2019
January	206	204
February	205	207
March	201	204
April	201	203
May	203	207

AIRTEL NETWORKS ZAMBIA PLC

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 December 2020

NUMBER OF EMPLOYEES AND RENUMERATION (CONTINUED)

Month	2020	2019
June	205	205
July	202	205
August	203	199
September	199	201
October	197	200
November	195	202
December	196	206

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.

COVID-19

The Covid-19 pandemic has interrupted business growth across the world, however, the telecom sector remained a pivot sector amidst tough times providing unabated connectivity of network and data. Our network response team was quick to respond to customers' demand across the country to ensure uninterrupted service for our customers while ensuring complete safety for our field staff. Partnering with our strategic and operations partners, we continuously worked to keep the network running to provide essential telecom service across Zambia. Based on the Company's assessment, no material impact has been noted due to the pandemic.

GIFTS AND DONATIONS

During the year the Company made donations of **K5.275 million** (2019: K0.221 million). The donations include K5 million towards the fight against the Covid-19 pandemic.

ROAMING

Roaming revenue is earned from foreign telephone operators when their subscribers utilise the Company's network. The Company accrued roaming revenue amounting to **K11.028 million** (2019: K27.128 million).

PROPERTY, PLANT AND EQUIPMENT

The Company purchased property, plant and equipment amounting to **K614.963 million** (2019: K470.293 million) during the year. In the opinion of the Directors, the recoverable amount of property, plant and equipment is not less than the carrying value. During the year the Company has made the payment towards the purchase of international bandwidth on indefeasible right of use (IRU) basis amounting to **K33.710 million** (2019: K85.119 million). The same has been presented as prepayment in the financial statements (note 20).

AUDITORS

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

STATEMENT ON CORPORATE GOVERNANCE

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

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

AIRTEL NETWORKS ZAMBIA PLC

DIRECTORS' REPORT (CONTINUED)
for the year ended 31 December 2020

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

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

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

By order of the Board.



Sonia Shamwana-Chinganya
Company SECRETARY

Date: 16 February 2021
LUSAKA

AIRTEL NETWORKS ZAMBIA PLC

STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2020

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

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The independent external auditor, Messrs Deloitte & Touche, have audited the financial statements and their report is shown on pages 5 to 8.

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

The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. In preparing the company's financial statements, the directors are required to make an assessment of the company's ability to continue as a going concern.

In the opinion of the Directors:

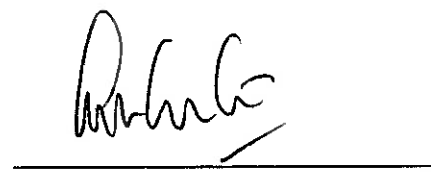
- the statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the performance of the Company for the year ended 31 December 2020;
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2020;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due;
- based on the assessments, the Company should continue to adopt a going concern basis of accounting in preparing the financial statements. (Refer Note 2 of the financial statement for more details)
- the financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2017; and
- the Directors have implemented and further adhered to the corporate governance principles or practices contained in Part VII, Sections 82 to 122 of the Companies Act, 2017 and the Securities Act of Zambia.

Approval of the financial statements

The financial Statements of the Company as indicated above, were approved by the Directors on 16 February 2021 and signed on behalf of the Board by:



K. Monica Musonda
CHAIRPERSON



Apoorva Mehrotra
MANAGING DIRECTOR

INDEPENDENT AUDITOR'S REPORT

To the members of
Airtel Networks Zambia Plc
Report on the financial statements

Opinion

We have audited the financial statements of Airtel Networks Zambia Plc set out on pages 9 to 48, which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Airtel Networks Zambia Plc as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2017 and the Securities Act of Zambia.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Zambia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters	How our audit addressed the key audit matters
<p>Revenue recognition</p> <ul style="list-style-type: none"> • Determination of revenue relating to usage of airtime; • Accounting treatment for promotional products and bundled products; • The revenue computation process is highly automated, complex in nature, characterised by high volume of data and dynamic; and 	<p>Our procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of the Company's revenue streams; • Performed walkthroughs of the different classes of revenue transactions and evaluated the design and implementation of controls; • Obtained an understanding of promotional products and bundled products configurations to identify the related revenue streams and assessed the revenue recognition criteria for each stream for compliance with the applicable accounting standards;

<p>Revenue recognition (continued)</p> <ul style="list-style-type: none"> The revenue recording involves a manual transfer of information from the IT billing system to the general ledger. <p>As a result of the significance of this process, the timing of the revenue recognition, volume of transactional data involved, manual interference in the transfer of data from the IT billing system to the general ledger, this was considered a key audit matter.</p> <p>The revenue recognition policy is disclosed in Note 4 (c) and revenue recognised disclosed in Note 8.</p>	<ul style="list-style-type: none"> Involved our Risk Advisory specialist to test the controls within the billing systems and the control environment relevant to revenue; Tested the accuracy of IN (Billing system) to general ledger reconciliation and the validity of reconciling items; and Reviewed work performed by the Company's Revenue Assurance (RA) team to address the risk of revenue leakage and confirmed that the RA Dashboards (templates on which control activities are performed) were prepared and signed by the RA team on predefined intervals. <p>In addition to the above we performed detailed substantive testing of journal entries processes around revenue to ensure these were appropriately authorised, complete and accurate.</p> <p>We found the operation of the controls over revenue to be effective, and our substantive testing did not reveal</p>
<p>Going concern</p> <p>As disclosed in Note 2 to the financial statements the Company, primarily due to the depreciation of the Kwacha, incurred a net loss of K341 million during the year ended 31 December 2020 and, as of that date, the Company's current liabilities exceeded its current assets by K1,689 million. As stated in note 2, the ability of the Company to continue as a going concern is dependent on its ability to achieve sufficient revenue growth, continued access to financing facilities and stability of the Kwacha /US Dollar exchange rate. Judgement is required by the Directors in estimating future Kwacha/US Dollar exchange rate and revenue growth which have a significant impact on cashflow forecasts used in determining whether or not a material uncertainty exists.</p>	<p>We performed various procedures, including the following:</p> <ul style="list-style-type: none"> Obtained an understanding of the Directors own assessment of the appropriateness of the going concern assumption; Reviewed the reasonableness of assumptions relating to revenue growth used in the forecasts against historical performance and planned network enhancement program; Reviewed reasonableness of the forecast exchange rate included in the cashflow forecast against market and Central Bank expectations; Performed sensitivity analysis on the cashflow by varying key assumptions such as exchange rate and revenue growth; Reviewed the adequacy of financing facilities from third party and intermediate holding Company; and Reviewed the Director's disclosures relating to going concern in the financial statements for adequacy. <p>We concurred with the Directors' conclusion that the preparation of financial statements on a going concern is appropriate and that no material uncertainty exists. We considered disclosures related to going concern to be adequate.</p>

Tax matters	
The entity operates in a fairly complex tax environment. The current tax legislation for telecom industry is generic in nature and subject to varying interpretations.	We performed the following procedures among others: <ul style="list-style-type: none"> - Assessed the design of the controls and operating effectiveness of controls around the management of the Company tax affairs and assessment of the accuracy of the tax computations; - Reviewed correspondence between the Zambia Revenue Authority (ZRA) and the Company for potential liabilities; and - Engaged our tax specialist to review the tax computation for the year to ensure compliance with the tax legislation.
There is inherent judgement involved in determining current tax liability.	
This matter has been considered a key area of focus due to the inherent judgement and subjectivity involved.	

Other information

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

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

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

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

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2017 and the Securities Act of Zambia, and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- 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.

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

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

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

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

Report on other legal and regulatory requirements

The Companies Act, 2017 requires that in carrying out our audit of Airtel Networks Zambia Plc, we report on whether:

- there is a relationship, interest or debt which us, as the Company's auditor, have in the Company;
- there are serious breaches by the Company's Directors, of corporate governance principles or practices contained in Part VII's Sections 82 to 112 of the Zambia Companies Act of 2017; and
- there is an omission in the financial statements as regards particulars of loans made to a Company Officer (a Director, Company Secretary or Executive Officer of a Company) during the year, and if reasonably possible, disclose such information in our opinion.

Rule 18 of the Securities (accounting and financial reporting requirements) Rules of the Securities Act of Zambia requires that we report on whether:

- The annual financial statements of the Company have been properly prepared in accordance with Securities and Exchange Commission rules;
- The Company has, throughout the financial year, kept proper accounting records in accordance with the requirements of Securities and Exchange Commission rules;
- The statement of financial position and statement of comprehensive income are in agreement with the Company's accounting records; and
- We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

In respect of the foregoing requirements, we have no matters to report.


DELOITTE & TOUCHE

R. NCHIMUNYA (AJD/F000154)
PARTNER

25 February 2021

AIRTEL NETWORKS ZAMBIA PLC**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**


Kwacha'000	Note	For the year ended	
		31 December 2020	31 December 2019
Income			
Revenue	8	2 598 305	2 154 318
Other income	9	6 870	10 499
		<u>2 605 175</u>	<u>2 164 817</u>
Expenses			
Network operating expenses		(510 839)	(361 415)
Depreciation and amortisation	12(b)	(417 804)	(388 959)
Other expenses	12(a)	(282 457)	(212 078)
Sales and marketing expenses		(218 110)	(136 958)
Employee benefits expenses		(203 403)	(149 143)
Access charges		(130 626)	(138 004)
Licence fee/ spectrum usage charges		(122 991)	(108 631)
		<u>(1 886 230)</u>	<u>(1 495 188)</u>
Operating profit		718 945	669 629
Finance income	11	117	223
Net exchange loss	10	(768 305)	(269 398)
Finance costs	11	(212 922)	(183 662)
(Loss)/profit before tax		(262 165)	216 792
Income tax expense	13	(78 393)	(201 049)
(Loss)/ profit and total comprehensive (loss)/income for the year		<u>(340 558)</u>	<u>15 743</u>
Basic and diluted earnings per share (Kwacha)	14	<u>(3.27)</u>	<u>0.15</u>

AIRTEL NETWORKS ZAMBIA PLC

STATEMENT OF FINANCIAL POSITION

Kwacha'000	Note	As of	
		31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	17	1 694 522	1 457 363
Capital work-in-progress	17	174 133	83 614
Right-of-use assets	18	635 585	612 556
Intangible assets	19	2 716	3 178
Intangible assets under development	19	79 275	-
Deferred tax asset	16	126 063	28 696
Other non-current assets	20	174 675	152 704
		2 886 969	2 338 111
Current assets			
Inventories	21	3 776	3 379
Derivative financial instruments	36	8 658	6 750
Trade and other receivables	22	268 302	196 906
Contract assets	24	23 239	30 445
Cash and cash equivalents	25	66 137	29 325
Other current assets	23	159 473	100 974
		529 585	367 779
Total assets		3 416 554	2 705 890
EQUITY AND LIABILITIES			
Equity			
Share capital	15	1 040	1 040
Share premium	15	24 962	24 962
Deficit on retained earnings		(405 848)	(65 290)
Total equity		(379 846)	(39 288)
Non-current liabilities			
Borrowings	29	264 817	521 062
Lease liabilities	32	1 313 275	947 291
		1 578 092	1 468 353
Current liabilities			
Borrowings	29	717 604	397 867
Lease liabilities	32	256 135	155 327
Derivative financial instruments	36	3 094	6 085
Trade and other payables	26	967 270	477 271
Contract liabilities	28	101 829	79 667
Current tax payable	13	83 935	80 415
Other current liabilities	27	88 441	80 193
		2 218 308	1 276 825
Total liabilities		3 796 400	2 745 178
Total equity and liabilities		3 416 554	2 705 890

The responsibilities of the Company's Directors with regard to the preparation of the financial statements are set out on page 4. The financial statements on pages 9 to 48 were approved for issue by the Board of Directors on 16 February 2021 and were signed on its behalf by:


 K. Morica Musonda
 CHAIRPERSON


 Apoorva Mehrotra
 MANAGING DIRECTOR

AIRTEL NETWORKS ZAMBIA PLC**STATEMENT OF CHANGES IN EQUITY**
for the year ended 31 December 2020

Kwacha'000	Notes	Share capital	Share premium	Deficit on retained earnings	Total
Balance at 1 January 2019		1 040	24 962	(37 784)	(11 782)
Transitional adjustment on adoption of IFRS 16 at 1 January 2019:					
- Right-of-use assets	18	-	-	168 733	168 733
- Lease liabilities	32	-	-	(241 132)	(241 132)
- Lease rent equalisation		-	-	190	190
Deferred tax on transition adjustment	16	-	-	28 960	28 960
Total comprehensive income for the year		-	-	15 743	15 743
Balance at 31 December 2019		1 040	24 962	(65 290)	(39 288)
At 1 January 2020		1 040	24 962	(65 290)	(39 288)
Total comprehensive loss for the year		-	-	(340 558)	(340 558)
Balance at 31 December 2020		1 040	24 962	(405 848)	(379 846)

AIRTEL NETWORKS ZAMBIA PLC

STATEMENT OF CASH FLOWS

Kwacha'000	Note	For the year ended	
		31 December 2020	31 December 2019
Cash flows from operating activities			
(Loss)/ profit before income tax		(262 165)	216 792
Adjustments for:			
Finance income	11	(117)	(223)
Finance costs	11	212 922	183 662
Depreciation and amortisation	12(b)	417 804	388 959
Impairment loss recognised on trade receivables	22	4 812	5 926
Net exchange losses	10	768 305	269 398
Loss/(gain) on disposal of property, plant and equipment	9	446	(7 756)
Other adjustments (i)		(5 019)	(4 790)
Operating cash flows before changes in working capital		1 136 988	1 051 968
<i>Changes in working capital:</i>			
Increase in trade and other receivables		(76 208)	(17 931)
Increase in inventories		(397)	(2 704)
Increase/(decrease) in trade and other payables		489 999	(56 868)
(Increase)/decrease in other current and non current assets		19 961	(78 721)
Increase in other liabilities		27 763	5 664
Net cash generated from operations before tax		1 598 106	901 408
Income tax paid (ii)		(172 240)	(185 707)
Net cash generated from operating activities		1 425 866	715 701
Cash flows from investing activities			
Purchase of property and equipment	17	(614 963)	(470 293)
Interest received	11	117	223
Proceeds from disposal of property and equipment		434	12 881
Purchase of intangible assets under development	19	(79 275)	-
Net cash flows used in investing activities		(693 687)	(457 189)
Cash flows from financing activities			
Proceeds from borrowings	29	36 418	636 250
Repayment of borrowings	29	(384 437)	(708 875)
Interest paid on borrowings	11	(59 688)	(61 700)
Interest paid on lease liabilities	11	(153 234)	(121 962)
Repayment of lease liabilities	32	(165 390)	(127 905)
Net cash flows used in financing activities		(726 331)	(384 192)
Net increase/ (decrease) in cash and cash equivalents		5 848	(125 680)
Cash and cash equivalents at beginning of the year		(125 380)	(191)
Effects of currency translation on cash and cash equivalents		(2 302)	491
Cash and cash equivalents at end of the year	25	(121 834)	(125 380)

(i) Includes reversal of provision for capital work in progress and effects of retirement of right-of-use assets /lease liabilities.

(ii) Income tax paid include recoveries from WHT for K1.57 million (2019 : nil).

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. CORPORATE INFORMATION

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

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

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

The financial statements for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 16 February 2021.

2. GOING CONCERN

The Company ended the year 2020 with strong underlying operational performance with revenue growth of 20.61%. However, on account of weakening of the Zambian Kwacha against the US Dollar during the year, there was an adverse impact of exchange losses amounting to K768.30 million (2019: K269.40 million) hence the Company incurred a net loss of K340.56 million (2019: profit of K15.74 million). As at 31 December 2020, accumulated losses were K405.85 million (2019: K65.29 million) and the Company was in a net current liability position of K1,688.72 million (2019: K909.05 million).

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. 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 stability of the Kwacha/US Dollar exchange rate, management achieving revenue growth targets. In their assessment, the Directors have assumed that the Kwacha will not depreciate significantly against the US Dollar and that the Company will achieve a revenue growth of at least similar to revenue growth for 2020; and
- b) Has access to financing facilities and will obtain sufficient funding from banks and holding company to meet its obligations as and when they fall due. The terms of the facilities are disclosed in note 25 to the financial statements.

On the basis of cash flow information, the Directors consider that the Company will continue to operate for the foreseeable future within the available financial resources. Accordingly, the Directors are of the opinion that the preparation of these financial statements on the going concern basis is appropriate and confident that the funds described above will be available to the Company to support its obligations as required.

3 ADOPTION OF NEW AND REVISED STANDARDS

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

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

3 ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

3.1 New and amended Standards that are effective for the current year (continued)

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16 (continued)

- b Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- c There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Company has not been impacted by the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

In the current year, the Company has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

<i>Amendments to References to the Conceptual Framework in IFRS Standards</i>	The Company has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.
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<i>Amendments to IAS 1 and IAS 8 Definition of material</i>	The Company has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.
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3.2 New and revised Standards in issue but not yet effective

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

Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment—Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts—Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards 2018-2020 Cycle	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments and IFRS 16 Leases</i>

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

3 ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an Company will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an Company also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an Company recognises such sales proceeds and related costs in profit or loss. The Company measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the Company's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the Company first applies the amendments.

The Company shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

3 ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract (continued)

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

The Annual Improvements include amendments to four Standards.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent’s consolidated financial statements, based on the parent’s date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 9 Financial Instruments

The amendment clarifies that in applying the ‘10 per cent’ test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

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

(b) Basis of preparation

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation (continued)

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

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

(c) Revenue recognition

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

Revenue is 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 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.

Service revenue is derived from the provision of telecommunication 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 and customer onboarding charges, which include activation charges and charges for voice, data, messaging and value added services.

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.

A contract liability is recognised for amounts received in advance, until the services are provided or when the usage of services becomes remote.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition (continues)

The Company recognises revenue from these services when performance obligation has been met. Revenue is recognised based on actual units of telecommunication services provided during the reporting period as a proportion of the total units of telecommunication services consumed.

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

Revenues recognised in excess of amounts invoiced are classified as unbilled revenue.

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 of 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 others' 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.

The 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 to note 20).

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.

(d) Segment Reporting

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

(e) Foreign currencies

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

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

(f) Property, plant and equipment

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

The expenditures that are incurred after an item of property, plant and equipment has been put to use, such as repairs and maintenance, are normally charged to the profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment (continued)

When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes such parts as separate components of assets. When an item of property, plant and equipment is replaced, then its carrying amount is de-recognised from the statement of financial position and cost of the new item is recognised.

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

Categories	Years
Buildings	20
Leasehold improvements	10 or period of lease, as applicable, which ever is less.
Network equipment	3 – 25
Computer equipment	3 - 5
Office furniture and equipment	1 – 5

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

Property, plant and equipment 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.

(g) Borrowing costs

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

(h) Leases

Policies applicable from 1 January 2019

The Company has applied IFRS 16 using the modified retrospective approach with effect from January 1, 2019. The Company elected to apply the practical expedient included in IFRS 16 and therefore retained its existent assessment under IAS 17 and IFRIC 4 as to whether a contract entered or modified before January 1, 2019 contains a lease.

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.

i. Company as a lessee

On initial application of IFRS 16, the Company recognised a lease liability measured at the present value of all the remaining lease payments, discounted using the lessee's incremental borrowing rate at January 1, 2019 whereas the Company has elected to measure right-of-use asset at its carrying amount as if IFRS 16 had been applied since the lease commencement date, but discounted using the lessee's incremental borrowing rate at January 1, 2019. The Company has elected not to recognise a lease liability and a right-of-use asset for leases for which the lease term ends within twelve months of January 1, 2019 and has accounted for these leases as short-term leases.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases (continued)

i. Company as a lessee (continued)

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 remeasured 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 remeasurements 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.

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 recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. 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.

Policies applicable prior to 1 January 2019

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases (continued)

ii. Company as a lessor (continued)

Policies applicable prior to 1 January 2019 (continued)

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

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

(i) Inventories

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

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

(j) 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 are also included as a component of cash and cash equivalents.

(k) Statement of cash flows

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

(l) Financial instruments

i. 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 Company's 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 with embedded derivatives are considered in their entirety for determining the contractual terms of the cash flow and accordingly, embedded derivatives are not separated. However, derivatives embedded in non-financial instrument/financial liabilities (measured at amortised cost) host contracts are classified as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Financial instruments (continued)

ii. 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

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.

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.

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

iii. Measurement - derivative financial instruments

Derivative financial instruments, including separated embedded derivatives that are not designated as hedging instruments in a hedging relationship 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.

iv. Hedging activities

I. Fair value hedge

The Company uses derivative financial instruments (e.g. interest rate/currency swaps) to manage/mitigate their exposure to the risk of change in fair value of the borrowings. The Company designates certain interest swaps to hedge the risk of changes in fair value of recognised borrowings attributable to the hedged interest rate risk. The effective and ineffective portion of changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss within finance income/finance costs, together with any changes in the fair value of the hedged liability that is attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to profit or loss over the period to remaining maturity of the hedged item.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

iv. Hedging activities (continued)

ii. Cash flow hedge

The Company uses derivative financial instruments (e.g. foreign currency forwards, options, swaps) to manage their exposure to foreign exchange and price risk. Further, the Company designates certain derivative financial instruments (or its components) as hedging instruments for hedging the exchange rate fluctuation risk attributable to either a recognised item or a highly probable forecast transaction ('Cash flow hedge'). The effective portion of changes in the fair value of derivative financial instruments (or its components) that are designated and qualify as cash flow hedges, are recognised in other comprehensive income and held as cash flow hedge reserve ('CFHR') – within other components of equity. Any gains/(losses) relating to the ineffective portion, are recognised immediately in profit or loss within finance income/finance costs. The amounts accumulated in equity are re-classified to the profit and loss in the periods when the hedged item affects profit/(loss).

When a hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, any cumulative gains/(losses) existing in equity at that time remains in equity and is recognised (on the basis as discussed in the above paragraph) when the forecast transaction is ultimately recognised in the profit and loss. However, at any point of time, when a forecast transaction is no longer expected to occur, the cumulative gains/(losses) that were reported in equity is immediately transferred to the profit and loss within finance

v. 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 statement of comprehensive income.

(m) Share capital and Share premium

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

(n) Employee benefits

1. Retirement benefit obligations

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

The contributions to the defined contribution schemes are recognised in profit or loss in the year in which they fall.

2. Other entitlements

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

(o) Income tax

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income tax (continued)

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised, when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

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

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

(p) Intangible assets

The Company's intangible asset comprise of licenses. Licenses are recognised as an asset when it is probable that future economic benefits from the asset will flow to the Company and the cost of the license can be reliably measured.

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

The cost of intangible assets under development includes the amount of spectrum awarded to the Company for which services are yet to be rolled out

(q) Impairment of non-financial assets

Property, plant and equipment (PPE), right-of-use assets (ROU) and intangible assets

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Reversal of impairment losses of non-financial assets

Reversal of impairment losses

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

(s) Dividends

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

(t) Provisions

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

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

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

(u) Contingencies

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

(v) Comparatives

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

(w) Earning per share (EPS)

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(i) Critical accounting estimates and assumptions

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

Receivables

Critical estimates are made by the Directors in determining the recoverable amount of impaired receivables. The Company uses a provision matrix to measure the expected credit loss of trade receivables. Factors taken into consideration in making such judgments include historical trends and the number of days a debt is past its due date for payment. The carrying amount of impaired receivables is set out in Note 22.

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 the 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. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the reporting date. For details, refer Note 16.

Determination of residual values and useful lives

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

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.

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

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

(a) 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 for the given markets in which Company operates, the Company has used judgement in determining the IBR by taking into consideration risk free borrowing rate based on US\$ bonds and adjusting it for country and Company specific risk premiums. The IBR used across the Company is 9.84% for USD leases and

(b) 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 services, etc. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, and recognised Currency exposure arising from liabilities denominated in foreign currencies is managed primarily through the holding of bank balances in the relevant foreign currencies and hedging through foreign currency forward contract. Policy is consistent with previous period.

The sensitivity of the statement of profit/loss before tax 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 December 2020 and 31 December 2019.

At 31 December 2020, if the Kwacha had weakened/strengthened by 5% against the US dollar with all other variables held constant, profit before tax for the period would have been **K92.811** million (2019: K86.231 million) lower/higher, mainly as a result of US dollar denominated trade receivables, payables, lease liability and borrowings. There would be no impact on equity.

Exposure to currency risk

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

Exposure to currency risk

	2020 K'000	2019 K'000
Cash & cash equivalents (net)	21 338	(28 854)
Trade and other receivables	177 345	137 085
Trade and other payables	(118 072)	(130 260)
Lease liabilities	(1 142 384)	(938 370)
Borrowings (note 29)	(794 450)	(764 224)
	<u>(1 856 223)</u>	<u>(1 724 623)</u>
The following US Dollar exchange		
Average Rate	18.278	12.902
Closing Rate	<u>21.185</u>	<u>13.895</u>

(ii) Price risk

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

(iii) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(iii) Interest rate risk (continued)

The Company's interest bearing financial liabilities were the overdraft of **K187.971 million** (2019: K154.705 million) and the borrowing of **K794.450 million** at year end (2019: K764.224 million). The Company regularly monitors financing options available to ensure optimum interest rates are obtained. At 31 December 2020, if effective interest rates on borrowings had been 2% higher/lower with all other variables held constant, pre tax profit would have been **K19.648 million** (2019: K18.379 million) lower/higher.

Credit risk

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

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

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

The amount that best represents the Company's maximum exposure to credit risk at 31 December 2020 is made up as follows:

	Note	2020 K'000	2019 K'000
Cash and cash equivalents	25	66 137	29 325
Contract Assets	24	23 239	30 445
Amounts due from related parties	33	230 627	139 864
Trade receivables (net)	22	37 675	57 042
		<u>357 678</u>	<u>256 676</u>

Amounts due from related parties are assessed regarding credit risk at each reporting date. As the same are closely monitored and controlled by the same management, there is no provision matrix being followed on ageing basis. There have been no instances observed in the past where collection are assumed to be at risk for such related party receivable

Impairment losses

The ageing of trade receivables at the reporting date was:

	2020 K'000	2020 K'000	2019 K'000	2019 K'000
	Gross amount	Impaired	Gross amount	Impaired
30 days	20 127	-	23 969	-
60 days	12 792	-	31 495	-
90 days and above	87 741	82 985	79 751	78 173
	<u>120 660</u>	<u>82 985</u>	<u>135 215</u>	<u>78 173</u>

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Impairment losses (continued)

Collateral is held for some of the above assets namely distributors with bank guarantees of K9.120 million, K0.998 million post-paid deposits and K7.405 million channel partner deposits as at 31 December 2020 (2019: K9.42 million bank guarantees and K1.128 million post-paid deposits and K5.740 million channel partner deposits respectively). Trade receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

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

	2020	2019
	K'000	K'000
Past due but not impaired:		
- by up to 30 days	8 749	25 097
- by 31 to 90 days	4 385	6 398
- by 91 days and over	4 141	1 438
Total past due but not impaired	<u>17 275</u>	<u>32 933</u>

Liquidity risk

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

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

	Note	Less than 1 year K'000	Between 1 and 2 years K'000	Between 2 and 5 years K'000	Over 5 years K'000
At 31 December 2020					
- Trade and other payables	26	967 270	-	-	-
- Bank overdrafts	25	187 971	-	-	-
- Term loans	29	529 633	264 817	-	-
At 31 December 2019					
- Trade and other payables	26	477 271	-	-	-
- Bank overdrafts	25	154 705	-	-	-
- Term loans	29	243 162	347 375	173 687	-

7. CAPITAL MANAGEMENT

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

Kwacha'000

7. CAPITAL MANAGEMENT (CONTINUED)

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

The gearing ratios at 31 December 2020 and 31 December 2019 were as follows:

	2020	2019
Total borrowings (including bank overdraft and lease liabilities)	2 551 831	2 021 547
Less: cash and cash equivalents	(66 137)	(29 325)
Net debt	<u>2 485 694</u>	<u>1 992 222</u>
Total equity	<u>(379 846)</u>	<u>(39 288)</u>
Total capital	<u>2 105 848</u>	<u>1 952 934</u>
Gearing ratio	<u>118%</u>	<u>102%</u>

8. REVENUE

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

Analysis of revenue by category:

Airtime revenue	1 397 520	1 184 516
Data revenue	891 983	672 048
Interconnect revenue	192 625	201 128
Other services	77 131	50 376
Short Messaging Services	64 964	55 058
Value added services content	55 807	73 222
Roaming revenue	11 028	27 128
Connection revenue	14 757	12 934
Handsets and accessories	10 280	6 810
Trade discount	(117 790)	(128 902)
	<u>2 598 305</u>	<u>2 154 318</u>

Performance obligations that are unsatisfied (or partially unsatisfied) amounting to **K101.829 million** at 31 December 2020 and **K79.667 million** as at 31 December 2019 will be satisfied within a period of one year, respectively.

Revenue recognised that was included in the contract liability balance at the beginning of the year is **K79.667 million** (2019: **K101.608 million**). Transfers from contract assets recognized at the beginning of the period to receivables is **K30.445 million** for 2020 (2019: **K30.415 million**).

9. OTHER INCOME

(Loss)/ gain on disposal of property, plant and equipment	(446)	7 756
Other operating income	<u>7 316</u>	<u>2 743</u>
	<u>6 870</u>	<u>10 499</u>

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

Kwacha'000	2020	2019
10. NET EXCHANGE LOSS		
Net exchange (loss) arose on:		
Lease liabilities	(483 235)	(137 442)
Borrowings and cash and cash equivalents	(380 547)	(120 750)
Other balances	95 477	(11 206)
	<u>(768 305)</u>	<u>(269 398)</u>
11. FINANCE COST AND INCOME		
Finance costs		
Interest on lease liability	153 234	121 962
Interest expense on borrowings	59 688	61 700
	<u>212 922</u>	<u>183 662</u>
Finance income		
Interest income on deposits	117	223
	<u>117</u>	<u>223</u>
12. LOSS/ (PROFIT) BEFORE TAX		
Loss/(profit) before tax is stated after debiting:		
(a) Other expenses		
IT expenses	72 314	57 487
Management fees	70 148	53 741
Content charges	62 026	54 240
Other expenses	45 755	27 856
Cost of goods sold	25 317	10 590
Provision for impairment losses	4 812	5 926
Auditors' remuneration	2 085	2 238
	<u>282 457</u>	<u>212 078</u>
(b) Depreciation and amortisation		
Depreciation on property and equipment (Note 17)	289 467	274 913
Depreciation on right-of-use assets (Note 18)	127 875	113 584
Amortisation of intangible assets (Note 19)	462	462
	<u>417 804</u>	<u>388 959</u>
13. INCOME TAX		
Current income tax	171 415	156 436
Deferred income tax (Note 16)	(97 367)	32 880
Prior year additional tax charge	4 345	11 733
Income tax expense	<u>78 393</u>	<u>201 049</u>
The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
(Loss)/ profit before income tax	<u>(262 165)</u>	216 792
Tax calculated at the statutory income tax rate of 40%	(104 866)	86 717
Tax effect of:		
Expenses not deductible for tax purposes (net)	276 281	69 719
Origination and reversal of timing differences (note 16)	(97 367)	32 880
Prior year additional tax charge	4 345	11 733
Income tax expense	<u>78 393</u>	<u>201 049</u>

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

Kwacha'000

13. INCOME TAX (continued)	2020	2019
Income tax payable		
<i>Current income tax movement in the statement of financial position:</i>		
At January	80 415	98 337
Current income tax charge	171 415	156 436
Prior year additional tax charge	4 345	11 733
WHT recoveries in respect of current year	(1 573)	-
Payments during the year	(170 667)	(185 707)
Other adjustment entries	-	(384)
At end of the year	83 935	80 415

Income tax provisional returns have been filed with the Zambia Revenue Authority ("ZRA") for the year ended 31 December 2020. Quarterly payments for the year ended 31 December 2020 were made on the due dates during the year.

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. There were no potentially dilutive shares outstanding at 31 December 2020 and 31 December 2019. Diluted earnings per share is therefore the same as basic earnings per share.

(Loss)/profit attributable to the equity holders of the Company	<u>(340 558)</u>	<u>15 743</u>
Weighted average number of ordinary shares (Nos '000)	<u>104 000</u>	<u>104 000</u>
Basic/diluted earnings per share (Kwacha)	<u>(3.27)</u>	<u>0.15</u>

15. SHARE CAPITAL

	Number of shares (million)	Ordinary shares (K 000)	Share premium (K 000)
At 31 December 2020	<u>104</u>	<u>1 040</u>	<u>24 962</u>
At 31 December 2019	<u>104</u>	<u>1 040</u>	<u>24 962</u>

The total authorised number of ordinary shares is **150 million** (2019: 150 million) with a par value of K0.01 per share. The issued and fully paid ordinary shares is **104 million** (2019: 104 million).

16. DEFERRED TAX

Deferred tax liability is calculated using the enacted income tax rate of **40%** (2019: 40%). The movement on the deferred tax account is as follows:

	2020	2019
1 January	(28 696)	(32 616)
Charge/ (credit) to profit or loss	(97 367)	32 880
Credit to retained earnings	-	(28 960)
At 31 December	<u>(126 063)</u>	<u>(28 696)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

Kwacha'000

16. DEFERRED TAX (CONTINUED)

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

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

	At 1 January	Charged/ (credited) to profit/loss	Charged/ (credited) to retained earnings	At 31 December
2020				
Deferred tax liabilities				
Property and equipment	200 873	44 246	-	245 119
Unrealised exchange gains	14 883	12 483	-	27 366
Deferred tax assets				
Other temporary deductible differences	(58 441)	15 958	-	(42 483)
Other provisions	(48 414)	(2 371)	-	(50 785)
Unrealised exchange losses	(6 428)	3 575	-	(2 853)
IFRS 16 incremental impact	(131 169)	(171 258)	-	(302 427)
Net deferred tax	(28 696)	(97 367)	-	(126 063)
2019				
Deferred tax liabilities				
Property and equipment	420 192	(219 319)	-	200 873
Unrealised exchange gains	(85 063)	99 946	-	14 883
Deferred tax assets				
Other temporary deductible differences	(317 944)	259 503	-	(58 441)
Other provisions	(51 175)	2 761	-	(48 414)
Unrealised exchange losses	1 374	(7 802)	-	(6 428)
IFRS 16 transition adjustment	-	(102 209)	(28 960)	(131 169)
Net deferred tax	(32 616)	32 880	(28 960)	(28 696)

The Company adopted IFRS 16 in 2019 and elected to recognise transitional adjustment through retained earnings on the date of application. The deferred tax impact of the amounts adjusted through retained earnings was K28.960 million.

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

Kwacha'000

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold Improvements	Telecom equipment	Fixture, fittings, office & other IT equipment	Total	Capital work in progress (i)
Historical Cost :						
At 1 January 2019	115 295	17 963	2 994 289	563 548	3 691 095	177 095
Additions	-	-	-	-	-	470 293
Transfers	-	-	518 090	50 474	568 564	(568 564)
Adjustments/ disposals	-	-	(16 115)	(1 229)	(17 344)	4 790
At 31 December 2019	115 295	17 963	3 496 264	612 793	4 242 315	83 614
At 1 January 2020	115 295	17 963	3 496 264	612 793	4 242 315	83 614
Additions	-	-	-	-	-	614 963
Transfers	4	1 736	454 542	71 224	527 506	(527 506)
Adjustments/ disposals	-	-	(3 529)	-	(3 529)	3 062
At 31 December 2020	115 299	19 699	3 947 277	684 017	4 766 292	174 133
Depreciation						
At 1 January 2019	33 219	14 237	1 954 355	787 296	2 789 107	-
Charge for the year	5 764	694	242 910	25 545	274 913	-
Adjustments/ disposals	-	-	(11 679)	(267 389)	(279 068)	-
At 31 December 2019	38 983	14 931	2 185 586	545 452	2 784 952	-
At 1 January 2020	38 983	14 931	2 185 586	545 452	2 784 952	-
Charge for the year	5 785	776	244 968	37 938	289 467	-
Adjustments/ disposals	-	-	(2 649)	-	(2 649)	-
At 31 December 2020	44 768	15 707	2 427 905	583 390	3 071 770	-
Carrying amount:						
At 31 December 2020	70 531	3 992	1 519 372	100 627	1 694 522	174 133
At 31 December 2019	76 312	3 032	1 310 678	67 341	1 457 363	83 614

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

(i) The carrying value of CWIP as at 31 December 2020 and 2019 is K174,133 million and K83,614 million respectively, which mainly pertains to telecom equipment. In 2019 and 2020, adjustments/disposals include reversal of provision due to deployment of aged inventory.

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

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18. RIGHT-OF-USE ASSETS

	Leasehold buildings	Telecom equipment	Motor vehicles	Total
Cost				
At 1 January 2019 (i)				
Transitional adjustment on adoption of IFRS 16	-	814 860	-	814 860
Additions	6 356	156 217	6 160	168 733
Asset retirement	96	13 383	-	13 479
	-	(7 002)	-	(7 002)
At 31 December 2019	6 452	977 458	6 160	990 070
At 1 January 2020	6 452	977 458	6 160	990 070
Additions	1 653	155 992	-	157 645
Asset retirement	-	(11 039)	-	(11 039)
At 31 December 2020	8 105	1 122 411	6 160	1 136 676
Depreciation				
At 1 January 2019 (i)				
Charge for the year	-	267 179	-	267 179
Asset retirement	2 549	107 727	3 308	113 584
	-	(3 249)	-	(3 249)
At 31 December 2019	2 549	371 657	3 308	377 514
At 1 January 2020	2 549	371 657	3 308	377 514
Charge for the year	3 296	121 913	2 666	127 875
Asset retirement	-	(4 298)	-	(4 298)
At 31 December 2020	5 845	489 272	5 974	501 091
Carrying amount:				
At 31 December 2020	2 260	633 139	186	635 585
At 31 December 2019	3 903	605 801	2 852	612 556

(i) Till 31 December 2018, the Company only recognised 'right-of-use assets in relation to leases that were classified as 'finance leases' under IAS 17 - Leases.

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

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19. INTANGIBLE ASSETS	Cellular license	Internet service provider license	Total	*Intangible assets under development
Cost				
At 1 January 2019	7 372	125	7 497	-
At 31 December 2019	7 372	125	7 497	-
At 1 January 2020	7 372	125	7 497	-
Additions	-	-	-	79 275
Adjustments/disposals (i)	(326)	-	(326)	-
At 31 December 2020	7 046	125	7 171	79 275
Amortization				
At 1 January 2019	3 732	125	3 857	-
Charge for the year	462	-	462	-
At 31 December 2019	4 194	125	4 319	-
At 1 January 2020	4 194	125	4 319	-
Charge for the year	462	-	462	-
Adjustments/disposals (i)	(326)	-	(326)	-
At 31 December 2020	4 330	125	4 455	-
Carrying amount				
At 31 December 2020	2 716	-	2 716	79 275
At 31 December 2019	3 178	-	3 178	-

(i) Mainly consists of reversal of gross carrying value and accumulated depreciation on retirement of intangibles.

*Intangible assets under development relates to the amount of spectrum awarded to the Company for which services are yet to be rolled out. The Zambia Information and Communications Technology Authority ("ZICTA") has allotted 10Mhz radio spectrum in the 800Mhz frequency band at a cost of USD12.5 million on 18 January 2021. As of 31 December 2020, the Company had paid initial license fees of USD3.75 million and the remaining USD8.75 million will be paid by 31 March 2021.

20. OTHER NON-CURRENT ASSETS	2020	2019
Indefeasible right of use (IRU) of bandwidth (i)	162 126	147 438
Deferred customer acquisition cost (ii)	12 549	5 266
	174 675	152 704
(i) Indefeasible right of use (IRU) of bandwidth		
Cost		
At 1 January 2019		107 630
Additions		85 119
At 31 December 2019		192 749
At 1 January 2020		192 749
Additions		33 710
At 31 December 2020		226 459
Amortization		
At 1 January 2019		15 111
Charge for the year		15 498
At 31 December 2019		30 609
At 1 January 2020		30 609
Charge for the year		16 387
At 31 December 2020		46 996

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

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20. OTHER NON-CURRENT ASSETS (CONTINUED)

(i) Indefeasible right of use (IRU) of bandwidth (continued)

Carrying amount

At 31 December

	2020	2019
- Current prepayment	17 337	14 702
- Non-current prepayment	162 126	147 438
	<u>179 463</u>	<u>162 140</u>

(a) In 2017, the Company took international bandwidth on indefeasible right of use (IRU) basis, which is being amortised over a period of 10 to 15 years. Additional 15-year IRU has been taken in 2019 and 2020.

(ii) Deferred customer acquisition cost

At the beginning of the year

	2020	2019
Expenses deferred	49 605	28 883
Amounts relating to prior year*	-	27 957
Amortisation	(32 967)	(30 860)

At the end of the year

Deferred customer acquisition cost

	2020	2019
- Current prepayment	30 069	20 714
- Non-current prepayment	12 549	5 266
	<u>42 618</u>	<u>25 980</u>

*In prior years, based on the then available information, the Company considered that the average life of customers across its network was less than 12 months and had taken the practical expedient available under IFRS 15 not to defer customer acquisition costs on recognition and amortise over the average anticipated customer life, but to expense customer acquisition costs as incurred. With increased and more reliable data the Company now estimates 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 updated its policy on cost deferral recognition in these financial statements with a financial impact of increasing profits before tax by K25.980 million for 2019. The amounts relating to the prior and earlier years were not considered to be material requiring restatement of the prior year financial statements.

21. INVENTORIES

	2020	2019
Merchandise held for sale	16 400	26 667
Less provision for obsolete stock	(12 624)	(23 288)
	<u>3 776</u>	<u>3 379</u>

The cost of inventories recognized as an expense and included in 'cost of sales' amounted to K1.89 million (2019: K12.79 million).

22. TRADE AND OTHER RECEIVABLES

	2020	2019
Trade receivables	120 660	135 215
Less provision for impairment losses	(82 985)	(78 173)
Net trade receivables	37 675	57 042
Amounts due from related parties (refer note 33)	230 627	139 864
	<u>268 302</u>	<u>196 906</u>

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

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22. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

The Company performs on-going credit evaluations of its customers' financial condition and monitors the credit-worthiness of its customers to which it grants credit in its ordinary course of business. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amount due. Where the financial asset has been written-off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit and loss.

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

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

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

	2020	2019
Balance as at 1 January	78 173	110 068
Transfer to credit-impaired	4 812	5 926
Amounts written off during the year as uncollectible	-	(37 821)
Balance as at 31 December	82 985	78 173
23. OTHER CURRENT ASSETS		
Prepayments	92 665	63 024
Others assets	61 670	34 905
Advances to suppliers	5 138	3 045
	159 473	100 974
24. CONTRACT ASSETS		
Revenue from interconnect customers	10 612	12 961
Revenue from post paid customers	9 590	10 394
Revenue from sale of handsets to corporate/enterprise Customers	2 569	6 047
Revenue from roaming customers	468	1 043
Current	23 239	30 445
Non-Current	-	-

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

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25. CASH AND CASH EQUIVALENTS

	2020	2019
Balances in banks		
- Current accounts	51 849	22 319
Cash on hand	14 288	7 006
	<u>66 137</u>	<u>29 325</u>

For the purpose of the statement of cash flows, cash and cash equivalents are as follows:

Cash and bank balances	66 137	29 325
Bank overdrafts	<u>(187 971)</u>	<u>(154 705)</u>
	<u>(121 834)</u>	<u>(125 380)</u>

The Company has eight overdraft/ facilities with limits of up to K270 million and US\$76.363 million as shown below. These facilities are subject to annual review. Overdraft facilities from Citibank Zambia Limited and Standard Chartered Bank Zambia Plc is available for utilization in both USD and ZMW.

(i) Bharti Airtel Zambia Holdings BV	\$ 50 million	3 Months Libor + 4.5%
(ii) Citibank Zambia Limited	\$ 11 million	3 Months Libor + 2.6% (MPR+ liquidity premium + 1.5% margin)
(iii) Standard Chartered Bank Zambia Plc	\$ 2.363 million	1 Months Libor + 2% (MPR+ 9%)
(iv) Standard Chartered Bank Zambia Plc	\$ 13 million	Libor + 2.9% margin
(v) Barclays Bank Zambia Plc	K 20 million	MPR +9.75%
(vi) Stanbic Bank Zambia Limited	K 20 million	MPR +7.5%
(vii) Ecobank Zambia Limited	K 165 million	MPR +7.55%
(viii) Access Bank Limited	K 65 million	MPR +7.5%

The Company had drawn amounts as at the year-end of K187.971 million and US\$ Nil (2019: K119.887 million and US\$2.506 million).

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

26. TRADE AND OTHER PAYABLES

	2020	2019
Trade payables	557 322	306 806
Amounts due to related parties (refer note 33)	370 191	152 577
Accrued expenses	39 757	17 888
	<u>967 270</u>	<u>477 271</u>

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

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

27. OTHER CURRENT LIABILITIES

	2020	2019
Other taxes payable	<u>88 441</u>	<u>80 193</u>

28. CONTRACT LIABILITIES

Amounts received in advance from prepaid customers for delivery of internet and voice service.

Deferred income	101 829	79 667
Current	<u>101 829</u>	<u>79 667</u>
Non-current	-	-
	<u>101 829</u>	<u>79 667</u>

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

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29. BORROWINGS	2020	2019
Non-current		
Term loans	794 450	764 224
Less : current	<u>(529 633)</u>	<u>(243 162)</u>
	<u>264 817</u>	<u>521 062</u>
 Current maturity of long term debts	 <u>529 633</u>	 <u>173 688</u>
 Current		
Term Loans	-	69 474
Bank overdraft	<u>187 971</u>	<u>154 705</u>
	<u>187 971</u>	<u>224 179</u>
 Total current borrowings	 <u>717 604</u>	 <u>397 867</u>

The term loans are due to the following commercial banks:

	Standard Chartered Bank Zambia Plc	Citibank Zambia Limited	ABSA Bank Zambia Plc.	ABSA Bank Mauritius Limited	Total
At 1 January 2019	715 608	-	-	-	715 608
Draw down during the year	-	-	305 400	330 850	636 250
Repayments in the year	(708 875)	-	-	-	(708 875)
Exchange loss	62 741	-	28 080	30 420	121 241
At 31 December 2019	<u>69 474</u>	<u>-</u>	<u>333 480</u>	<u>361 270</u>	<u>764 224</u>
	Standard Chartered Bank Zambia Plc	Citibank Zambia Limited	ABSA Bank Zambia Plc.	ABSA Bank Mauritius Limited	Total
At 1 January 2020	69 474	-	333 480	361 270	764 224
Drawn down during the year	-	36 418	-	-	36 418
Repayments in the year	(90 467)	(36 250)	(123 706)	(134 014)	(384 437)
Exchange losses/(gains)	20 993	(168)	171 562	185 858	378 245
At 31 December 2020	<u>-</u>	<u>-</u>	<u>381 336</u>	<u>413 114</u>	<u>794 450</u>

In May 2020, the Company obtained a short term credit facility from CITI Bank Zambia Limited for US\$ 2 Million. The Loan carries an interest rate of 2.13 % per annum. The facility was repayable within 41 days .The facility was fully repaid in June 2020.

In July 2019 the Company obtained a US\$50 Million medium term credit facility lent jointly by ABSA Bank Zambia Plc. (US\$24 Million) and ABSA Bank Mauritius Limited (US\$26 Million). The Loan carries an interest rate of 3 month Libor + 2.25 % per annum. The facility is repayable within 36 months. The loan is guaranteed by Bharti Airtel International

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

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30. CONTINGENT LIABILITIES

Legal proceedings

The Company had some pending legal proceedings as at 31 December 2020. The management is of the opinion, having obtained relevant legal advice, that it is possible, but not probable, that contingent liability of K0.361 million (2019: Nil) arising from pending proceedings against the Company will crystallise.

Tax proceedings

At 31 December 2020, there were open assessments issued by the Zambia Revenue Authority (ZRA) relating to Income tax, Withholding tax, Excise Duty and Value Added Tax (VAT). Management evaluated the individual assessments to determine and provide for the expected eventual liability.

Based on management's evaluation, assessments totalling K2.06 million (2019: K5.04 million) were deemed probable and provided for. As at 31 December 2020, there was K17.271 million assessments identified under contingent liability (2019: Nil), as the possibility of payout on remaining assessments was deemed remote.

Taxes , duties and other demands

(Under adjudication / appeal / dispute)

	2020	2019
Income Tax	17 271	-
TOTAL	17 271	-

31. CAPITAL COMMITMENTS

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

At 31 December	314 390	181 774
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32. LEASE LIABILITIES

(a) Analysed as:

Non-current	1 313 275	947 291
Current	256 135	155 327
	1 569 410	1 102 618

(b) Maturity analysis:

Less than one year	407 685	269 679
Later than one year but not later than two years	452 304	257 512
Later than two years but not later than five years	1 057 283	774 717
Later than five years but not later than nine years	102 748	191 954
Later than nine years	9 593	776
	2 029 613	1 494 638
Less: future finance charges	(460 203)	(392 020)
	1 569 410	1 102 618

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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32. LEASE LIABILITIES (CONTINUED)

(c)The movement for the year is as follows:

	2020	2019
At the beginning of the year	1 102 618	843 076
Transitional adjustment on adoption of IFRS 16 (note 2.1 d)	-	241 132
Additions during the year	157 645	13 479
Retirement during the year	(8 698)	(4 606)
Repayments during the year	(165 390)	(127 905)
Exchange loss	483 235	137 442
Net obligations under lease liabilities	1 569 410	1 102 618

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

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

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

Till 31 December 2018, the Company only recognised lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 - Leases.

33. RELATED PARTY DISCLOSURES

The Company is owned by Bharti Airtel Zambia Holdings BV (BAZHBV) which has 96.36% shareholding. The remaining 3.64% is owned by public investors. The Company is listed on the Lusaka Stock Exchange (LuSE).

The shareholding of the Company as at 31 December 2020 and 2019 is as stated below:

Name of shareholder	2020 and 2019	
	Number of shares	% shareholding
Bharti Airtel Zambia Holdings BV	100 215 630	96.36%
Public (institutions and individual investors)	3 784 370	3.64%
	104 000 000	100.00%

The following transactions were carried out with related parties:

i) Purchase of goods and services

Name of related party	Country of incorporation	Relationship to Company	2020	2019
Airtel Mobile Commerce Zambia Limited	Zambia	Fellow subsidiary	186 084	110 417
Network i2i Ltd.	Mauritius	Step up parent	19 113	5 942
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	14 272	21 718
Airtel Malawi plc	Malawi	Fellow subsidiary	2 538	2 589
Airtel Congo (RDC) S.A.	Congo (DRC)	Fellow subsidiary	2 028	1 073
Nxtra Data Limited	India	Fellow subsidiary	1 814	397
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	1 323	2 096
Airtel Tanzania plc	Tanzania	Fellow subsidiary	591	263
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	251	91
Airtel Networks Limited	Nigeria	Fellow subsidiary	184	267
Airtel Uganda Limited	Uganda	Fellow subsidiary	91	54
Bharti Airtel Limited	India	Step up parent	88	847
Airtel Congo S.A.	Congo B	Fellow subsidiary	3	3
Airtel Madagascar S.A.	Madagascar	Fellow subsidiary	1	4
Centum Learning Limited	India	* Other related party	-	1 328
Bharti Airtel Zambia Holdings BV	Netherlands	Holding Company	-	1 136
Airtel (Seychelles) Limited	Seychelles	Fellow subsidiary	-	3
Celtel Niger S.A.	Niger	Fellow subsidiary	-	1
			228 381	148 229

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

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33. RELATED PARTY DISCLOSURES (CONTINUED)

ii) Sale of goods and services			2020	2019
Name of related party	Country of incorporation	Relationship to Company		
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	75 644	50 969
Airtel Mobile Commerce Zambia Limited	Zambia	Fellow subsidiary	25 989	14 308
Airtel Congo (RDC) S.A.	Congo (DRC)	Fellow subsidiary	13 103	8 385
Airtel Malawi plc	Malawi	Fellow subsidiary	12 431	5 947
Airtel Networks Limited	Nigeria	Fellow subsidiary	11 171	8 772
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	1 349	506
Airtel Tanzania plc	Tanzania	Fellow subsidiary	1 312	410
Airtel Uganda Limited	Uganda	Fellow subsidiary	144	1 676
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	94	414
Airtel Tchad S.A.	Chad	Fellow subsidiary	-	3 491
Network i2i Ltd.	Mauritius	Step up parent	-	1 268
Airtel Congo S.A.	Congo B	Fellow subsidiary	-	426
Bharti Airtel Limited	India	Step up parent	-	31
Airtel Madagascar S.A.	Madagascar	Fellow subsidiary	-	2
Airtel Gabon S.A.	Gabon	Fellow subsidiary	-	1
Jersey Airtel Limited	Jersey	Fellow subsidiary	-	2
Airtel (Seychelles) Limited	Seychelles	Fellow subsidiary	-	1
CelTel Niger S.A.	Niger	Fellow subsidiary	-	1
			141 237	96 610
iii) Management fees expenses				
Bharti Airtel International (Netherlands) BV	Netherlands	Step up parent	70 148	53 741
iv) Receivable from related parties				
Name of related party	Country of incorporation	Relationship to Company		
Airtel Mobile Commerce Zambia Limited	Zambia	Fellow subsidiary	64 324	19 561
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	45 943	18 684
Airtel Tanzania plc	Tanzania	Fellow subsidiary	35 013	41 912
Airtel Congo (RDC) S.A.	Congo (DRC)	Fellow subsidiary	37 722	31 071
Airtel Malawi plc	Malawi	Fellow subsidiary	31 682	14 123
Airtel Tchad S.A.	Chad	Fellow subsidiary	5 734	3 761
Airtel Networks Limited	Nigeria	Fellow subsidiary	3 422	5 997
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	1 733	326
CelTel Niger S.A.	Niger	Fellow subsidiary	1 655	1 087
Bharti Airtel Limited	India	Step up parent	1 475	977
Airtel Congo S.A.	Congo B	Fellow subsidiary	1 006	435
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	704	463
Bharti Hexacom Limited	India	Fellow subsidiary	89	-
Bharti Airtel Services Limited	India	Fellow subsidiary	70	46
Airtel Uganda Limited	Uganda	Fellow subsidiary	36	54
Airtel Gabon S.A.	Gabon	Fellow subsidiary	19	12
Network i2i Ltd.	Mauritius	Step up parent	-	1 355
			230 627	139 864

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

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33. RELATED PARTY DISCLOSURES (CONTINUED)

v) Payable to related parties			2020	2019
Name of related party	Country of incorporation	Relationship to Company		
Airtel Mobile Commerce Zambia Limited	Zambia	Fellow subsidiary	293 962	110 970
Bharti Airtel International (Netherlands) BV	Netherlands	Step up parent	41 543	12 399
Network i2i Ltd.	Mauritius	Step up parent	12 064	11 571
Airtel Networks Limited	Nigeria	Fellow subsidiary	5 937	1 236
Airtel Tanzania plc	Tanzania	Fellow subsidiary	3 637	2 350
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	3 357	1 309
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	2 677	2 901
Airtel Malawi plc	Malawi	Fellow subsidiary	1 881	1 369
Bharti Airtel Limited	India	Step up parent	1 369	1 767
Nextra Data Limited	India	Fellow subsidiary	1 656	804
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	1 413	811
Airtel Congo (RDC) S.A.	Congo (DRC)	Fellow subsidiary	375	103
Airtel Madagascar S.A.	Madagascar	Fellow subsidiary	230	151
Bharti Hexacom Limited	India	Fellow subsidiary	37	-
Airtel Ghana Limited (JV)	Ghana	* Other related party	31	20
Bharti Airtel Zambia Holdings BV	Netherlands	Holding Company	10	4 405
Airtel Uganda Limited	Uganda	Fellow subsidiary	7	4
Airtel Tchad S.A.	Chad	Fellow subsidiary	3	2
Airtel Congo S.A	Congo B	Fellow subsidiary	2	-
Centum Learning Limited	India	* Other related party	-	394
Africa Towers NV (Liquidated wef 31 December 2020)	Netherlands	Fellow subsidiary	-	10
Airtel (Seychelles) Limited	Seychelles	Fellow subsidiary	-	1
			370 191	152 577

No provisions for impairment losses have been required in 2020 and 2019 for any related party receivables.

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

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

	2020	2019
vi) Key management compensation		
Salaries and other short-term employment benefits	71 479	44 299

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

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33. RELATED PARTY DISCLOSURE (CONTINUED)

vii) Compensation of directors for the year ended 31 December 2020

	Sitting Fees	Basic Salary	Performance Bonus	Out of Country Allowance	Housing Allowance	Others	Total
Non-Executive							
Jito Kayumba	459	-	-	-	-	-	459
Monica K. Musonda	548	-	-	-	-	-	548
Executive							
Apoorva Mehrotra	-	5 419	4 524	-	1 123	1 680	12 746
	1 007	5 419	4 524	-	1 123	1 680	13 753

Compensation of directors for the year ended 31 December 2019

Non-Executive							
Jito Kayumba	523	-	-	-	-	-	523
Monica K. Musonda	670	-	-	-	-	-	670
Executive							
Apoorva Mehrotra	-	3 707	1 480	-	793	1 369	7 349
	1 193	3 707	1 480	-	793	1 369	8 542

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

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

Classes and categories of financial instruments and their fair values

The following table combines information about:

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

34. FAIR VALUE AND FINANCIAL ASSETS AND LIABILITIES (FINANCIAL INSTRUMENTS) (CONTINUED)

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

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

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

Foreign exchange forward contracts

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

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

		Carrying value	Fair value
31 December 2020			
Derivative financial Assets	Level 2	8 658	8 658
Derivative financial Liability	Level 2	(3 094)	(3 094)
Cash and bank balances		66 137	66 137
Trade and other receivables		268 302	268 302
Contract assets		23 239	23 239
Bank overdraft		(187 971)	(187 971)
Trade and other payables		(967 270)	(967 270)
Lease liabilities		(1 569 410)	(1 569 410)
Term loans		(794 450)	(794 450)
31 December 2019			
Derivative financial Assets	Level 2	6 750	6 750
Derivative financial Liability	Level 2	(6 085)	(6 085)
Cash and bank balances		29 325	29 325
Trade and other receivables		196 906	196 906
Contract assets		30 445	30 445
Bank overdraft		(154 705)	(154 705)
Trade and other payables		(477 271)	(477 271)
Lease liabilities		(1 102 618)	(1 102 618)
Term loans		(764 224)	(764 224)

The following methods/assumptions were used to estimate the fair values:

- The carrying value of bank deposits, trade receivables, trade payables, short-term borrowings, other current financial assets and liabilities approximate their fair value mainly due to the short-term maturities of these instruments.
- The fair value of non-current financial assets, long-term borrowings and other financial liabilities is estimated by discounting future cash flows using current rates applicable to instruments with similar terms, currency, credit risk and remaining maturities.
- The fair values of derivatives are estimated by using readily observable market parameters. The valuation reflect the contractual terms of the derivatives (including the period to maturity), and market-based parameters such as foreign exchange rates. The valuation does not contain a high level of subjectivity as the valuation techniques used don't require significant judgement and inputs thereto are readily observable.

During the year ended 31 December 2020 and year ended 31 December 2019 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurements.

35. EMPLOYEE BENEFIT EXPENSE

The following contributions to pensions/funds were included within the employee benefits expenses:

	2020	2019
Aon Zambia Pension Fund Administrators Limited	8 259	7 509
National Pension Scheme Authority	3 404	2 581

36. DERIVATIVE FINANCIAL INSTRUMENTS

The details of derivative financial instruments are as follows:

Foreign currency forward contracts (assets)	8 658	6 750
Foreign currency forward contracts (liabilities)	(3 094)	(6 085)

37. SEGMENT REPORTING

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

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

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

The breakdown of the revenue from all services is shown in note 8.

38. EVENTS AFTER REPORTING DATE

There were no material subsequent events for the year ended 31 December 2020. The Directors are not aware of any other matter or circumstances since the financial year end and the date of this report, not otherwise dealt with in the financial statements, which significantly affects the financial position of the Company and the results of its operations.
