

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2020

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

(Incorporated in Zambia)

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AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2020

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

PRINCIPAL ACTIVITIES

The principal activity of the company is to provide mobile commerce services through Airtel Money infrastructure and to hold the funds in the Airtel Money infrastructure in trust, for Airtel Money E-value account holders. There have been no significant changes in the company's business during the year.

SHARE CAPITAL

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

RESULTS AND DIVIDEND

The Company had a profit after tax of **K291,250,433** for the year ended 31 December 2020 (2019: K144,922,198). The directors recommended a dividend for the year ended 31 December 2020 amounting **K250,000,000** (2019: Nil).

FINANCIAL STATEMENTS

At the date of this report, the directors were not aware of any circumstances, which would have rendered the values attributed to the assets and liabilities in the financial statements of the company misleading.

DIRECTORS

The following director's held office during the year and to the date of this report.

Apoorva Methrotra	Executive Director (Appointed on 1 November 2017)
Jaideep Paul	Executive Director (Appointed on 1 March 2019)
Ian Ferrao	Executive Director (Appointed on 30 September 2019)
James Chona	Executive Director (Appointed on 30 September 2019)

None of the Directors held any shares in the company (2019: Nil)

PROPERTY, PLANT AND EQUIPMENT

During the year, the company acquired plant & equipment of **K43,712,068** (2019: K8,821,534).

NUMBER OF EMPLOYEES AND RENUMERATION

At the end of the year, the related wages and salaries cost was **K5,334,509** (2019: K 4,141,310). The number of employees for each month of the year was as follows:

Month	2020	2019
January	12	7
February	12	8
March	12	8
April	12	8
May	11	8
June	11	8
July	11	8
August	11	9
September	13	9
October	13	9
November	13	10
December	12	10

HEALTH AND SAFETY

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

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

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

GIFTS AND DONATIONS

The Company did not make any donations or gifts to charitable organisations and events during the financial year (2019: Nil).

AUDITORS

The Company's Auditors, Messrs Deloitte & Touche, have 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 Mobile Commerce Zambia Limited 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 two 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.

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



COMPANY SECRETARY
Sonia Sharmwana Chinganya
LUSAKA

Date: 16 March 2021

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

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.

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The independent external auditors, Messrs Deloitte & Touche, have audited the financial statements and their report is shown on pages 4 to 6.

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

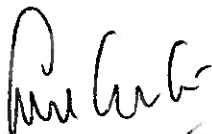
The annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern in the foreseeable future.

In the opinion of the Directors:

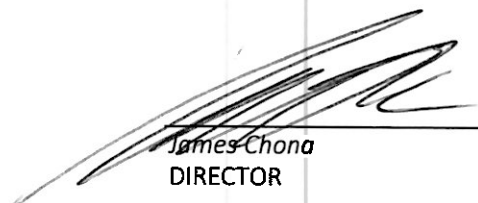
- the statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the performance of the Company for the year ended 31 December 2020;
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Company 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; and
- the financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Banking and Financial Services Act, 2017 and Companies Act, 2017; and
- the Directors have implemented and further adhered to the corporate governance principles or practices contained in Part VII, Sections 82 to 122 of the Companies Act, 2017.

Approval of the financial statements

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



Apoorva Mehrotra
DIRECTOR



James Chona
DIRECTOR

INDEPENDENT AUDITOR'S REPORT

To the members of
Airtel Mobile Commerce Zambia Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Airtel Mobile Commerce Limited (the "Company") set out on pages 7 to 31, which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 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 Banking and Financial Services Act, 2017 and the Companies Act, 2017.

Basis for 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 Code¹) 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.

Other information

The Directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act, 2017. 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 an audit opinion or 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 of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2017 and the Banking and Financial Services Act, 2017 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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.

Report on other legal and regulatory requirements

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

In accordance with section 97(2) of the Banking and Financial Services Act, 2017, we report that in our opinion:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- We are not aware of any transaction that has not been within the powers of the Company or which was contrary to the Act;
- The Company has complied with the provisions of this Act and the regulations, guidelines and prescriptions under this Act, and
- No transactions or conditions affecting the wellbeing of the Company have come to our attention that in our opinion are not satisfactory and require rectification.

Report on other legal and regulatory requirements (Continued)


Sections 250 (2) and 259 (3) of the Companies Act, 2017 require that in carrying out our audit, we consider and report on whether:

- There is a relationship, interest or debt which we as the Company's auditors have in Airtel Mobile Commerce Limited;
- There are serious breaches by the Company's Directors of the corporate governance principles or practices contained in Part VII sections 82 to 112 of the Companies Act, 2017; and
- There is an omission in the financial statements as regard 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.

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



DELOITTE & TOUCHE



F. NCHUMUNYA (AUD/F0000154)
PARTNER

26 March 2024.

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

Kwacha	Notes	For the year ended	
		31 December 2020	31 December 2019
Revenue	7	991 852 652	504 666 540
Expenses			
Sales and distribution expenses		(502 997 973)	(268 204 341)
Employee benefit expenses		(5 334 509)	(4 141 310)
Other expenses		(40 678 240)	(17 382 415)
Depreciation and amortisation	14&15	(20 669 898)	(3 761 658)
		<u>(569 680 620)</u>	<u>(293 489 724)</u>
Operating profit		422 172 032	211 176 816
Finance income	9	9 447 797	1 784 938
Net exchange gains	8	14 713 210	181 347
Profit before tax	11	446 333 039	213 143 101
Income tax expense	12	(155 082 606)	(68 220 903)
Profit and total comprehensive income for the year		<u>291 250 433</u>	<u>144 922 198</u>

There were no items of other comprehensive income during the year (2019: K nil)

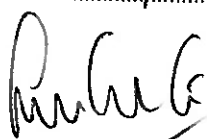
AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

STATEMENT OF FINANCIAL POSITION

Kwacha	Notes	As of	
		31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	14	37 943 841	6 385 492
Capital work-in-progress	14	5 373 706	1 714 709
Intangible assets	15	9 565 949	5 297 735
Deferred tax asset (net)	13	-	56 668
		<u>52 883 496</u>	<u>13 454 604</u>
Current assets			
Trade and other receivables	16	339 305 735	117 825 151
Cash and cash equivalents	18	170 451 001	84 371 684
Balance held under mobile money trust	17	1 380 661 420	579 596 707
		<u>1 890 418 156</u>	<u>781 793 542</u>
Total assets		<u><u>1 943 301 652</u></u>	<u><u>795 248 146</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	19	2 000 000	2 000 000
Retained earnings		163 785 478	122 535 045
Shareholders equity		<u>165 785 478</u>	<u>124 535 045</u>
Non-current liabilities			
Deferred tax liability(net)	13	4 674 738	-
Current liabilities			
Trade and other payables	21	111 037 306	48 927 532
Mobile money wallet balances	20	1 380 661 420	579 598 726
Income tax payable	12	100 631 227	42 186 843
Dividend payable	24	180 511 483	-
		<u>1 772 841 436</u>	<u>670 713 101</u>
Total liabilities		<u><u>1 777 516 174</u></u>	<u><u>670 713 101</u></u>
Total equity and liabilities		<u><u>1 943 301 652</u></u>	<u><u>795 248 146</u></u>

The responsibilities of the Directors of the company with regard to the preparation of the financial statements are set out in on page 3.

The financial statements on pages 7 to 31 were approved by the board of directors and authorised for issue on 16th March 2021 and signed on their behalf by:



Apoorva Mehrotra
DIRECTOR



James Chona
DIRECTOR

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

STATEMENT OF CHANGES IN EQUITY

Kwacha	Share capital	Dividend reserve	Retained earnings (deficit)	Total
At 1 January 2019	2 000 000	-	(22 387 153)	(20 387 153)
Profit for the year	-	-	144 922 198	144 922 198
At 31 December 2019	2 000 000	-	122 535 045	124 535 045
At 1 January 2020	2 000 000	-	122 535 045	124 535 045
Profit for the year	-	-	291 250 433	291 250 433
Dividend declared during the year	-	250 000 000	(250 000 000)	-
Transfer to dividend payable	-	(250 000 000)	-	(250 000 000)
At 31 December 2020	2 000 000	-	163 785 478	165 785 478

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

STATEMENT OF CASH FLOWS

Kwacha	Notes	For the year ended	
		31 December 2020	31 December 2019
Cash flows from operating activities			
Profit before tax		446 333 039	213 143 101
Adjustments for:			
Depreciation expense	14	8 494 722	1 409 266
Amortisation of intangible assets	15	12 175 176	2 352 392
Trade receivable impairment (reversal)		5 000	(281 541)
Net exchange gains	8	(14 713 210)	(181 347)
Finance income	9	(9 447 797)	(1 784 938)
Operating cash flow before changes in working capital		442 846 930	214 656 933
<i>Changes in Working Capital:</i>			
Increase in trade and other receivables		(199 122 959)	(75 087 735)
Increase (decrease) in trade and other payables		54 460 359	(20 823 612)
Increase in mobile money wallet balances		801 062 694	233 625 940
Net cash generated from operations before tax		1 099 247 024	352 371 526
Income tax paid	12	(91 906 816)	(26 778 716)
Net cash flows generated from operating activities		1 007 340 208	325 592 810
Cash flows from investing activities			
Interest received	9	9 447 797	1 784 938
Purchase of intangible assets	15	(16 443 390)	(7 622 890)
Purchase of property, plant and equipment	14	(43 712 068)	(8 821 534)
Net cash flows used investing activities		(50 707 661)	(14 659 486)
Cash flows from financing activities			
Dividend paid to shareholders		(69 488 517)	-
Net cash flows used in financing activities		(69 488 517)	-
Net increase in cash and cash equivalents		887 144 030	310 933 324
Cash and cash equivalents at beginning of the year		663 968 391	353 035 067
Cash and cash equivalents at end of year*		1 551 112 421	663 968 391

*Cash and cash equivalents held on 31 December includes balance held under mobile money trust of K 1,380,661,420 (2019: K579,596,707) on behalf of mobile money customers which are not available for use by the Company.

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. GENERAL INFORMATION

Airtel Mobile Commerce Zambia Limited (the "Company") is a limited company incorporated under the Companies Act, 2017 and domiciled in Zambia. The Company's principal activities are disclosed on page 1 of the Director's Report. The address of the Company's registered office and principal place of business is disclosed below.

Airtel Zambia HQ
Stand 2375
Corner Addis Ababa drive & Great east Road
P.O.Box 320001
Lusaka

These financial statements are presented in Zambian Kwacha ("K") and are rounded to the nearest Kwacha.

2. ADOPTION OF NEW AND REVISED STANDARDS

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;
- 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.

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

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB 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.

Conceptual Framework - Amendments to References to the Conceptual Framework in IFRS Standards

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 IASB 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.

Amendments to IAS 1 and IAS 8 Definition of material

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.

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 New and revised Standards in issue but not yet effective

Amendments to IAS 1 and IAS 8
Definition of material (continued)

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.

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

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

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 entity 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 and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 New and revised Standards in issue but not yet effective

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

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 entity’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 entity first applies the amendments.

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

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.

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 permitted.

3. 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 the years presented unless otherwise stated.

3.1 Statement of compliance

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

3.2 Basis of preparation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Basis of preparation (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, 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 entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.3 Revenue recognition

Revenue arises from billing customers for P2P (person to person offnet) transactions; cash out (withdrawal) transactions, Airtel Money to bank transactions, collections of funds for customers purchasing goods and services using Airtel Money and commissions on sale of airtime and business revenue arising from bulk payment transactions. Such commissions are recognised as revenue at a point in time on fulfillment of these services by the Company

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payments and excluding taxes or duty. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transactions have been resolved.

3.4 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Zambian Kwacha which has been determined to be the entity's functional currency.

(ii) Transactions and balances

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange 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 items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Employee benefits

Retirement benefit obligations

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

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

Other entitlements

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

3.6 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it also excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by reporting date.

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current tax and deferred tax is recognised as an expense or income in profit or loss, except to the extent that it relate to items credited or debited directly to equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

3.7 Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.7 Property, plant and equipment (continued)**

Subsequent to initial recognition, PPE is stated at cost less accumulated depreciation and any impairment losses. When significant parts of PPE are required to be replaced at regular intervals, the Company recognises such parts as separate component of assets. When an item of PPE is replaced, then its carrying amount is derecognised from the statement of financial position and cost of the new item of PPE is recognised. The expenditures that are incurred after an item of PPE has been put to use, such as repairs and maintenance, are normally charged to the statement of comprehensive income in the period in which such costs are incurred. However, in situations where the said expenditure can be measured reliably, and is probable that future economic benefits associated with it will flow to the Company, it is included in the asset's carrying value or as a separate asset, as appropriate.

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

Assets are depreciated to the residual values on a straight-line basis over the estimated useful lives. The asset's 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
Computers	3 years
Furniture and fittings	2 to 5 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end. The effect of any changes in estimate is accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in statement of comprehensive income.

3.8 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 entity and the cost of the license can be reliably measured.

Licenses are initially measured at cost and subsequently amortised on a straight-line basis over their useful lives. Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation periods are reviewed annually and adjusted prospectively as required. Gains or losses arising from derecognition of licenses are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised. Licenses are amortized over the period of license (1-5 years).

3.9 Impairment of non financial assets*Property, plant & equipment and intangible assets*

Property, plant & equipment 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 profit or loss is measured by the amount by which the carrying value of the asset / CGU exceeds their estimated recoverable amount and allocated on pro rata basis. Impairment losses, if any, are recognised in statement of profit and loss.

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of non financial assets (continued)

Reversal of impairment losses

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

3.10 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 which 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 statement of comprehensive income date, taking into account the risks and uncertainties surrounding the obligation. Where 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 some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the 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.

3.11 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 and balance held under mobile money trust are also included as a component of cash and cash equivalents.

3.12 Statement of cash flow

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.

3.13 Financial instruments

a. Recognition, classification and presentation

Financial instruments are recognised in the statement of financial position when the company becomes a party to the contractual provisions of the financial instrument. The company determines the classification of its financial instruments at initial recognition.

The company classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost. The classification depends on the entity'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 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.

The amounts held by Airtel Money electronic value (E-value) account holders in their mobile money wallets are presented separately in the Balance Sheet as 'Mobile money wallet balance'. The amounts held in bank on behalf of such E-value account holders are restricted for use by the Company and are presented as 'Balance held under mobile money trust'.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (continued)

b. Measurement - Non-derivative financial instruments

I. Initial measurement

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

II. Subsequent measurement - financial assets

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

• Financial assets measured at amortised cost

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

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')

Impairment

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

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

III. Subsequent measurement - financial liabilities

c. 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.

3.14 Share capital

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.

3.15 Contingencies

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

3.16 Comparatives

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

3.17 Dividend

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected useful life of the financial asset to that asset's net carrying amount on initial recognition.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(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. Factors taken into consideration in making such judgements 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 16.

Taxes

1. Current income tax

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

2. Deferred tax

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

Determination of residual values and useful lives

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

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

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

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash and cash equivalents, receivables and payables. These instruments arise directly from its operations. The Company does not speculate or trade in derivative financial instruments.

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, liquidity risk and operational risk. The directors review and agree policies for managing these risks.

The directors have overall responsibility for the establishment and oversight of the company's risk management framework. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and equity prices. The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimizing on the return on the risk.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(i) Foreign exchange risk

Foreign exchange risk arises from future investment transactions on recognized assets and liabilities. The Company's policy is to record transactions in foreign currencies at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange in effect at the statement of financial position date. All gains or losses on changes in currency exchange rates are accounted for in the statement of profit or loss.

The Company operates mainly within Zambia and its assets and liabilities are mainly denominated in local currency.

(ii) Interest rate risk

Interest rate risk is the risk that the future profitability and/or cash flows of financial instruments will fluctuate because of changes in the market interest rates. The interest rate exposure arises mainly from the interest rate movements on the borrowings. However, the company does not engage in borrowing activities as its obligation is to hold cash in trust.

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the trading activities as well as placement and balances with other counterparties, advances to customers, deposits held with various services providers, prepayments and bank balances.

Concentration of credit risk

Amount due from debtors best represents the company's maximum exposure to the credit risk or concentration of the credit risk. The Company only holds funds in trust, and there is no rating on debtors.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Kwacha	Note	Carrying amount	
		2020	2019
Trade receivables (net)	16	4 847 563	2 057 823
Amounts due from related parties	22 (a)	331 543 400	112 004 195
Balance under mobile money trust	17	1 380 661 420	579 596 707
Bank and cash balances	18	170 451 001	84 371 684
		1 887 503 384	778 030 409

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

As at 31 December, the ageing analysis of trade receivables is, as follows:

	Neither past		Past due but not impaired			Past due and impaired	
	Total	due nor impaired	30 - 60			> 90 days	
			< 30 days	days	60 - 90 days		
	K	K	K	K		K	K
2020	4 936 348	3 288 071	1 559 492	-	-	-	88 785
2019	2 141 609	906 355	891 241	165 030	95 197		83 786

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations from its financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

	Note	Carrying amount 2020	2019
Amounts due to related parties			
Dividend payable	22 (c)	79 300 200	23 743 104
Trade and other payables	24	180 511 483	-
Mobile money wallet balance	21	31 737 106	25 184 428
	20	<u>1 380 661 420</u>	<u>579 598 726</u>
		<u>1 672 210 209</u>	<u>628 526 258</u>

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

	On Demand	Within 1 year	Between 1 - 5 years	Greater than 5 years	Total
	K	K	K	K	K
31 December 2020					
Amounts due to related parties	-	79 300 200	-	-	79 300 200
Dividend payable	-	180 511 483	-	-	180 511 483
Trade and other payables	-	31 737 106	-	-	31 737 106
Mobile money wallet balance	1 380 661 420	-	-	-	1 380 661 420
	<u>1 380 661 420</u>	<u>291 548 789</u>	<u>-</u>	<u>-</u>	<u>1 672 210 209</u>
31 December 2019					
Amounts due to related parties	-	23 743 104	-	-	23 743 104
Trade and other payables	-	25 184 428	-	-	25 184 428
Mobile money wallet balance	579 598 726	-	-	-	579 598 726
	<u>579 598 726</u>	<u>48 927 532</u>	<u>-</u>	<u>-</u>	<u>628 526 258</u>

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the company's operations and are faced by all business entities.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to management of the Company.

The Company has developed processes of overall company's standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the year assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

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

Kwacha

5. Financial risk management objectives and policies (Continued)

Operational risk (Continued)

- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.

(i) Risk management

Risk is inherent in the company's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing viable operations.

Exposure to market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk arises in the normal course of the company's business.

(ii) Operations

The directors have put in place internal control systems which include instituting ostensibly to ensure adequate accounting records are maintained.

6. CAPITAL MANAGEMENT

The primary objectives of the Company is to hold, in trust, the funds owing to the Airtel Mobile Commerce Zambia Limited e-value holders and safeguard the safety and sanctity of these funds. The Company does not trade and is not allowed to deal in these funds otherwise than to settle obligations arising from genuine transaction of Airtel Mobile Commerce Zambia Limited E-value. The principal obligation of the Company is not to maximize wealth but to safeguard third party funds.

7. REVENUE

	2020	2019
Transaction charge on cash withdrawals	678 231 659	344 554 495
Airtime recharge transaction fees	119 495 421	57 053 063
Merchant collection service fees	109 720 646	38 298 016
Other value added services	68 996 922	58 518 286
Service fees on international money transfers	6 198 982	995 644
Bank transfer service fees	5 033 389	1 215 006
Bulk payment service fees	4 175 633	4 032 030
	<u>991 852 652</u>	<u>504 666 540</u>

There are no performance obligations that are remaining unsatisfied as at 31 December 2020. (2019 : nil)

8. NET EXCHANGE GAINS

Net exchange gains	<u>14 713 210</u>	<u>181 347</u>
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The Zambian Kwacha depreciated against the US Dollar and other major convertible foreign currencies during the year. The impact of the depreciation of the Zambian Kwacha during the year is that the Company recorded exchange gains on its foreign currency denominated monetary assets.

The table below illustrates the movements in the US Dollar exchange rates during the period:

		Exchange rate as at 1 January	Exchange rate as at 31 December	Movement during the year
US Dollar (1 US\$ =)	2020	13.90	21.19	52%
US Dollar (1 US\$ =)	2019	11.93	13.90	17%

9. FINANCE INCOME

Interest income on bank balances	<u>9 447 797</u>	<u>1 784 938</u>
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AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

Kwacha

10.	EMPLOYEE BENEFIT EXPENSE	2020	2019
	The following contributions to pensions/funds were included within the salaries and wages expenses:		
	Aon Zambia Pension Fund Administrators Limited	482 782	251 992
	National Pension Scheme Authority	135 833	67 902
		<u>618 615</u>	<u>319 894</u>
11.	PROFIT BEFORE TAX		
	Profit before tax is stated after charging:		
	Depreciation on property, plant and equipment (note 14)	8 494 722	1 409 266
	Amortisation of intangible assets (note 15)	12 175 176	2 352 392
	Auditor's remuneration	454 000	309 110
12.	INCOME TAX EXPENSE		
	The components of income tax expense for the years ended 31 December 2020 and 2019 are:		
	Deferred income tax (note 13)	4 731 406	330 839
	Current income tax	150 351 200	67 890 064
	Income tax expense	<u>155 082 606</u>	<u>68 220 903</u>
	The tax charge for the year can be reconciled to the profit before tax as follows:		
	Profit before income tax	446 333 039	213 143 101
	Tax calculated at the statutory income tax rate of 35%	156 216 564	74 600 085
	Tax effect of:		
	Deferred income tax (note 13)	4 731 406	330 839
	Tax return actualisation	(1 737 730)	-
	Expenses not deductible for tax purposes (net)	(4 127 634)	(291 061)
	Taxable loss	-	(6 418 960)
	Income tax expense	<u>155 082 606</u>	<u>68 220 903</u>
	Income tax payable		
	Current income tax movement in the statement of financial position:		
	At 1 January	42 186 843	1 075 495
	Payments during the year	(88 299 582)	(26 418 287)
	Withholding tax credits (Tax deducted at source)	(3 607 234)	(360 429)
	Current tax charge for the year	150 351 200	67 890 064
	At 31 December	<u>100 631 227</u>	<u>42 186 843</u>
13.	DEFERRED TAX LIABILITIES/(ASSETS)		
	The following are the major deferred tax assets and liabilities recognised by the company and movements thereof during the current and prior reporting period		
		2020	2019
	At beginning of year	(56 668)	(387 507)
	Charge for the year	4 731 406	330 839
	At end of year	<u>4 674 738</u>	<u>(56 668)</u>

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

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

Kwacha

13. DEFERRED TAX LIABILITIES/(ASSETS) (CONTINUED)

	01.01.2020	Movement	31.12.2020
Deferred tax liabilities/(assets)			
Other provisions	(191 977)	(174 802)	(366 779)
Unrealised exchange gains	-	5 112 050	5 112 050
Property plant and equipment	135 309	(205 842)	(70 533)
	<u>(56 668)</u>	<u>4 731 406</u>	<u>4 674 738</u>
	01.01.2019	Movement	31.12.2019
Deferred tax liabilities/(assets)			
Other provisions	(127 864)	(64 113)	(191 977)
Property plant and equipment	(259 643)	394 952	135 309
	<u>(387 507)</u>	<u>330 839</u>	<u>(56 668)</u>

14. PROPERTY, PLANT AND EQUIPMENT

	Computers	Furniture & other equipment	Total	Capital work in progress
Cost				
At 1 January 2019	3 660 476	4 755 043	8 415 519	-
Additions	-	-	-	8 821 534
Transfers	-	7 106 825	7 106 825	(7 106 825)
At 31 December 2019	<u>3 660 476</u>	<u>11 861 868</u>	<u>15 522 344</u>	<u>1 714 709</u>
At 1 January 2020	3 660 476	11 861 868	15 522 344	1 714 709
Additions	-	-	-	43 712 068
Transfers	-	40 053 071	40 053 071	(40 053 071)
At 31 December 2020	<u>3 660 476</u>	<u>51 914 939</u>	<u>55 575 415</u>	<u>5 373 706</u>
Accumulated depreciation				
At 1 January 2019	3 660 476	4 067 110	7 727 586	-
Charge for the year	-	1 409 266	1 409 266	-
At 31 December 2019	<u>3 660 476</u>	<u>5 476 376</u>	<u>9 136 852</u>	-
At 1 January 2020	3 660 476	5 476 376	9 136 852	-
Charge for the year	-	8 494 722	8 494 722	-
At 31 December 2020	<u>3 660 476</u>	<u>13 971 098</u>	<u>17 631 574</u>	-
Net book value				
At 31 December 2020	<u>-</u>	<u>37 943 841</u>	<u>37 943 841</u>	<u>5 373 706</u>
At 31 December 2019	<u>-</u>	<u>6 385 492</u>	<u>6 385 492</u>	<u>1 714 709</u>

During the year, the company undertook a project to roll out Airtel money branches across the country. These have been presented as part of the furniture and other equipment.

15 INTANGIBLE ASSETS

	Total
Cost	
At 1 January 2019	326 842
Additions	7 622 890
At 31 December 2019	<u>7 949 732</u>
At 1 January 2020	7 949 732
Additions	16 443 390
At 31 December 2020	<u>24 393 122</u>

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

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

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15	INTANGIBLE ASSETS (CONTINUED)	Total
	Amortization	
	At 1 January 2019	299 605
	Charge for the year	2 352 392
	At 31 December 2019	2 651 997
	At 1 January 2020	2 651 997
	Charge for the year	12 175 176
	At 31 December 2020	14 827 173
	Net book value	
	At 31 December 2020	9 565 949
	At 31 December 2019	5 297 735

The intangible asset is for the mobiquity mobile financial services platform which allows for services such as the sending and transfer of money, bulk payments, merchant transactions, savings and loans. The platform is managed by Comviva Technologies Limited.

16	TRADE AND OTHER RECEIVABLES	2020	2019
	Trade receivables	4 936 348	2 141 609
	Less :provision for impairment loss	(88 785)	(83 786)
	Net trade receivables	4 847 563	2 057 823
	Other receivables	2 914 772	3 763 133
	Amounts due from related parties - [Refer note 22(a)]	331 543 400	112 004 195
		339 305 735	117 825 151

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

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

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

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

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

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

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16 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

As at 31 December 2020, trade receivables with an initial carrying value of **K88,785** (2019: K83,786) were impaired and fully provided for. The movement in impairment provisions is as follows:

	Individually impaired	Collectively impaired	Total
	K	K	K
At 1 January 2019	365 327	-	365 327
Credit for the year	(281 541)	-	(281 541)
At 1 January 2020	83 786	-	83 786
Charge for the year	5 000	-	5 000
At 31 December 2020	88 785	-	88 785

	2020	2019
17. BALANCE UNDER MOBILE MONEY TRUST		
Cash at bank held in trust	1 277 014 480	535 118 593
Interest earned on cash at bank held in trust	103 646 940	44 478 114
	1 380 661 420	579 596 707

Funds held on behalf of customers are held on bank accounts bearing an interest at the annual rates mentioned below:

Bank	2020	2019
Citi bank Zambia Limited	9.50%	9.50%
Atlas Mara Zambia	MPR-2%	MPR-2%
Zambia National Commercial Bank Plc	7.00%	7.00%
Absa Bank Zambia Plc	8.50%	8.50%
Indo Zambia Bank	9.75%	N/A
Stanbic Bank zambia Limited	9.50%	N/A

18. CASH AND CASH EQUIVALENTS

	2020	2019
Balance with bank		
-On current accounts	148 968 883	24 603 616
-Bank deposits with original maturity of three months or less	-	58 000 000
Cash on hand	21 482 118	1 768 068
	170 451 001	84 371 684

Bank accounts bear interest at the rate of 9.5% per annum (2019: 9.5%). Interest earned has been disclosed in note 9.

The company does not hold any physical cash at the premises. The funds reported as cash balance represent the funds held in the form of electronic value on the mobile wallets owned by the company.

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

	2020	2019
Cash and cash equivalents as per balance sheet	170 451 001	84 371 684
Balance held under mobile money trust	1 380 661 420	579 596 707
	1 551 112 421	663 968 391

19. SHARE CAPITAL

Authorised share capital:		
200,000,000 ordinary shares of K 0.01 each	2 000 000	2 000 000
Issued and fully paid:		
200,000,000 ordinary shares of K 0.01 each	2 000 000	2 000 000

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

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20. MOBILE MONEY WALLET BALANCES	2020	2019
Customer deposits	1 277 014 480	535 118 593
Interest earned on trust accounts *	103 646 940	44 480 133
	<u>1 380 661 420</u>	<u>579 598 726</u>

* The amount can be used with a pre approval by the Central Bank, for industry wide projects that promote effective inter-operability, sensitization campaigns to promote mobile money, consumer education campaigns provided such activities do not promote a specific e-money institution.

21. TRADE AND OTHER PAYABLES	2020	2019
Trade payables	4 726 546	4 842 432
Other payables	27 010 560	20 341 996
Amounts due to related parties [Refer note 22(c)]	79 300 200	23 743 104
	<u>111 037 306</u>	<u>48 927 532</u>

Trade payables are non-interest bearing and have an average term of 60 days.

Other payables are non-interest bearing and have an average term of six months.

The company has financial risk management policies in place to ensure that all payables are paid within pre agreed credit terms.

22. RELATED PARTY DISCLOSURES

Airtel Mobile Commerce Zambia Limited's Holding company is Airtel Mobile Commerce BV, a company incorporated in Netherlands.

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
Airtel Mobile Commerce Holding BV	2 000 000	1%
Airtel Mobile Commerce BV	198 000 000	99%
	<u>200 000 000</u>	<u>100%</u>

(a) Amounts due from related parties

Name of related parties	Nature of relationship	Country of incorporation	Nature of transactions	Balance at 31.12.2020
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Airtime Recharges, Churn revenue share & Cash collection charges	293 962 268
Airtel Mobile Commerce Limited	Fellow subsidiary	Malawi	International money Transfer	36 919 020
Airtel Rwanda Limited	Fellow subsidiary	Rwanda	International money Transfer	177 561
Airtel Money Transfer Limited	Fellow subsidiary	Kenya	International money Transfer	285 856
Airtel Uganda Limited	Fellow subsidiary	Uganda	International money Transfer	198 695
				<u>331 543 400</u>

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

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

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22 RELATED PARTY DISCLOSURES (CONTINUED)

(a) Amounts due from related parties (continued)

Name of related parties	Nature of relationship	Country of incorporation	Nature of transactions	Balance at 31.12.2019
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Airtime Recharges, Churn revenue share & Cash collection charges	110 969 988
Airtel Mobile Commerce Limited	Fellow subsidiary	Malawi	International money	814 826
Airtel Rwanda Limited	Fellow subsidiary	Rwanda	Transfer International money	84 783
Airtel Money Transfer Limited	Fellow subsidiary	Kenya	Transfer International money	85 366
Airtel Uganda Limited	Fellow subsidiary	Uganda	Transfer International money	49 232
				<u>112 004 195</u>

(b) Sale of services to related parties

Name of related parties	Nature of relationship	Country of incorporation	Nature of transactions	Balance at 31.12.2020
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Airtime recharge transaction fees	133 221 299
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Bulk payment transaction fees	447 923
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Churn reduction revenue share	39 380 423
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Cash collection transaction fees	11 510 086
				<u>184 559 731</u>

Name of related parties	Nature of relationship	Country of incorporation	Nature of transactions	Balance at 31.12.2019
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Airtime recharge transaction fees	57 053 063
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Bulk payment transaction fees	257 714
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Churn reduction revenue share	44 594 880
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Cash collection transaction fees	8 511 047
				<u>110 416 704</u>

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

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22 RELATED PARTY DISCLOSURES (CONTINUED)

(c) Amounts due to related parties

Name of related parties	Nature of relationship	Country of incorporation	Nature of transactions	Balance at 31.12.2020
Airtel Networks Zambia Plc	Fellow subsidiary Holding	Zambia	Expenses paid on behalf & Management fee	64 324 252
Airtel Mobile Commerce BV	company Fellow	Netherlands	Expenses paid on behalf International money	703 967
Airtel Mobile Commerce Limited	Fellow subsidiary	Malawi	transfer International money	1 316 519
Airtel Money Tanzania Limited	Fellow subsidiary	Tanzania	transfer International money	5 474 187
Airtel Money Transfer Limited	Fellow subsidiary	Kenya	transfer International money	1 829 776
Airtel Uganda Limited	Fellow subsidiary	Uganda	transfer International money	3 434 917
Airtel Rwanda Limited	Fellow subsidiary	Rwanda	transfer	2 216 582
				<u>79 300 200</u>

Name of related parties	Nature of relationship	Country of incorporation	Nature of transactions	Balance at 31.12.2019
Airtel Networks Zambia Plc	Fellow subsidiary Holding	Zambia	Expenses paid on behalf & Management fees	19 560 815
Airtel Mobile Commerce BV	company Fellow	Netherlands	Expenses paid on behalf International money	461 717
Airtel Mobile Commerce Limited	Fellow subsidiary	Malawi	transfer International money	558 027
Airtel Money Tanzania Limited	Fellow subsidiary	Tanzania	transfer International money	1 756 300
Airtel Money Transfer Limited	Fellow subsidiary	Kenya	transfer International money	61 419
Airtel Uganda Limited	Fellow subsidiary	Uganda	transfer International money	695 405
Airtel Rwanda Limited	Fellow subsidiary	Rwanda	transfer	649 421
				<u>23 743 104</u>

(d) Purchase of services from related parties

Name of related parties	Nature of relationship	Country of incorporation	Nature of transactions	Balance at 31.12.2020
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Management fees	18 577 187
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	USSD service charge	60 000
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Bulk SMS charges	2 725 099
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Shop Cash in & Cash out commission	4 644 805
				<u>26 007 091</u>

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

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22 RELATED PARTY DISCLOSURES (CONTINUED)

(c) Amounts due to related parties (continued)

Name of related parties	Nature of relationship	Country of incorporation	Nature of transactions	Balance at 31.12.2019
Airtel Networks Zambia Plc.	Fellow subsidiary	Zambia	Management fees	7 676 359
Airtel Networks Zambia Plc.	Fellow subsidiary	Zambia	USSD service charge	60 000
Airtel Networks Zambia Plc.	Fellow subsidiary	Zambia	Bulk SMS charges	1 566 341
Airtel Networks Zambia Plc.	Fellow subsidiary	Zambia	Common cost allocation	325 878
Airtel Networks Zambia Plc	Fellow subsidiary	Zambia	Shop Cash in & Cash out commission	4 680 105
				14 308 683

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

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

23. FAIR VALUE MEASUREMENTS

Fair value of financial assets (Trade receivable, amount due from related parties, amount held in trust, and bank & cash balance) and financial liabilities (Trade and other payable, amount payable to related parties, and amount due to customer) approximate to their carrying amount as on 31 December 2020 and 2019 on account of their current nature and they are recognised at amortized cost as on 31 December 2020 and 2019.

	Carrying value	Fair value
31 December 2020		
Cash and bank balances	170 451 001	170 451 001
Trade and other receivables	336 390 963	336 390 963
Balance held under mobile money trust	1 380 661 420	1 380 661 420
Trade and other payables	(101 150 792)	(101 150 792)
Dividend payable	(180 511 483)	(180 511 483)
Mobile money wallet balance	(1 380 661 420)	(1 380 661 420)
31 December 2019		
Cash and bank balances	84 371 684	84 371 684
Trade and other receivables	114 062 019	114 062 019
Balance held under mobile money trust	579 596 707	579 596 707
Trade and other payables	(44 146 187)	(44 146 187)
Mobile money wallet balance	(579 598 726)	(579 598 726)

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

- The carrying value of bank deposits, trade receivables, trade payables, other current financial assets and liabilities approximate their fair value mainly due to the short-term maturities of these instruments.

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. The fair values above are under level 3.

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

24. DIVIDENDS PROPOSED AND PAID	2020	2019
At 1 January		
Dividend declared	250 000 000	-
Dividend paid	<u>(69 488 517)</u>	-
At 31 December	<u>180 511 483</u>	-

25. CAPITAL COMMITMENTS

The company had capital commitments amounting to K3,201,033 as at 31 December 2020 (2019: Nil).

26. CONTINGENT LIABILITIES

There were no known material contingent liabilities as at 31 December 2020 (2019: Nil).

27. EVENTS AFTER THE REPORTING DATE

There have been no material events after the reporting date which would require disclosure in or adjustment to the financial statements for the year ended 31 December 2020.