

**AIRTEL NETWORKS KENYA LIMITED**

**ANNUAL REPORT**

**AND**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED**

**31 DECEMBER 2020**

**Airtel Networks Kenya Limited**  
**Annual Report and Financial Statements**  
*(All amounts are in KSH'000, unless stated otherwise)*

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| <b>TABLE OF CONTENTS</b>   | <b>PAGES</b> |
|--|--------------|
| Company information  | 1            |
| Directors' Report  | 2 – 3        |
| Statement of directors' responsibilities on the financial statements | 4            |
| Independent auditors' report   | 5 – 7        |
| Financial statements:  |              |
| Statement of profit or loss and other comprehensive income           | 8            |
| Statement of financial position                                      | 9            |
| Statement of changes in equity                                       | 10           |
| Statement of cash flows  | 11           |
| Notes to the financial statements                                    | 12 – 53      |

**Airtel Networks Kenya Limited**  
**Company Information**

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

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**DIRECTORS**

Mr. Titus Naikuni\*#  
Mr. Daddy Mukadi\*\*  
Mr. Prasanta Das Sarma\*\*\*  
Mr. Alok Bafna\*\*\*  
Mr. Ian Ferrao\*\*\*\*

\*Kenyan

\*\*Congolese

\*\*\*Indian

\*\*\*\*British

# Mr. Titus Naikuni resigned from the post as at 31<sup>st</sup> Dec 2020

**REGISTERED OFFICE**

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

**COMPANY SECRETARY**

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

**LAWYERS**

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

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

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

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

**AUDITORS**

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

**PRINCIPAL BANKERS**

NCBA BANK KENYA  
P.O. Box 44286 – 00100  
NAIROBI, KENYA

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

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

ABSA KENYA LTD  
P.O. Box 46661 – 00100  
NAIROBI, KENYA

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

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

Stanbic Bank  
Stanbic House, Westlands Road  
P.O. Box 30550 – 00100  
NAIROBI, KENYA

Ecobank  
Stanbic House, Westlands Road  
NAIROBI, KENYA

JPMorgan Chase Bank  
25 Bank Street,  
Canary Wharf,  
London

## Airtel Networks Kenya Limited

### Directors' Report

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

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The directors submit their report together with the audited annual financial statements for the year ended 31 December 2020, which disclose the state of affairs of the company.

#### 1. PRINCIPAL ACTIVITIES

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

#### 2. RESULTS

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

|                       | 2020               | 2019               |
|-----------------------|--------------------|--------------------|
| Income                | 26,542,770         | 21,185,487         |
| Loss before tax       | (5,847,429)        | (2,740,616)        |
| Tax                   | (148,370)          | (35,402)           |
| <b>Loss after tax</b> | <b>(5,995,799)</b> | <b>(2,776,018)</b> |

#### 3. DIVIDEND

The directors do not recommend payment of a dividend in the year. (2019: Nil).

#### 4. RESERVES

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

#### 5. DIRECTORS

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

#### 6. BUSINESS REVIEW

Airtel Kenya has continued the momentum in this year leveraging core business drivers of growing the customer base and offering best in class customer experience.

At Airtel, we always put our customers at the heart of what we do. We take pride in providing wide choice of data and voice bundles. The customer base grew by 16% and our Data users also grew by 20% during the year leading to 41% growth in voice minutes and 74% growth in data consumption volume. The strong growth in input matrix of customer and usage growth has yielded a gross revenue growth of 25% during the year.

On network side we are continuing to increase our foot print across the country, as of now more than 90% of sites are powered with 3G / 4G technology to continue enhancing data experience to our customers. The network modernization is ongoing process and the plan is to continue expanding the footprint in the coming year 2021 as well.

We take this opportunity to sincerely thank all our valued stakeholders - Customers, Government Bodies, Regulators, Business Partners and Employees for their unstinted support during the year. We are confident of continuing our growth into 2021 in both subscriber addition and revenue, and stay focused on strategic pillars of distribution excellence, customer experience, network excellence, right cost model and people development.

We look forward to the upcoming fiscal year with great optimism and purpose.

**Airtel Networks Kenya Limited  
Directors' Report (continued)**

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

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**7. COVID – 19**

The year has been a challenging one with Covid-19 pandemic impacting people from walks of life across the world. The society moved to a more digital way of communication and mobile money transaction. During this crisis Airtel Kenya put a stringent focus to ensure seamless network availability and followed norms laid down by government. The health safety measures were implemented to ensure safety of our employees and all customer touch points. Partnering with our strategic and operations partners, we continuously worked to keep the network running to provide essential telecom service across Kenya.

**8. 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.

**9. GIFTS AND DONATIONS**

During the year the Company extended support towards government initiatives with donations of Ksh 36.87 Mn (2019: Ksh 1.46 Mn).

**10. AUDITORS**


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

**11. DISCLOSURE OF INFORMATION TO AUDITORS**

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

**By Order of the Board**

**SCRIBE SERVICES**



**SECRETARIES**

.....2021

23/02/2021

**SCRIBE SERVICES SECRETARIES**

**Airtel Networks Kenya Limited**  
**Statement of Directors' Responsibilities on Financial Statements**  
*(All amounts are in KSH'000, unless stated otherwise)*

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

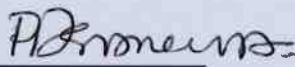
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with **International** Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

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

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

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

Approved by the board of directors on 23<sup>rd</sup> February..... 2021 and signed on its behalf by:

  
**P D Sarma**  
**Director**

  
**Alok Bafna**  
**Director**

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

### **Report on the audit of the Financial Statements**

#### **Opinion**

We have audited the accompanying financial statements of Airtel Networks Kenya Limited, ("the Company"), set out on pages 8 to 53, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

#### **Basis for Opinion**

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

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

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

#### **Material Uncertainty Relating to Going Concern**

We draw attention to Note 2 to the financial statements which indicates that the company incurred a net loss of KShs 5.99 billion during the year ended 31 December 2020 (2019: net loss of KShs 2.78 billion) and, as of that date, the company's current liabilities exceeded its current assets by KShs 4.42 billion (2019: KShs 7.87 billion). These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

### **Report on the audit of the Financial Statements (Continued)**

#### **Other Information**

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

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

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

#### **Responsibilities of the Directors for the Financial Statements**

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

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

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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



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

**Report on the audit of the Financial Statements (Continued)**

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

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

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

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

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



**Certified Public Accountants (Kenya)  
Nairobi**

30 March-----2021

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

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

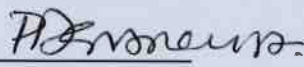
|  | Notes | For the year ended |                    |
|--|-------|--------------------|--------------------|
|  |       | 31 Dec 2020        | 31 Dec 2019        |
| <b>Income</b>                                    |       |                    |                    |
| Revenue  | 7     | 26,417,178         | 21,093,609         |
| Other income                                     |       | 125,592            | 91,878             |
|  |       | <b>26,542,770</b>  | <b>21,185,487</b>  |
| <b>Expenses</b>                                  |       |                    |                    |
| Network operating expenses                       | 8     | 5,059,641          | 4,722,396          |
| Access charges                                   | 9     | 5,935,525          | 4,764,281          |
| License fee / spectrum usage charges             |       | 2,479,878          | 2,098,040          |
| Employee benefits expenses                       | 10    | 1,734,892          | 1,429,633          |
| Sales and marketing expenses                     | 11    | 3,580,084          | 2,326,121          |
| Other expenses                                   | 12    | 662,339            | 393,616            |
| Depreciation and amortization                    | 13    | 5,370,247          | 5,536,873          |
|  |       | <b>24,822,606</b>  | <b>21,270,960</b>  |
| <b>Operating profit/(loss)</b>                   |       | <b>1,720,164</b>   | <b>(85,473)</b>    |
| Finance costs                                    | 14    | 3,121,833          | 2,897,023          |
| Finance Income                                   | 14    | (38,570)           | (12,177)           |
| Foreign exchange loss/(gain)                     |       | 4,484,330          | (229,703)          |
| <b>Loss before tax</b>                           |       | <b>(5,847,429)</b> | <b>(2,740,616)</b> |
| Tax expense                                      | 16    | 148,370            | 35,402             |
| <b>Loss for the period</b>                       |       | <b>(5,995,799)</b> | <b>(2,776,018)</b> |
| <b>Other comprehensive income for the period</b> |       | -                  | -                  |
| <b>Total comprehensive loss for the period</b>   |       | <b>(5,995,799)</b> | <b>(2,776,018)</b> |
| <b>Loss before tax (as presented above)</b>      |       |                    |                    |
| Add: Exceptional items (net)                     |       |                    |                    |
| <b>Underlying loss before tax</b>                |       | <b>(5,847,429)</b> | <b>(2,740,616)</b> |
| <b>Loss after tax (as presented above)</b>       |       |                    |                    |
| Add: Exceptional items (net)                     |       |                    |                    |
| <b>Underlying loss after tax</b>                 |       | <b>(5,995,799)</b> | <b>(2,776,018)</b> |

**Airtel Networks Kenya Limited**  
**Statement of Financial Position**

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

|   | Notes | As at               |                     |
|---|-------|---------------------|---------------------|
|   |       | 31 Dec 2020         | 31 Dec 2019         |
| <b>Assets</b>                                       |       |                     |                     |
| <b>Non-current assets</b>                           |       |                     |                     |
| Property, plant and equipment                       | 17    | 13,744,295          | 11,706,668          |
| Capital work-in-progress                            | 17    | 2,519,319           | 411,444             |
| Right of use assets                                 | 19    | 10,186,027          | 9,280,771           |
| Intangible assets                                   | 18    | 3,117,622           | 3,693,991           |
| Investment in Subsidiary                            | 36    | 40,000              | 20,000              |
| Income tax assets (net)                             | 15    | 311,207             | 301,287             |
| Other non-current assets                            | 36    | 854,356             | 576,482             |
|   |       | <b>30,772,826</b>   | <b>25,990,643</b>   |
| <b>Current assets</b>                               |       |                     |                     |
| Inventories   | 22    | 11,429              | 21,102              |
| Derivative instruments                              | 20    | 182                 | -                   |
| Trade and Other receivables                         | 23    | 7,755,919           | 6,901,077           |
| Cash and cash equivalents                           | 24    | 2,011,324           | 1,462,926           |
| Other Current Assets                                | 36    | 2,794,852           | 1,937,824           |
|   |       | <b>12,573,706</b>   | <b>10,322,929</b>   |
| <b>Total assets</b>                                 |       | <b>43,346,532</b>   | <b>36,313,572</b>   |
| <b>Current liabilities</b>                          |       |                     |                     |
| Borrowings  | 30    | 3,339,131           | 7,884,458           |
| Lease liabilities                                   | 29    | 2,104,256           | 1,689,480           |
| Derivative instruments                              | 20    | 37,142              | 11,977              |
| Trade and other payables                            | 31    | 8,241,623           | 5,991,930           |
| Deferred revenue                                    |       | 1,409,643           | 1,070,955           |
| Other Current Liabilities                           | 37    | 1,195,419           | 807,295             |
| Provisions  | 32    | 661,712             | 739,206             |
|   |       | <b>16,988,926</b>   | <b>18,195,301</b>   |
| <b>Net current liability</b>                        |       | <b>(4,415,220)</b>  | <b>(7,872,372)</b>  |
| <b>Non-current liabilities</b>                      |       |                     |                     |
| Borrowings  | 30    | 7,594,597           | -                   |
| Lease liabilities                                   | 29    | 10,121,754          | 9,164,430           |
| Other Non-current liabilities                       | 37    | 3,784               | 3,376               |
| Provisions  | 32    | 59,512              | 44,213              |
| Shareholders Loan                                   | 28    | 52,360,109          | 46,692,603          |
|   |       | <b>70,139,756</b>   | <b>55,904,622</b>   |
| <b>Total liabilities</b>                            |       | <b>87,128,682</b>   | <b>74,099,923</b>   |
| <b>Net Assets</b>                                   |       | <b>(43,782,150)</b> | <b>(37,786,351)</b> |
| <b>Equity</b>                                       |       |                     |                     |
| Share capital                                       | 25    | 3,350,000           | 3,350,000           |
| Share premium                                       | 26    | 3,406,676           | 3,406,676           |
| Redeemable preference shares                        | 27    | 22,611,513          | 22,611,513          |
| Share premium - Redeemable pref. shares             | 27    | 4,259,023           | 4,259,023           |
| Accumulated Losses                                  |       | (77,409,362)        | (71,413,563)        |
| <b>Equity attributable to owners of the company</b> |       | <b>(43,782,150)</b> | <b>(37,786,351)</b> |
| <b>Total equity</b>                                 |       | <b>(43,782,150)</b> | <b>(37,786,351)</b> |

The financial statements on pages 8 to 53 were approved by the Board of directors on 23<sup>rd</sup> February 2021 and signed on its behalf by:

  
**Director**  
**P D Sarma**

  
**Director**  
**Alok Bafna**

**Airtel Networks Kenya Limited**  
**Statement of Changes in Equity**

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

|  | Ordinary<br>Share capital | Preference<br>share capital | Share<br>premium --<br>Ordinary<br>shares | Share premium<br>-- Redeemable<br>preference<br>shares | Accumulated<br>losses | Total               |
|--|---------------------------|-----------------------------|---|--|-----------------------|---------------------|
| <b>Year ended 31 December 2019</b>       |                           |                             |   |  |                       |                     |
| Balance as at 1 January 2019             | 2,625,000                 | 22,611,513                  | 234,801                                   | 4,259,023  | (68,637,545)          | (38,907,208)        |
| Additional shares issued during the year | 725,000                   |                             | 3,171,875                                 |  |                       | 3,896,875           |
| Total comprehensive loss for the year    |                           |                             |   |  | (2,776,018)           | (2,776,018)         |
| <b>Balance as at 31 December 2019</b>    | <b>3,350,000</b>          | <b>22,611,513</b>           | <b>3,406,676</b>                          | <b>4,259,023</b>                                       | <b>(71,413,563)</b>   | <b>(37,786,351)</b> |
| Total comprehensive loss for the year    |                           |                             |   |  | (5,995,799)           | (5,995,799)         |
| <b>Balance as at 31 December 2020</b>    | <b>3,350,000</b>          | <b>22,611,513</b>           | <b>3,406,676</b>                          | <b>4,259,023</b>                                       | <b>(77,409,362)</b>   | <b>(43,782,150)</b> |

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

**Airtel Networks Kenya Limited****Statement of Cash Flow***(All amounts are in KSH'000, unless stated otherwise)*

|  | <b>For the year ended</b> |                    |
|--|---------------------------|--------------------|
|  | <b>31 Dec 2020</b>        | <b>31 Dec 2019</b> |
| <b>Cash flows from operating activities</b>                            |                           |                    |
| <b>Profit/(Loss) before tax</b>  | <b>(5,847,429)</b>        | <b>(2,740,616)</b> |
| <b>Adjustments for -</b>   |                           |                    |
| Depreciation and amortisation  | 5,370,247                 | 5,536,874          |
| Finance cost   | 3,121,833                 | 2,841,184          |
| Finance Income   | (38,570)                  | (12,177)           |
| Other adjustments  | 4,467,882                 | (455,480)          |
| <b>Operating cash flow before changes in working capital</b>           | <b>7,073,963</b>          | <b>5,169,785</b>   |
| <b>Changes in working capital</b>                                      |                           |                    |
| Decrease/(Increase) in trade and other receivables                     | (854,842)                 | 999,446            |
| Decrease in inventories  | 9,673                     | 22,886             |
| (Decrease)/Increase in trade and other payables                        | (1,060,939)               | (1,301,411)        |
| (Decrease)/Increase in provisions                                      | 356                       | (289,694)          |
| Increase in other current and non-current liabilities                  | 727,220                   | 7,942              |
| (Increase) in other current and non-current assets                     | (1,134,902)               | (540,698)          |
| <b>Net cash generated from operations before tax</b>                   | <b>4,760,529</b>          | <b>4,068,256</b>   |
| Income taxes paid  | (220,842)                 | (6,425)            |
| <b>Net cash generated from operating activities (a)</b>                | <b>4,539,687</b>          | <b>4,061,831</b>   |
| <b>Cash flows from investing activities</b>                            |                           |                    |
| Purchase of property, plant and equipment and capital work-in-progress | (3,552,025)               | (4,598,571)        |
| Purchase of intangible assets  | (47,083)                  | (194,120)          |
| Investment in subsidiary   | (20,000)                  | -                  |
| Interest Received  | 38,570                    | 12,177             |
| <b>Net cash used in investing activities (b)</b>                       | <b>(3,580,538)</b>        | <b>(4,780,514)</b> |
| <b>Cash flows from financing activities</b>                            |                           |                    |
| Proceeds from issuance of shares                                       | -                         | 1,021,250          |
| Proceeds from borrowings   | 3,228,000                 | 3,098,056          |
| Repayment of borrowings  | (1,000,000)               | (125,177)          |
| Repayment of lease liabilities   | (1,725,337)               | (1,516,918)        |
| Interest and other finance charges paid                                | (1,785,275)               | (1,542,713)        |
| Proceeds from borrowings from related parties                          | 530,480                   | 1,009,594          |
| <b>Net cash (used)/generated from financing activities (c)</b>         | <b>(752,132)</b>          | <b>1,944,092</b>   |
| <b>Increase in cash and cash equivalents during the period (a+b+c)</b> | <b>207,017</b>            | <b>1,225,409</b>   |
| Cash and cash equivalents as at beginning of the period                | 1,101,563                 | (123,846)          |
| <b>Cash and cash equivalents as at end of the period (Note 21)</b>     | <b>1,308,580</b>          | <b>1,101,563</b>   |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

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## **1. CORPORATE INFORMATION**

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

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

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

## **2. GOING CONCERN**

In 2020, the company incurred a net loss of Kshs 5.99 billion (2019: loss of Kshs 2.78 billion). As at 31 December 2020, the company has accumulated losses of Kshs 77.41 billion (31 December 2019: Kshs 71.41 billion). Overall the company is in a net liability position of Kshs 43.78 billion (2019: Kshs 37.78 billion), it may be noted that company has Shareholders' loans of KShs 52.36 billion. After considering shareholder's loan, there is sufficient liquidity to manage the operations. Further the unit has shown buoyant growth over the last three years with growth in revenue and reduction in net losses.

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

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

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

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Basis of preparation**

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

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

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

### **Changes in accounting policies and disclosures**

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments:

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately or on a combined basis;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances;

Upon adoption of the Interpretation, the company considered whether it has any uncertain tax positions. The company's tax filings include deductions and other tax treatments which the relevant taxation authorities may challenge. The company **determined** that, despite some differences in the recognition and measurement requirements **between** the **Interpretation** and the company's **previous policies for recognising tax provisions**, that there was no material impact on the financial statement of the company as a result of applying the Interpretation in addition to that which the company had already **recorded/ disclosed**.

**3.2. Basis of measurement**

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is based on the fair value of the consideration given in exchange for goods and services.

**Fair value measurement**

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

The company is required to classify the fair valuation method of the financial/non-financial assets and liabilities, either measured or disclosed at fair value in the financial statements, using a three level fair-value hierarchy (which reflects the significance of inputs used in the measurement). Accordingly, the company uses valuation techniques that are appropriate in the circumstances and for which **sufficient** data are available to measure fair value, maximising the use of **relevant** observable inputs and minimising the use of unobservable inputs.

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

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

**Going Concern**

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

**3.3 Basis of consolidation**

**a. Subsidiaries**

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

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

**3.4 Foreign currency transactions**

**a. Functional and presentation currency**

The items included in the financial statements of the company are measured using the currency of primary economic environment in which the company operates (i.e. 'functional currency').

The financial statements are presented in Kenya Shillings, which is also the functional, and presentation currency of the company.

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**b. Transactions and balances**

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

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

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

**3.5 Current versus non-current classification**

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

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

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

A liability is classified as current when it is expected to be settled in normal operating cycle, it is held primarily for the purpose of trading, it is due to be settled within 12 months after the reporting period, or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. Derivatives designated in hedging relationship are classified based on the hedged item and the host contract respectively.

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

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

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

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

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

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



**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

**3.7 Intangible assets**

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

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

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

• **Software**

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

• **Licences (including spectrum)**

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

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

• **Other acquired intangible assets**

Other acquired intangible assets include the following:

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The useful lives and amortisation method are reviewed, and adjusted appropriately, at least at each financial year end so as to ensure that the method and period of **amortisation** are consistent with the expected pattern of economic benefits from these assets. The effect of any change in the estimated useful lives and/or amortisation method is accounted prospectively, and accordingly, the amortisation is calculated over the remaining revised useful life.

Further, the cost of intangible assets under development includes the amount of spectrum allotted to the company and related costs for which services are yet to be rolled out and are presented separately in the statement of financial position.

#### **3.8 Impairment of non-financial assets**

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

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

For the purpose of impairment testing, the recoverable amount (that is, higher of the fair value less costs to sell and the value-in-use) is **determined** on an individual asset basis, unless the asset does not **generate** cash flows that are largely independent of those from other assets, in which case the recoverable amount is determined at the CGU level to which the said asset belongs. If such individual assets or CGU are considered to be impaired, the impairment to be recognised in the statement of comprehensive income is measured by the amount by which the carrying value of the asset/CGU exceeds their estimated recoverable amount and allocated on pro-rata basis.

##### **b. Reversal of impairment losses**

Impairment losses, other than goodwill, are reversed in the statement of comprehensive income and the carrying value is increased to its revised recoverable amount provided that this amount does not exceed the carrying value that would have been determined had no impairment loss been recognised for the said asset/CGU in previous years.

#### **3.9 Financial instruments**

##### **a. Recognition, classification and presentation**

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

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

The company classifies its financial assets in the following categories:

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

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

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

##### **b. Measurement - Non-derivative financial instruments**

###### **I. Initial measurement**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **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.

#### **III. Subsequent measurement - financial liabilities**

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

#### **c. Measurement - derivative financial instruments**

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

#### **Derecognition**

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

#### **3.10 Leases**

At inception of a contract, the company assesses a contract as, or containing, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company assesses whether

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

the **contract** involves the use of an identified asset, the company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and the company has the right to direct the use of the asset.

#### **a. company as a lessee**

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

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

Right-of-use assets are **measured** at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives **received**, any initial direct costs, and restoration costs.

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

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

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

#### **Short-term leases**

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

#### **b. Company as a lessor**

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

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

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

#### **3.11 Taxes**

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

##### **a. Current tax**

Current tax is calculated on the basis of the tax rates, laws and regulations, which have been enacted or substantively enacted as at the reporting date in the country. The payment made in excess/(shortfall) of the respective income tax obligation for the respective periods are recognised in the statement of financial position under income tax assets/income tax liabilities, respectively.

Any interest, related to accrued liabilities for potential tax assessments are not included in Income tax charge or (credit), but are rather recognised within finance costs.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable or based on expected value approach, as applicable. The assessment is based on the judgement of tax professionals within the company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice. Please also refer changes in accounting policies and disclosures under note 2.1.

##### **b. Deferred tax**

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

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

Deferred tax assets, recognised and unrecognised, are reviewed at each reporting date and assessed for recoverability based on best estimates of future taxable profits.

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

Income tax assets and liabilities are off-set against each other and the resultant net amount is presented in the statement of financial position, if and only when, (a) the company currently has a legally enforceable right to set-off the current income tax assets and liabilities, and (b) when it relate to income tax levied by the same taxation authority and where there is an intention to settle the current income tax balances on net basis.

#### **3.12 Inventories**

Inventories are stated at the lower of cost (determined using the first-in-first-out method) and net realisable value. The costs comprise its purchase price and any directly attributable cost of bringing it to its present location

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated variable costs necessary to make the sale.

#### **3.13 Cash and cash equivalents**

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

#### **3.14 Share capital/Share premium**

Ordinary shares are classified as equity when the company has an un-conditional right to avoid delivery of cash or another financial asset, that is, when the dividend and repayment of capital are at the sole and absolute discretion of the company and there is no contractual obligation whatsoever to that effect. Share premium account is used to record the premium on issue of shares.

#### **3.15 Employee benefits**

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

- **Defined contribution plans**

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

- **Other long-term employee benefits**

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

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

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

#### **3.16 Provisions**

##### **a. General**

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

#### **3.17 Contingencies**

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

#### **3.18 Revenue**

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

The company has entered into certain multiple-element revenue arrangements, which involve the delivery or performance of multiple products, services or rights to use assets. At the inception of the arrangement, all the deliverables therein are evaluated to determine whether they represent distinct performance obligations, and if so, they are accounted for separately.

Total consideration related to the multiple element arrangements is allocated to each performance obligation based on their relative standalone selling prices. The stand-alone selling prices are determined based on the list prices at which the company sells equipment and network services separately.

Revenue is recognised when, or as, each distinct performance obligation is **satisfied**. The main categories of revenue and the basis of recognition are as follows:

- **Service revenue**

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

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

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

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

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

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

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

As part of the mobile money services, the company earns commission from merchants for facilitating recharges, bill payments and other merchant payments. It also earns commissions on transfer of monies from one customer wallet to another. Such commissions are recognised as revenue at a point in time on fulfilment of these services by the company.

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

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

• **Equipment sales**

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

**3.19 Borrowing costs**

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



**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.20 Operating profit**

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

**3.21 Dividends**

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

**3.22 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**

The estimates and judgements used in the preparation of these financial statements are continuously evaluated by the company, and are based on historical experience and various other assumptions and factors (including expectations of future events), that the company believes to be reasonable under the existing circumstances. These estimates and judgements are based on the facts and events, that existed as at the reporting date, or that occurred after that date but provide additional evidence about conditions existing as at the reporting date. Although the company regularly assesses these estimates, actual results could differ materially from these estimates - even if the assumptions underlying such estimates were reasonable when made, if these results differ from historical experience or other assumptions do not turn out to be substantially accurate. The changes in estimates are recognised in the financial statements in the year in which they become known.

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

- **Uncertain tax treatments**

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

- **Deferred tax assets**

Deferred tax assets are recognised by the company, for the unused tax losses and temporary differences for which there is probability of utilisation against the taxable profit. Uncertainties exist in determination of amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, future tax planning strategies and recent business **performances** and developments. Basis this the **deferred** tax asset has not be recognised in the financial statement.

- **Useful lives of PPE**

As described at 2.6 above, the company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. After considering **market** conditions, industry practice, technological developments and other **factors**, the company determined that the current useful lives of its PPE remain appropriate. However, changes in economic conditions of the markets, competition and technology, among others, are unpredictable and they may significantly impact the useful live of PPE and therefore the depreciation charges. Refer note no. 17

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **• Contingent liabilities and provisions**

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

The critical judgements, which the management has made in the process of applying the accounting policies and have the most significant impact on the amounts recognised in the financial statements, are discussed below:

#### **• Determining the incremental borrowing rate for lease contracts**

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

#### **• Separating lease and non-lease components**

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

#### **• Determining the lease term**

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

### **4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

#### **4.1 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;
- 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**

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

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

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

The following pronouncements issued by the IASB are relevant to the company and effective for annual periods beginning on or after 1 January 2020. The company's financial reporting will be presented in accordance with these requirements, which are being evaluated but not expected to have a material impact on the financial results, financial position or cash flows from 1 January 2020.

- Amendments to IFRS 3 'Definition of business'
- Amendments to IAS 1 and IAS 8 'Definition of material'
- Conceptual Framework - Amendments to References to the Conceptual Framework in IFRS Standards

**4.2 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 - Classification of Liabilities as Current or Non-current

- a. Amendments to IFRS 3 - Reference to the Conceptual Framework
- b. Amendments to IAS 16 - Property, Plant and Equipment—Proceeds before Intended Use
- c. Annual Improvements to IFRS Standards 2018-2020 Cycle

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.

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

**Market risk**

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

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

The sensitivity of the relevant Statement of Comprehensive Income item (i.e. Profit/ loss before tax and other comprehensive income/ loss) is the effect of the assumed changes in the respective market risks. This is based on the financial assets and financial liabilities held as of 31 Dec 2020 and 2019.

**i) Foreign exchange risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company transacts business in U.S. dollars with parties of other countries and strategic vendor purchases are in U.S. dollars. The company has obtained foreign currency loans and has foreign currency trade payables and receivables and is therefore exposed to foreign exchange

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

risk. The company may use foreign exchange forward contracts towards hedging risk resulting from changes and fluctuations in foreign currency exchange rate. These foreign exchange contracts, carried at fair value, may have varying maturities depending upon the primary host contract requirement and risk management strategy of the company. The company manages its foreign currency risk by hedging a certain proportion of its foreign currency exposure, as approved by Board as per established risk management policy or higher as considered appropriate and whenever necessary.

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

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

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

At 31 December 2020, if the KShs had weakened/strengthened by 5% against the US dollar with all other variables held constant, post tax profit for the period would have been KShs 2.86 billion (2019: KShs 2.49 billion) lower/higher, mainly as a result of US dollar denominated trade receivables, payables, bank balances and borrowings. There would be no impact on equity.

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

|  | 2020                | 2019                |
|--|---------------------|---------------------|
| <b>Assets in foreign currencies</b>      |                     |                     |
| Trade and other receivables              | 7,197,231           | 6,107,014           |
| Bank balances                            | 1,699,838           | 90,930              |
|  | <b>8,897,069</b>    | <b>6,197,944</b>    |
| <b>Liabilities in foreign currencies</b> |                     |                     |
| Trade and other payables                 | 4,465,223           | 2,525,309           |
| Shareholder's loan                       | 52,360,109          | 46,692,603          |
| Borrowings                               | 9,234,899           | 6,834,307           |
| Total Liabilities                        | <b>66,060,231</b>   | <b>56,052,219</b>   |
| Net foreign currency liability           | <b>(57,163,162)</b> | <b>(49,854,274)</b> |

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

**ii) Price risk**

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

**iii) Cash flow and fair value interest rate risk**

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

The company's only variable interest bearing financial liabilities are its external borrowings of KShs 10.93 Billion (2019: KShs 7.87 Billion) which are set at variable rates, and it is therefore exposed to cash flow interest rate risk. The company also relies on funding from shareholders of KShs 52.36 Billion (2019: 46.69 Billion) which is at a fixed rate and therefore not exposed to cash flow interest rate risk. The company regularly monitors financing options available to ensure optimum interest rates are obtained.

At 31 December 2020, an increase/decrease of 100 basis points would have resulted in a decrease/increase in pre-tax profit of KShs 109.37 million (2019: KShs 78.87 million).

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

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

| <b>Financial Liabilities</b> | <b>2020</b>       | <b>2019</b>       |
|------------------------------|-------------------|-------------------|
| HSBC- Mauritius loan         | 1,640,306         | 1,518,750         |
| Citibank loan                | 5,407,528         | 5,006,813         |
| Stanbic bank loan            | -                 | 1,000,000         |
| Standard Chartered bank loan | 1,000,000         | -                 |
| Bank Overdraft               | 702,745           | 361,363           |
| JP Morgan                    | 2,187,069         | -                 |
|                              | <b>10,937,648</b> | <b>7,886,926</b>  |
| Shareholder's loans          | <b>52,360,109</b> | <b>46,692,603</b> |

**iv) Credit risk**

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

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

The company's treasury maintains its cash and cash equivalents and deposits and enters into derivative financial instruments - with banks, financial and other institutions, having good reputation and past track record, and high/sovereign credit rating. Similarly, inter group receivables carry either negligible or very minimal credit risk. Further, the company reviews the **credit-worthiness** of the all the above assets on an on-going basis, and if required, takes necessary mitigation measures.

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

**As on 31 Dec 2020**

| <b>Particulars</b>        | <b>Gross carrying amount</b> | <b>Less allowance</b> | <b>Net amount</b> |
|---------------------------|------------------------------|-----------------------|-------------------|
| Trade receivables         | 1,820,038                    | 1,543,551             | 276,487           |
| Other Receivables         | 463,825                      | 98,360                | 365,465           |
| Cash and cash equivalents | 2,011,324                    | -                     | 2,011,324         |
| Due from related parties  | 7,113,967                    | -                     | 7,113,967         |
| <b>Total</b>              | <b>11,409,154</b>            | <b>1,641,911</b>      | <b>9,767,243</b>  |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**As at 31 Dec 2019**

| <b>Particulars</b>        | <b>Gross carrying amount</b> | <b>Less allowance</b> | <b>Net amount</b> |
|---------------------------|------------------------------|-----------------------|-------------------|
| Trade receivables         | 1,992,541                    | 1,542,051             | 450,490           |
| Other Receivables         | 298,537                      | -                     | 298,537           |
| Cash and cash equivalents | 1,462,926                    | -                     | 1,462,926         |
| Due from related parties  | 6,152,050                    | -                     | 6,152,050         |
| <b>Total</b>              | <b>9,906,054</b>             | <b>1,542,051</b>      | <b>8,364,003</b>  |

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

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

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

| <b>Particulars</b>                 | <b>Less than 30 days</b> | <b>30 to 60 days</b> | <b>60 to 90 days</b> | <b>Above 90 days</b> | <b>Total</b> |
|------------------------------------|--------------------------|----------------------|----------------------|----------------------|--------------|
| Trade Receivable as of 31 Dec 2020 | 123,295                  | 60,950               | 36,830               | 1,598,963            | 1,820,038    |
| Trade Receivable as of 31 Dec 2019 | 145,641                  | 178,278              | 77,559               | 1,591,063            | 1,992,541    |

**v) Liquidity risk**

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

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

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

**5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

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

|   | Less than 1<br>year | Between 1 and 2<br>years | More than 2<br>Years | Totals            |
|---|---------------------|--------------------------|----------------------|-------------------|
| <b>At 31 December 2020:</b>                                     |                     |                          |                      |                   |
| <b>Liabilities</b>  |                     |                          |                      |                   |
| Shareholder's loans   | 52,360,109          | -                        | -                    | 52,360,109        |
| External borrowings   | 2,640,306           | 7,594,597                | -                    | 10,234,903        |
| Lease Liabilities   | 2,104,256           | 2,267,059                | 7,854,695            | 12,226,010        |
| Bank overdraft  | 702,745             | -                        | -                    | 702,745           |
| Accrued expenses and other payables                             | 2,025,449           | -                        | -                    | 2,025,449         |
| Amounts due to related companies                                | 2,083,751           | -                        | -                    | 2,083,751         |
| Trade payables  | 3,720,753           | -                        | -                    | 3,720,753         |
| <b>Total financial liabilities (contractual maturity dates)</b> | <b>65,664,651</b>   | <b>9,861,656</b>         | <b>7,854,695</b>     | <b>83,381,002</b> |
| <b>At 31 December 2019:</b>                                     |                     |                          |                      |                   |
| <b>Liabilities</b>  |                     |                          |                      |                   |
| Shareholder's loans   | 46,692,603          | -                        | -                    | 46,692,603        |
| External borrowings   | 7,525,566           | -                        | -                    | 7,525,566         |
| Lease Liabilities   | 1,689,480           | 1,820,193                | 7,344,237            | 10,853,910        |
| Bank overdraft  | 361,363             | -                        | -                    | 361,363           |
| Accrued expenses and other payables                             | 1,983,723           | -                        | -                    | 1,983,723         |
| Amounts due to related companies                                | 1,836,479           | -                        | -                    | 1,836,479         |
| Trade payables  | 1,801,777           | -                        | -                    | 1,801,777         |
| <b>Total financial liabilities (contractual maturity dates)</b> | <b>61,949,725</b>   | <b>1,820,193</b>         | <b>7,344,237</b>     | <b>71,114,155</b> |

**vi) Capital management**

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

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

No changes were made in the objectives, policies or processes during the year ended December 31, 2020 and December 31, 2019. The company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as loans and borrowings less cash and cash equivalents.

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

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

|                                 | 2020                | 2019                |
|---------------------------------|---------------------|---------------------|
| Loans and borrowings            | 63,297,757          | 54,579,529          |
| Less: Cash and cash equivalents | (2,011,324)         | (1,386,519)         |
| <b>Net Debt</b>                 | <b>61,286,433</b>   | <b>53,193,010</b>   |
| <b>Equity</b>                   | <b>(43,782,150)</b> | <b>(37,786,351)</b> |
| Gearing Ratio                   | Over 100%           | Over 100%           |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements**

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

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**6. SEGMENTAL INFORMATION**

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

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

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

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



**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**6. SEGMENTAL INFORMATION (continued)**

Segmental Performance

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

|                                      | 2020               |                |                          |                    |                    | 2019           |                          |                    |     |              |                          |       |
|--------------------------------------|--------------------|----------------|--------------------------|--------------------|--------------------|----------------|--------------------------|--------------------|-----|--------------|--------------------------|-------|
|                                      | GSM                | Airtel Money   | Intercompany elimination | Total              | GSM                | Airtel Money   | Intercompany elimination | Total              | GSM | Airtel Money | Intercompany elimination | Total |
| Revenue*                             | 26,457,030         | 245,012        | (159,272)                | 26,542,770         | 21,048,753         | 274,054        | (137,320)                | 21,185,487         |     |              |                          |       |
| Network operating expenses           | 5,034,744          | 29,854         | (4,957)                  | 5,059,641          | 4,720,183          | 8,474          | (6,261)                  | 4,722,396          |     |              |                          |       |
| Access charges/ Cost of sales        | 5,935,525          | -              | -                        | 5,935,525          | 4,764,281          | -              | -                        | 4,764,281          |     |              |                          |       |
| License fee / spectrum usage charges | 2,479,378          | 500            | -                        | 2,479,878          | 2,097,170          | 870            | -                        | 2,098,040          |     |              |                          |       |
| Employee benefits expense            | 1,664,261          | 70,631         | -                        | 1,734,892          | 1,372,643          | 56,990         | -                        | 1,429,633          |     |              |                          |       |
| Sales and marketing expenses         | 3,566,025          | 80,827         | (66,768)                 | 3,580,084          | 2,240,418          | 180,109        | (94,406)                 | 2,326,121          |     |              |                          |       |
| Other expenses                       | 716,060            | 33,826         | (87,547)                 | 662,339            | 428,704            | 1,565          | (36,653)                 | 393,616            |     |              |                          |       |
| Depreciation and amortisation        | 5,303,540          | 66,707         | -                        | 5,370,247          | 5,526,458          | 10,415         | -                        | 5,536,873          |     |              |                          |       |
| <b>Total Costs</b>                   | <b>24,699,533</b>  | <b>282,345</b> | <b>(159,272)</b>         | <b>24,822,606</b>  | <b>21,149,857</b>  | <b>258,423</b> | <b>(137,320)</b>         | <b>21,270,960</b>  |     |              |                          |       |
| Finance costs                        | 3,120,684          | 1,149          | -                        | 3,121,833          | 2,896,748          | 275            | -                        | 2,897,023          |     |              |                          |       |
| Finance Income                       | (1,117)            | (37,453)       | -                        | (38,570)           | (1)                | (12,176)       | -                        | (12,177)           |     |              |                          |       |
| Foreign exchange(gain)/loss          | 4,564,460          | (80,130)       | -                        | 4,484,330          | (246,744)          | 17,041         | -                        | (229,703)          |     |              |                          |       |
| <b>Profit/(Loss) before tax</b>      | <b>(5,926,530)</b> | <b>79,101</b>  | <b>-</b>                 | <b>(5,847,429)</b> | <b>(2,751,107)</b> | <b>10,491</b>  | <b>-</b>                 | <b>(2,740,616)</b> |     |              |                          |       |
| Tax expense                          | 148,370            | -              | -                        | 148,370            | 35,402             | -              | -                        | 35,402             |     |              |                          |       |
| <b>Profit/(Loss) after tax</b>       | <b>(6,074,900)</b> | <b>79,101</b>  | <b>-</b>                 | <b>(5,995,799)</b> | <b>(2,786,509)</b> | <b>10,491</b>  | <b>-</b>                 | <b>(2,776,018)</b> |     |              |                          |       |

\*Revenue is inclusive of other income.

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**6. SEGMENTAL INFORMATION (continued)**

**STATEMENT OF FINANCIAL POSITION**

|                                     | 2020              |                  |                          |                   | 2019              |                  |                          |                   |
|-------------------------------------|-------------------|------------------|--------------------------|-------------------|-------------------|------------------|--------------------------|-------------------|
|                                     | GSM               | Airtel Money     | Intercompany elimination | Total             | GSM               | Airtel Money     | Intercompany elimination | Total             |
| Bank balance                        | 753,196           | 1,258,128        | -                        | 2,011,324         | 368,741           | 1,094,185        | -                        | 1,462,926         |
| Non-Current Assets                  | 30,689,033        | 83,793           | -                        | 30,772,826        | 25,905,111        | 85,532           | -                        | 25,990,643        |
| Other assets                        | 10,947,041        | 224,787          | (609,446)                | 10,562,382        | 9,143,159         | 179,655          | (462,811)                | 8,860,003         |
| <b>Total Assets</b>                 | <b>42,389,270</b> | <b>1,566,708</b> | <b>(609,446)</b>         | <b>43,346,532</b> | <b>35,417,011</b> | <b>1,359,372</b> | <b>(462,811)</b>         | <b>36,313,572</b> |
| Trade and other payables            | 8,390,287         | 460,782          | (609,446)                | 8,241,623         | 6,122,000         | 332,741          | (462,811)                | 5,991,930         |
| Shareholder's loans                 | 52,360,109        | -                | -                        | 52,360,109        | 46,692,603        | -                | -                        | 46,692,603        |
| Loans from banks                    | 10,933,728        | -                | -                        | 10,933,728        | 7,884,458         | -                | -                        | 7,884,458         |
| Other liabilities                   | 15,593,027        | 194              | -                        | 15,593,221        | 13,530,932        | -                | -                        | 13,530,932        |
| Accumulated Losses                  | (74,618,219)      | (2,791,143)      | -                        | (77,409,362)      | (68,543,319)      | (2,870,244)      | -                        | (71,413,563)      |
| Share capital and share premium     | 29,730,337        | 3,896,875        | -                        | 33,627,212        | 29,730,337        | 3,896,875        | -                        | 33,627,212        |
| <b>Total equity and liabilities</b> | <b>42,389,270</b> | <b>1,566,708</b> | <b>(609,446)</b>         | <b>43,346,532</b> | <b>35,417,011</b> | <b>1,359,372</b> | <b>(462,811)</b>         | <b>36,313,572</b> |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

|   | 2020              | 2019              |
|---|-------------------|-------------------|
| <b>7 REVENUE</b>                                    |                   |                   |
| Voice revenues                                      | 12,392,152        | 9,984,207         |
| Data revenues                                       | 7,795,633         | 5,841,806         |
| Interconnect revenues                               | 2,622,474         | 2,205,508         |
| Roaming revenues                                    | 116,959           | 281,747           |
| Site sharing revenue (leased site)                  | 14,739            | 13,550            |
| Other service revenues                              | 568,001           | 681,356           |
| Sale of goods (handsets and accessories)            | 69,374            | 36,187            |
| Messaging & Vas Revenue                             | 2,621,467         | 1,803,739         |
| Revenue earned from Mobile Virtual Network Operator | 216,379           | 245,509           |
|   | <b>26,417,178</b> | <b>21,093,609</b> |

Performance obligations that are unsatisfied (or partially unsatisfied) amounting to Kes 1,409.58 Mn at 31 December 2020 and Kes1,070.96 Mn as at 31 December 2019 will be satisfied within a period of one year, respectively.

Revenue recognized that was included in the deferred revenue at the beginning of the year is Kes 1,070.96 Mn (2019: Kes 1057.72 Mn).

Transfers from unbilled revenue recognized at the beginning of the period to receivables is Kes 287.66 Mn for 2020 (2019: Kes 279.92 mn).

**8 NETWORK OPERATING EXPENSES**

|   |                  |                  |
|---|------------------|------------------|
| Network operation and maintenance costs | 4,621,836        | 4,360,501        |
| Leased lines                            | 437,805          | 361,895          |
|   | <b>5,059,641</b> | <b>4,722,396</b> |

**9 ACCESS CHARGES**

|                    |                  |                  |
|--------------------|------------------|------------------|
| Interconnect costs | 5,902,945        | 4,712,686        |
| Roaming charges    | 32,580           | 51,595           |
|                    | <b>5,935,525</b> | <b>4,764,281</b> |

**10 EMPLOYEE BENEFITS EXPENSE**

|                                |                  |                  |
|--------------------------------|------------------|------------------|
| Salaries                       | 971,927          | 870,153          |
| Defined contribution plan cost | 46,121           | 41,794           |
| Defined benefit plan cost*     | 20,082           | 11,866           |
| Staff Welfare Expense          | 95,033           | 79,585           |
| Other staff related costs      | 601,730          | 426,235          |
|                                | <b>1,734,892</b> | <b>1,429,633</b> |

**Defined benefit plan cost movement during the year**

|                       |               |               |
|-----------------------|---------------|---------------|
| Opening Balance       | 52,613        | 46,780        |
| Charge for the year   | 20,082        | 11,866        |
| Payments for the year | (4,725)       | (6,033)       |
| Closing Balance       | <b>67,970</b> | <b>52,613</b> |

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

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

|   | <b>2020</b>      | <b>2019</b>      |
|---|------------------|------------------|
| <b>11 SALES AND MARKETING EXPENSES</b>  |                  |                  |
| Sales Commission  | 2,462,543        | 1,627,750        |
| Marketing costs   | 455,863          | 330,181          |
| Sim Cost  | 281,305          | 137,302          |
| VAS Content   | 380,373          | 230,888          |
|   | <b>3,580,084</b> | <b>2,326,121</b> |
| <b>12 OTHER EXPENSES</b>  |                  |                  |
| Travel costs  | 9,431            | 15,533           |
| Professional fees   | 97,027           | 42,959           |
| Auditors' remuneration  | 13,317           | 11,130           |
| Provision for impairment on doubtful trade and other receivables  | (5,841)          | (166,557)        |
| Repairs and maintenance costs   | 62,311           | 29,601           |
| Directors' remuneration   | 14,457           | 11,263           |
| Insurance expenses  | 26,104           | 18,432           |
| Cost of handsets and accessories  | 66,110           | 28,445           |
| Customer experience costs   | 150,486          | 117,272          |
| Other administrative costs*   | 228,938          | 285,538          |
|   | <b>662,339</b>   | <b>393,616</b>   |
| * Other administrative expense includes mainly Office Administrative Expenses e.g. Rent, Electricity etc. |                  |                  |
| <b>13 DEPRECIATION AND AMORTIZATION COSTS</b>   |                  |                  |
| Depreciation  | 4,746,795        | 4,973,063        |
| Amortization  | 623,452          | 563,811          |
|   | <b>5,370,247</b> | <b>5,536,873</b> |
| <b>14 FINANCE COSTS</b>   |                  |                  |
| Interest on lease liabilities   | 1,012,192        | 991,815          |
| Interest on borrowings  | 2,048,238        | 1,846,551        |
| Amortization of loan Origination Cost   | -                | 4,253            |
| Net loss on derivative financial instruments  | 43,742           | 19,688           |
| Bank charges  | 17,661           | 34,715           |
|   | <b>3,121,833</b> | <b>2,897,023</b> |
| <b>FINANCE INCOME</b>   |                  |                  |
| Interest income   | (38,570)         | (12,177)         |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

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

|  | <b>2020</b>    | <b>2019</b>    |
|--|----------------|----------------|
| <b>15 Income Tax Recoverable</b>                         |                |                |
| Statement of financial position                          |                |                |
| As at 1 January  | 301,287        | 294,861        |
| Paid during the year                                     | 9,920          | 6,425          |
| <b>Tax recoverable</b>                                   | <b>311,207</b> | <b>301,287</b> |
| <b>16 Income Tax Expense</b>                             |                |                |
|  | <b>2,020</b>   | <b>2,019</b>   |
| Loss before income tax                                   | (5,847,429)    | (2,740,615)    |
| Tax calculated at the statutory income tax rate of 30%   | (1,754,229)    | (822,185)      |
| Net tax effect of:                                       |                |                |
| Income not subject to tax                                | (961,312)      | (1,370,747)    |
| Expenses not deductible for tax purposes                 | 1,774,265      | 1,687,589      |
| Deferred income tax asset not recognized during the year | 941,276        | 505,343        |
| Settlement of Various Disputes                           | 148,370        | 35,402         |
| <b>Income tax expense</b>                                | <b>148,370</b> | <b>35,402</b>  |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

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

The following table presents the reconciliation of changes in the carrying value of PPE for the year ended 31 Dec 2020 and 31 Dec 2019:

|   | Leasehold improvements | Land          | Technical assets  | Motor vehicles | Office, IT equipment & others | Furniture & fittings | TOTAL             | Capital work in progress** |
|---|------------------------|---------------|-------------------|----------------|-------------------------------|----------------------|-------------------|----------------------------|
| <b>Gross Carrying Value</b>                 |                        |               |                   |                |                               |                      |                   |                            |
| At January 1, 2019                          | 1,092,443              | 85,000        | 46,084,904        | 11,571         | 8,010,760                     | 360,208              | 55,644,886        | 2,946,135                  |
| Adjustment - IFRS 16 (Note 19)              | -                      | -             | (8,894,475)       | -              | -                             | -                    | (8,894,475)       | -                          |
| Adjustment*                                 | -                      | -             | -                 | -              | 147,514                       | (147,514)            | -                 | -                          |
| <b>Adjusted balance at 1st January 2019</b> | <b>1,092,443</b>       | <b>85,000</b> | <b>37,190,429</b> | <b>11,571</b>  | <b>8,158,274</b>              | <b>212,694</b>       | <b>46,750,411</b> | <b>2,946,135</b>           |
| Additions                                   | 12,608                 | -             | 4,831,344         | -              | 448,163                       | 12,444               | 5,304,559         | 2,917,139                  |
| Disposal / Adjustments*                     | -                      | -             | -                 | -              | -                             | -                    | -                 | (5,451,830)                |
| <b>At December 31, 2019</b>                 | <b>1,105,051</b>       | <b>85,000</b> | <b>42,021,773</b> | <b>11,571</b>  | <b>8,606,437</b>              | <b>225,138</b>       | <b>52,054,970</b> | <b>411,444</b>             |
| Additions                                   | -                      | -             | 4,614,957         | -              | 205,676                       | 25,414               | 4,846,047         | 2,094,403                  |
| Disposal / Adjustment*                      | -                      | -             | (45,692)          | -              | -                             | -                    | (45,692)          | 13,473                     |
| <b>At December 31, 2020</b>                 | <b>1,105,051</b>       | <b>85,000</b> | <b>46,591,038</b> | <b>11,571</b>  | <b>8,812,113</b>              | <b>250,552</b>       | <b>56,855,325</b> | <b>2,519,319</b>           |
| <b>Accumulated Depreciation</b>             |                        |               |                   |                |                               |                      |                   |                            |
| At January 1, 2019                          | 900,657                | -             | 30,856,049        | 7,896          | 7,366,320                     | 769,364              | 39,900,286        | -                          |
| Adjustment - IFRS 16 (Note 19)              | -                      | -             | (2,701,282)       | -              | -                             | -                    | (2,701,282)       | -                          |
| Adjustment*                                 | -                      | -             | (115,827)         | -              | 679,350                       | (563,523)            | -                 | -                          |
| <b>Adjusted balance at 1st January 2019</b> | <b>900,657</b>         | <b>-</b>      | <b>28,038,940</b> | <b>7,896</b>   | <b>8,045,670</b>              | <b>205,841</b>       | <b>37,199,004</b> | <b>-</b>                   |
| Charge for the year                         | 58,287                 | -             | 2,858,431         | 899            | 222,283                       | 9,398                | 3,149,298         | -                          |
| Adjustment*                                 | -                      | -             | -                 | -              | (131)                         | 131                  | -                 | -                          |
| <b>At December 31, 2019</b>                 | <b>958,944</b>         | <b>-</b>      | <b>30,897,371</b> | <b>8,795</b>   | <b>8,267,822</b>              | <b>215,370</b>       | <b>40,348,302</b> | <b>-</b>                   |
| Charge for the year                         | 45,419                 | -             | 2,537,066         | 897            | 207,859                       | 11,470               | 2,802,712         | -                          |
| Disposal / Adjustment*                      | -                      | -             | (39,984)          | -              | -                             | -                    | (39,984)          | -                          |
| <b>At December 31, 2020</b>                 | <b>1,004,363</b>       | <b>-</b>      | <b>33,394,453</b> | <b>9,692</b>   | <b>8,475,681</b>              | <b>226,840</b>       | <b>43,111,030</b> | <b>-</b>                   |
| <b>NET CARRYING VALUE:</b>                  |                        |               |                   |                |                               |                      |                   |                            |
| At December 31, 2019                        | 146,107                | 85,000        | 11,124,402        | 2,776          | 338,615                       | 9,768                | 11,706,668        | 411,444                    |
| At December 31, 2020                        | 100,688                | 85,000        | 13,196,585        | 1,879          | 336,431                       | 23,712               | 13,744,295        | 2,519,319                  |

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

\*\* The carrying value of capital work-in-progress as at December 31, 2020 & December 31, 2019 mainly pertains to plant and equipment.

**18 Intangible Assets**

|                                 | License          | YU brand      | YU customer base | Bandwidth | Total            |
|---------------------------------|------------------|---------------|------------------|-----------|------------------|
| <b>Gross Carrying Value</b>     |                  |               |                  |           |                  |
| At January 1, 2019              | 5,772,902        | 16,180        | 1,289,300        | 370,008   | 7,448,390        |
| Additions                       | 80,097           | -             | -                | 114,024   | 194,121          |
| Disposal / Adjustments*         | -                | -             | -                | (484,032) | (484,032)        |
| <b>At December 31, 2019</b>     | <b>5,852,999</b> | <b>16,180</b> | <b>1,289,300</b> | <b>-</b>  | <b>7,158,479</b> |
| Additions                       | 47,083           | -             | -                | -         | 47,083           |
| <b>At December 31, 2020</b>     | <b>5,900,082</b> | <b>16,180</b> | <b>1,289,300</b> | <b>-</b>  | <b>7,205,562</b> |
| <b>Accumulated Depreciation</b> |                  |               |                  |           |                  |
| At January 1, 2019              | 1,595,198        | 16,180        | 1,289,300        | 36,454    | 2,937,132        |
| Charge for the year             | 563,810          | -             | -                | -         | 563,810          |
| Disposal / Adjustments*         | -                | -             | -                | (36,454)  | (36,454)         |
| <b>At December 31, 2019</b>     | <b>2,159,008</b> | <b>16,180</b> | <b>1,289,300</b> | <b>-</b>  | <b>3,464,488</b> |
| Charge for the year             | 623,452          | -             | -                | -         | 623,452          |
| <b>At December 31, 2020</b>     | <b>2,782,460</b> | <b>16,180</b> | <b>1,289,300</b> | <b>-</b>  | <b>4,087,940</b> |
| <b>NET CARRYING VALUE:</b>      |                  |               |                  |           |                  |
| At December 31, 2019            | 3,693,991        | -             | -                | -         | 3,693,991        |
| At December 31, 2020            | 3,117,622        | -             | -                | -         | 3,117,622        |

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

YU brand and customer base fully amortized as of 31<sup>st</sup> Dec 2017.

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**19 Right of use Assets**

|                                 | Plant and equipment | Others         | Total             |
|---------------------------------|---------------------|----------------|-------------------|
| <b>Gross Carrying Value</b>     |                     |                |                   |
| At January 1, 2019              | 8,894,475           | -              | 8,894,475         |
| Additions                       | 4,785,738           | 125,606        | 4,911,344         |
| <b>At December 31, 2019</b>     | <b>13,680,212</b>   | <b>125,606</b> | <b>13,805,818</b> |
| Additions                       | 2,281,405           | 567,934        | 2,849,339         |
| <b>At December 31, 2020</b>     | <b>15,961,618</b>   | <b>693,540</b> | <b>16,655,157</b> |
| <b>Accumulated Depreciation</b> |                     |                |                   |
| At January 1, 2019              | 2,701,280           | -              | 2,701,280         |
| Charge for the year             | 1,721,059           | 102,708        | 1,823,767         |
| <b>At December 31, 2019</b>     | <b>4,422,339</b>    | <b>102,708</b> | <b>4,525,047</b>  |
| Charge for the year             | 1,832,829           | 111,254        | 1,944,083         |
| <b>At December 31, 2020</b>     | <b>6,255,168</b>    | <b>213,963</b> | <b>6,469,130</b>  |
| <b>NET CARRYING VALUE:</b>      |                     |                |                   |
| At December 31, 2019            | 9,257,873           | 22,898         | 9,280,771         |
| At December 31, 2020            | 9,706,450           | 479,577        | 10,186,027        |



**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**20 DERIVATIVE FINANCIAL INSTRUMENT**

|                                   | <b>2020</b>   | <b>2019</b>   |
|-----------------------------------|---------------|---------------|
| <b>ASSETS</b>                     |               |               |
| At Jan 1 2020                     | -             | 239           |
| Credit/(Charge) to profit or loss | 182           | (239)         |
| <b>At December 31 2020</b>        | <b>182</b>    | <b>-</b>      |
| <b>LIABILITY</b>                  |               |               |
| At January 1 2020                 | 11,977        | 9,224         |
| Charge to profit or loss          | 25,165        | 2,753         |
| <b>At December 31 2020</b>        | <b>37,142</b> | <b>11,977</b> |

**21 DEFERRED INCOME TAX**

Deferred income tax is calculated using the enacted rate of 30% (2019:30%). The movement in the deferred income tax account is as follows;

|                          | <b>2020</b>  | <b>2019</b>  |
|--------------------------|--------------|--------------|
| At start of year         | 20,435,797   | 19,930,454   |
| Credit to profit or loss | 941,276      | 505,343      |
| Unrecognized asset       | (21,377,073) | (20,435,797) |
| <b>At end of year</b>    | <b>-</b>     | <b>-</b>     |

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

|  | <b>1.1.2020</b> | <b>Credit to profit or loss</b> | <b>31.12.2020</b> |
|--|-----------------|---------------------------------|-------------------|
| <b>Year ended 31 December 2020</b>             |                 |                                 |                   |
| Doubtful Debts                                 | (1,692,890)     | 9,869                           | (1,683,021)       |
| Inventory obsolescence                         | (48,513)        | (47,705)                        | (96,217)          |
| Accrued leave                                  | (52,613)        | (15,356)                        | (67,969)          |
| Bonus  | (87,998)        | (13,363)                        | (101,362)         |
| Provision for network removal (ARO)            | (8,560)         | 171                             | (8,389)           |
| Provision for tax cases                        | (434,714)       | 62,552                          | (372,162)         |
| Provision for legal cases                      | (289,971)       | 16,482                          | (273,489)         |
| PRA Discount Receivable Provision              | -               | (14,101)                        | (14,101)          |
| Roaming TAP-IN (Out-roamer) Provision          | -               | (2,590)                         | (2,590)           |
| IBM embedded derivative gain                   | -               | (1,820)                         | (1,820)           |
| ESOP Provision                                 | (4,807)         | (58,636)                        | (63,443)          |
| Unrealized exchange losses - Loans             | -               | (3,832,702)                     | (3,832,702)       |
| Net unrealized exchange differences            | 601,486         | (1,045,526)                     | (444,040)         |
| Provision for Airtel Money/ Bank/ Cash balance | (590,570)       | -                               | (590,570)         |
| RoU asset - IFRS 16                            | 9,280,771       | 905,256                         | 10,186,027        |
| Lease Liability IFRS 16                        | (10,853,910)    | (1,372,100)                     | (12,226,010)      |
| Tax losses carried forward                     | (59,773,700)    | 3,378,864                       | (56,394,836)      |
| Deferred income tax assets not recognized      | 63,955,989      | 2,030,706                       | 65,986,694        |
| <b>Net deferred income tax assets</b>          | <b>-</b>        | <b>-</b>                        | <b>-</b>          |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

A deferred tax asset of KShs 21.37 million (2019: KShs 20.44.99mn) has not been recognized in the financial statements as it is not probable that future taxable profits will be available against which the deferred tax asset can be utilized. The company's tax losses can be carried forward for ten years for offsetting.

| <b>Year ended 31 December 2019</b>             | <b>1.1.2019</b> | <b>Credit to profit or loss</b> | <b>31.12.2019</b> |
|--|-----------------|---------------------------------|-------------------|
| Doubtful Debts                                 | (1,910,842)     | 9,869                           | (1,692,890)       |
| Inventory <b>obsolescence</b>                  | (48,120)        | 47,705                          | (48,513)          |
| Accrued leave                                  | (46,780)        | (15,356)                        | (52,613)          |
| Bonus  | (89,339)        | (13,363)                        | (87,998)          |
| Provision for network removal (ARO)            | (8,412)         | 171                             | (8,560)           |
| Provision for tax cases                        | (182,663)       | (62,552)                        | (434,714)         |
| Provision for legal cases                      | (336,588)       | 16,482                          | (289,971)         |
| ESOP Provision                                 | (22,453)        | (1,820)                         | (4,807)           |
| Net unrealized exchange differences            | 815,780         | (4,878,228)                     | 601,486           |
| Provision for Airtel Money/ Bank/ Cash balance | (590,570)       | -                               | (590,570)         |
| Right of Use asset - IFRS 16                   | -               | (905,256)                       | 9,280,771         |
| Lease Liability IFRS 16                        | -               | (1,372,100)                     | (10,853,910)      |
| Tax losses carried forward                     | (60,579,948)    | (2,007,899)                     | (62,587,848)      |
| Deferred income tax assets not recognized      | 62,999,936      | 3,770,200                       | 66,770,136        |
| <b>Net deferred income tax assets</b>          | <b>-</b>        | <b>-</b>                        | <b>-</b>          |

**22 INVENTORIES**

|                                  | <b>2020</b>   | <b>2019</b>   |
|----------------------------------|---------------|---------------|
| Finished goods (at cost)         | 107,647       | 69,615        |
| Provision for stock obsolescence | (72,199)      | (29,850)      |
| Stock write-down                 | (24,019)      | (18,663)      |
|                                  | <b>11,429</b> | <b>21,102</b> |
|                                  | <b>=====</b>  | <b>=====</b>  |

The cost of **inventories** recognised as an expense and included in "cost of sales" amounted to KShs 66.11 million (2019: KShs 28.45 million) (Note 12). Inventories include handsets and accessories.

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**23 TRADE AND OTHER RECEIVABLES**

|  | <u>2020</u>      | <u>2019</u>      |
|--|------------------|------------------|
| Trade Receivable   | 1,820,038        | 1,992,541        |
| Less: Provision for impairment losses                      | 1,543,550        | 1,542,051        |
| <b>Net Trade Receivable</b>                                | <b>276,487</b>   | <b>450,490</b>   |
| Receivable from related parties                            | 7,113,967        | 6,152,050        |
| Other receivables*   | 463,825          | 298,537          |
| Less: Provision for impairment losses on other receivables | (98,360)         | -                |
| <b>Total Trade and other receivables</b>                   | <b>7,755,919</b> | <b>6,901,077</b> |

\*Other receivables mainly include Unbilled revenue, claims receivables

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

**Movement of Doubtful Debts Allowance**

|                        |                  |                  |
|------------------------|------------------|------------------|
| <b>Opening balance</b> | 1,542,051        | 1,707,930        |
| Additions              | 1,499            |                  |
| Reversal               |                  | (165,879)        |
| <b>Closing balance</b> | <b>1,543,550</b> | <b>1,542,051</b> |

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

**24 CASH AND CASH EQUIVALENTS**

|                            | <u>2020</u>      | <u>2019</u>      |
|----------------------------|------------------|------------------|
| <b>Balances with banks</b> |                  |                  |
| - On current accounts      | 789,506          | 361,743          |
| - Fixed deposits           | 1,071,664        | 992,250          |
| Cash in hand               | 150,155          | 108,933          |
|                            | <b>2,011,324</b> | <b>1,462,926</b> |

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

|                | <u>2020</u>      | <u>2019</u>      |
|----------------|------------------|------------------|
| Bank Balance   | 1,861,170        | 1,353,993        |
| Cash in hand   | 150,155          | 108,933          |
| Bank overdraft | (702,745)        | (361,363)        |
|                | <b>1,308,580</b> | <b>1,101,563</b> |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

| 25 ORDINARY SHARE CAPITAL                | Number<br>of shares | Par value<br>KShs | Ordinary Shares<br>KShs'000 |
|--|---------------------|-------------------|-----------------------------|
| As at 1 January 2019                     | 2,625,000           | 1,000             | 2,625,000                   |
| Additional shares issued during the year | 725,000             | 1,000             | 725,000                     |
| <b>Balance as at 31 December 2019</b>    | <b>3,350,000</b>    | 1,000             | <b>3,350,000</b>            |
| <b>Balance as at 31 December 2020</b>    | <b>3,350,000</b>    | 1,000             | <b>3,350,000</b>            |

| 26 SHARE PREMIUM                         | Ordinary<br>shares | Redeemable pref.<br>shares | Total            |
|--|--------------------|----------------------------|------------------|
| As at 1 January 2019                     | 234,801            | 4,259,023                  | 4,493,824        |
| Additional shares issued during the year | 3,171,875          | -                          | 3,171,875        |
| <b>Balance as at 31 December 2019</b>    | <b>3,406,676</b>   | <b>4,259,023</b>           | <b>7,665,699</b> |
| <b>Balance as at 31 December 2020</b>    | <b>3,406,676</b>   | <b>4,259,023</b>           | <b>7,665,699</b> |

The premium on ordinary shares arose on the issue of 875,000 ordinary shares of KShs 1,000 each issued in 2001 for a premium of KShs 234,801,000 and a further issue of 725,000 ordinary shares of KShs 1,000 each in 2019 for a premium of KShs 3,171,875,000. The premium on redeemable preference shares arose on the issue of 6,700,000 redeemable preference shares of KShs 1,000 each issued in 2007 for a premium of KShs 1,340,000,000, on the issue of 8,525,427 redeemable preference shares of KShs 1,000 each in 2008 for a premium of KShs 2,141,806,000 and the issue of 3,886,087 redeemable preference shares of KShs 1,000 each in 2009 for a premium of KShs 777,217,000.

**27 REDEEMABLE PREFERENCE SHARES**

|                         | Number of preference shares | Preference shares<br>KShs'000 |
|-------------------------|-----------------------------|-------------------------------|
| <b>31 December 2019</b> | <b>22,611,513</b>           | <b>22,611,513</b>             |
| <b>31 December 2020</b> | <b>22,611,513</b>           | <b>22,611,513</b>             |
|                         | =====                       | =====                         |

The number of Authorised and Issued Preference Shares is 22,611,513 with a par value of KShs 1,000 each.

The preference shares are classified as equity in line with IAS 32, Financial Instruments; Presentation. They are denominated in Kenya Shillings and have no right to dividend. There is no fixed redemption date for the preference shares; they will be redeemed at the discretion of the company.

| 28 SHAREHOLDERS' LOANS                          | 2020              | 2019              |
|---|-------------------|-------------------|
| Balance at start of year                        | 46,692,603        | 47,504,323        |
| Proceeds from new shareholder loans             | 530,480           | 1,009,594         |
| Interest capitalized                            | 1,336,558         | 1,298,471         |
| Forex Loss/(Gain)                               | 3,800,469         | (244,160)         |
| Conversion of loan to Equity                    | -                 | (2,875,625)       |
| <b>Total shareholders' loans at end of year</b> | <b>52,360,109</b> | <b>46,692,603</b> |

These are loans from the immediate holding company, Bharti Airtel Kenya B.V. The loans are payable on demand. The loans are unsecured and bear 3% interest per annum.

\*In August 2019, the company infused KShs 3.897 Billion in the mobile money business by converting shareholder loan to equity KShs 2.876 Billion and a cash injection in the mobile money business of KShs 1.021 Billion.

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**29. LEASE LIABILITIES**

**i.) As a lessee**  
**(a) Analyzed as;**

|             | <u>2020</u>       | <u>2019</u>       |
|-------------|-------------------|-------------------|
| Non-current | 10,121,754        | 9,164,430         |
| Current     | 2,104,256         | 1,689,480         |
|             | <u>12,226,010</u> | <u>10,853,910</u> |

**(b) Maturity analysis:**

|   |                   |                   |
|---|-------------------|-------------------|
| Less than one year                                  | 3,594,281         | 2,444,981         |
| Later than one year but not later than two years    | 3,839,663         | 1,091,828         |
| Later than two years but not later than five years  | 10,314,441        | 7,968,026         |
| Later than five years but not later than nine years | 2,455,221         | 2,091,885         |
| Later than nine years                               | 103,665           | 61,965            |
| <b>Total undiscounted lease liabilities</b>         | <u>20,307,271</u> | <u>13,658,685</u> |

|  |                   |                   |
|--|-------------------|-------------------|
| <b>Lease liabilities included in the statement of financial position</b> | <u>12,226,010</u> | <u>10,853,910</u> |
|--|-------------------|-------------------|

**Amounts recognised in profit or loss**

|                               |                  |                |
|-------------------------------|------------------|----------------|
| Interest on lease liabilities | 1,012,192        | 991,815        |
|                               | <u>1,012,192</u> | <u>991,815</u> |

**ii) As a lessor**

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

**Operating Lease**

**Operating lease**

|   | <u>2020</u> | <u>2019</u> |
|---|-------------|-------------|
| Lease income recognised in profit or loss | 57,970      | 53,623      |

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

| <b>Disclosure</b>    | <b>2020</b>    | <b>2019</b>    |
|----------------------|----------------|----------------|
| Less than one year   | 62,028         | 42,879         |
| One to two years     | 66,370         | 45,880         |
| Two to three years   | 71,016         | 49,092         |
| Three to four years  | 75,987         | 52,528         |
| Four to five years   | 81,306         | 56,205         |
| More than five years | 530,703        | 366,862        |
|                      | <u>887,411</u> | <u>613,446</u> |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

| <b>30 BORROWING</b>                            | <b>2020</b>      | <b>2019</b>      |
|--|------------------|------------------|
| <b>Non-Current</b>                             |                  |                  |
| Term loans                                     | 9,234,899        | 6,525,563        |
| Less: Current portion (a)                      | 1,640,302        | 6,525,563        |
|  | <b>7,594,597</b> | <b>-</b>         |
| Current maturities of long-term borrowings (a) | 1,640,302        | 6,525,563        |
| <b>Current</b>                                 |                  |                  |
| Term loans (a)                                 | 1,640,302        | 6,525,563        |
| Short Term loans                               | 1,000,000        | 1,000,000        |
| Bank overdraft                                 | 702,745          | 361,363          |
| Less - Debt Origination Cost                   | (3,916)          | (2,467)          |
|  | <b>3,339,131</b> | <b>7,884,458</b> |

Current borrowings consist mainly of external loans from HSBC-Mauritius and SCB Bank repayable within 12 months of 31 December 2021.

The overdraft facility extended by Standard Chartered Bank Kenya Limited has a limit of KShs 1 and bears 9.25 % interest per annum. Interest accrues on the daily overdrawn balance and is payable monthly in arrears. As at 31st December 2021, the overdrawn balance was KShs 702.7 Million (KShs 361.3 Million as at 31st December 2019).

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**30 BORROWINGS (continued)**

Detail of all borrowings is as below: -

**Movement in loan**

|                            | Citi Bank        | Hongkong & Shanghai Bank | Standard Chartered Bank | JP Morgan Chase Bank | Stanbic Bank     | Bank Overdraft | Total             |
|----------------------------|------------------|--------------------------|-------------------------|----------------------|------------------|----------------|-------------------|
| At 1 January 2019          | 4,399,313        | -                        | 2,531,250               | -                    | -                | 419,549        | 7,350,112         |
| Draw down during the year  | 607,500          | 1,518,750                | (2,531,250)             | -                    | 1,000,000        | (58,186)       | 3,126,250         |
| Repayments in the year     | -                | -                        | -                       | -                    | -                | -              | (2,589,436)       |
| <b>At 31 December 2019</b> | <b>5,006,813</b> | <b>1,518,750</b>         | <b>-</b>                | <b>-</b>             | <b>1,000,000</b> | <b>361,363</b> | <b>7,886,926</b>  |
| Drawn down during the year | -                | -                        | 1,000,000               | 2,228,000            | -                | 341,382        | 3,569,382         |
| Repayments in the year     | 400,715          | 121,552                  | -                       | (40,931)             | (1,000,000)      | -              | (1,000,000)       |
| Net Foreign gain/loss      | -                | -                        | -                       | -                    | -                | -              | 481,336           |
| <b>At 31 December 2020</b> | <b>5,407,528</b> | <b>1,640,302</b>         | <b>1,000,000</b>        | <b>2,187,069</b>     | <b>-</b>         | <b>702,745</b> | <b>10,937,644</b> |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

| <b>31 TRADE AND OTHER PAYABLES</b>  | <b>2020</b>      | <b>2019</b>      |
|-------------------------------------|------------------|------------------|
| Trade payables                      | 3,748,034        | 1,860,514        |
| Due to related parties              | 2,083,751        | 1,836,479        |
| Accrued expenses and other payables | 2,051,171        | 1,983,723        |
| Interest Accrued but not Due        | 358,667          | 311,214          |
|                                     | <b>8,241,623</b> | <b>5,991,930</b> |

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

| <b>32 Provisions</b>                 | <b>2020</b>    | <b>2019</b>    |
|--------------------------------------|----------------|----------------|
| <b>Non-Current</b>                   |                |                |
| Asset retirement obligation          | 8,389          | 8,560          |
| Employee benefits - leave encashment | 51,123         | 35,653         |
|                                      | <b>59,512</b>  | <b>44,213</b>  |
| <b>Current</b>                       |                |                |
| Provision for sub-judice matters     | 644,865        | 722,246        |
| Employee benefits - leave encashment | 16,847         | 16,960         |
|                                      | <b>661,712</b> | <b>739,206</b> |

**33 CONTINGENT LIABILITIES**

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

|                                 | <b>2020</b> | <b>2019</b> |
|---------------------------------|-------------|-------------|
| <b><u>Tax litigations</u></b>   |             |             |
| Income Tax, Import duty and VAT | 164,959     | 440,321     |
| <b><u>Legal litigations</u></b> |             |             |
| Civil and other legal cases     | 12,890      | 573,850     |

**34 COMMITMENTS**

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

|                                | <b>2020</b> | <b>2019</b> |
|--------------------------------|-------------|-------------|
| Capital commitments            |             |             |
| Authorised and contracted for: |             |             |
| Due within 1 year              | 3,055,599   | 1,012,604   |



**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**35 RELATED PARTY TRANSACTIONS**

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

| <b>(i) Sale of goods and services</b>         | <b>2020</b>    | <b>2019</b>    | <b>Relationship</b>                     |
|---|----------------|----------------|---|
| Bharti Airtel (UK) Limited                    | 332,676        | 356,546        | Fellow subsidiary                       |
| Airtel Uganda Limited                         | 269,554        | 285,520        | Fellow subsidiary                       |
| Bharti Airtel International (Netherlands) B.V | 43,184         | 40,393         | Step up parent                          |
| Airtel Networks Limited (Nigeria)             | 19,208         | 31,108         | Fellow subsidiary                       |
| Airtel Madagascar S.A.                        | 13,493         | 24,351         | Fellow subsidiary                       |
| Airtel Networks Zambia Plc                    | 8,604          | 16,425         | Fellow subsidiary                       |
| Airtel Tanzania Limited                       | 9,231          | 16,343         | Fellow subsidiary                       |
| Bharti International (Singapore) Pte Ltd      | 3,777          | 13,872         | Fellow subsidiary                       |
| Bharti Airtel Limited                         | 7,557          | 13,230         | Step up parent                          |
| Airtel Malawi Limited                         | 8,676          | 12,257         | Fellow subsidiary                       |
| Airtel Gabon S.A.                             | 6,543          | 9,633          | Fellow subsidiary                       |
| Airtel Congo (RDC) S.A                        | 11,587         | 9,160          | Fellow subsidiary                       |
| Airtel Niger Limited.                         | 12,907         | 7,157          | Fellow subsidiary                       |
| Airtel Rwanda Limited                         | 6,469          | 6,635          | Fellow subsidiary                       |
| Airtel Money Transfer Limited                 | -              | 6,465          | Subsidiary of Airtel Networks Kenya Ltd |
| Airtel Congo S.A                              | 3,756          | 6,307          | Fellow subsidiary                       |
| Airtel Tchad S.A                              | 5,780          | 5,131          | Fellow subsidiary                       |
| Airtel (Seychelles) Limited                   | 5,563          | 2,725          | Fellow subsidiary                       |
| Airtel Mobile Commerce BV                     | -              | 611            | Fellow subsidiary                       |
| Bharti Airtel Services Limited                | -              | 550            | Fellow subsidiary                       |
| Singapore Telecommunication Limited           | -              | 524            | Fellow subsidiary                       |
| Airtel Ghana Limited                          | -              | 107            | Joint venture                           |
| Emtel Mauritius                               | -              | 280            | Other related party                     |
| Bharti Hexacom Limited                        | 8              | 14             | Fellow subsidiary                       |
| Bharti Airtel Lanka (Pvt Ltd), Sri Lanka      | -              | 6              | Fellow subsidiary                       |
|   | <b>768,573</b> | <b>865,350</b> |   |

Sales of services are negotiated with related parties on a cost-plus basis, allowing a margin of 10 % (2019: 10%). Services sold to related entities include interconnection of voice calls, roaming, short message services and goods sold include phones and handsets.

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**35 RELATED PARTY TRANSACTIONS (Continued)**

| (ii) Purchase of goods and services           | 2020                    | 2019                    | Relationship                            |
|---|-------------------------|-------------------------|---|
| Airtel Uganda Limited                         | 613,747                 | 469,257                 | Fellow subsidiary                       |
| Bharti Airtel (UK) Limited                    | 271,606                 | 300,007                 | Fellow subsidiary                       |
| Network i2i Ltd.                              | 90,196                  | 111,043                 | Step up parent                          |
| Bharti Airtel Limited                         | 1,007                   | 98,125                  | Step up parent                          |
| Airtel Tanzania Limited                       | 40,518                  | 54,116                  | Fellow subsidiary                       |
| Bharti Airtel International (Netherlands) B.V | -                       | 48,939                  | Step up parent                          |
| Airtel Rwanda Limited                         | 42,592                  | 26,923                  | Fellow subsidiary                       |
| Bharti International (Singapore) Pte Ltd      | 48,992                  | 22,579                  | Fellow subsidiary                       |
| Centum Learning Limited                       | -                       | 13,794                  | Fellow subsidiary                       |
| Nxtra Data Limited                            | 10,107                  | 8,147                   | Fellow subsidiary                       |
| Airtel Congo (RDC) S.A                        | 9,377                   | 5,972                   | Fellow subsidiary                       |
| Airtel Networks Zambia Plc                    | 6,967                   | 5,749                   | Fellow subsidiary                       |
| Airtel Networks Limited (Nigeria)             | 6,442                   | 4,634                   | Fellow subsidiary                       |
| Airtel Tchad S.A                              | 346                     | 4,215                   | Fellow subsidiary                       |
| Airtel Malawi Limited                         | 5,313                   | 3,630                   | Fellow subsidiary                       |
| Airtel Congo S.A                              | 415                     | 3,502                   | Fellow subsidiary                       |
| Emtel Mauritius                               | -                       | 1,001                   | Other related party                     |
| Airtel Niger Limited.                         | 906                     | 576                     | Fellow subsidiary                       |
| Airtel Mobile Commerce BV                     | -                       | 526                     | Fellow subsidiary                       |
| Airtel (Seychelles) Limited                   | 997                     | 486                     | Fellow subsidiary                       |
| Airtel Gabon S.A.                             | -                       | 220                     | Fellow subsidiary                       |
| Airtel Money Transfer Limited                 | -                       | 189                     | Subsidiary of Airtel Networks Kenya Ltd |
| Bharti Airtel Lanka (Pvt Ltd), Sri Lanka      | -                       | 42                      | Fellow subsidiary                       |
| Singapore Telecommunication Limited           | -                       | 27                      | Fellow subsidiary                       |
| Airtel Ghana Limited                          | -                       | 7                       | Joint venture                           |
| Bharti Airtel Services Limited                | 1,465                   | -                       | Fellow subsidiary                       |
| Airtel Madagascar S.A.                        | 432                     | -                       | Fellow subsidiary                       |
| Bharti Hexacom Limited                        | 57                      | -                       | Fellow subsidiary                       |
| Bharti Airtel Africa B.V.                     | 331,255                 | -                       | Fellow subsidiary                       |
|   | <b><u>1,482,738</u></b> | <b><u>1,183,706</u></b> |   |

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

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**35 RELATED PARTY TRANSACTIONS (Continued)**

(iv) **Outstanding balances arising from sale and purchase of goods/services**

| <b>(a) Receivable from related parties</b>    | <b>2020</b>      | <b>2019</b>      | <b>Relationship</b>                     |
|---|------------------|------------------|---|
| Bharti Airtel International (Netherlands) B.V | 5,637,129        | 5,174,637        | Step up parent                          |
| Airtel Networks Limited (Nigeria)             | 278,490          | 247,191          | Fellow subsidiary                       |
| Airtel Rwanda Limited                         | 208,940          | 194,201          | Fellow subsidiary                       |
| Airtel Niger Limited.                         | 146,951          | 125,307          | Fellow subsidiary                       |
| Bharti Airtel (UK) Limited                    | 203,567          | 95,307           | Fellow subsidiary                       |
| Airtel Tanzania Limited                       | 82,009           | 74,947           | Fellow subsidiary                       |
| Airtel Uganda Limited                         | 134,795          | 61,624           | Fellow subsidiary                       |
| Airtel Congo (RDC) S.A                        | 47,410           | 36,405           | Fellow subsidiary                       |
| Airtel Malawi Limited                         | 36,156           | 27,451           | Fellow subsidiary                       |
| Bharti Airtel Limited                         | 11,791           | 23,551           | Step up parent                          |
| Airtel (Seychelles) Limited                   | 19,263           | 19,640           | Fellow subsidiary                       |
| Airtel Madagascar S.A.                        | 33,779           | 18,896           | Fellow subsidiary                       |
| Airtel Gabon S.A.                             | 15,307           | 13,017           | Fellow subsidiary                       |
| Bharti International (Singapore) Pte Ltd      | 14,961           | 12,327           | Fellow subsidiary                       |
| Airtel Networks Zambia Plc                    | 17,311           | 9,581            | Fellow subsidiary                       |
| Airtel Money Transfer Limited                 | 211,933          | 6,465            | Subsidiary of Airtel Networks Kenya Ltd |
| Airtel Tchad S.A                              | 8,515            | 4,014            | Fellow subsidiary                       |
| Airtel Ghana Ltd*                             |                  | 4,008            | Joint venture                           |
| Airtel Congo S.A                              | 5,593            | 2,671            | Fellow subsidiary                       |
| Airtel Mobile Commerce BV                     |                  | 611              | Fellow subsidiary                       |
| Singapore telecommunications Limited          |                  | 198              | Fellow subsidiary                       |
| Bharti Hexacom Limited                        | 68               | 1                | Fellow subsidiary                       |
|   | <b>7,113,967</b> | <b>6,152,050</b> |   |

\*Airtel group has sold the share in Airtel Ghana Ltd.

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

**35 RELATED PARTY TRANSACTIONS (Continued)**

**(b) Payable to related parties**

|   |                  |                  |   |
|---|------------------|------------------|---|
| Airtel Tanzania Limited                       | 670,668          | 805,106          | Fellow subsidiary                       |
| Network i2i Ltd.                              | 89,456           | 354,727          | Step up parent                          |
| Airtel Uganda Limited                         | 654,497          | 259,141          | Fellow subsidiary                       |
| Bharti Airtel (UK) Limited                    | 48,244           | 134,976          | Fellow subsidiary                       |
| Bharti Airtel Limited                         | 17,113           | 72,789           | Step up parent                          |
| Bharti International (Singapore) Pte Ltd      | 13,526           | 54,349           | Fellow subsidiary                       |
| Nxtra Data Limited                            | 15,316           | 37,745           | Fellow subsidiary                       |
| Bharti Airtel International (Netherlands) B.V | 48,320           | 36,728           | Step up parent                          |
| Airtel Congo (RDC) S.A                        | 39,153           | 33,595           | Fellow subsidiary                       |
| Airtel Rwanda Limited                         | 52,229           | 15,302           | Fellow subsidiary                       |
| Airtel Mobile Commerce BV                     |                  | 13,605           | Fellow subsidiary                       |
| Airtel Ghana Limited                          |                  | 5,227            | Joint venture                           |
| Bharti Airtel Services Limited                | 4,462            | 4,131            | Fellow subsidiary                       |
| Airtel Tchad S.A                              | 4,367            | 3,921            | Fellow subsidiary                       |
| Centum Learning Limited                       |                  | 2,678            | Fellow subsidiary                       |
| Airtel Networks Zambia Plc                    | 6,837            | 2,420            | Fellow subsidiary                       |
| Airtel Malawi Limited                         | 3,702            | 1,335            | Fellow subsidiary                       |
| Airtel Networks Limited (Nigeria)             | 3,880            | 787              | Fellow subsidiary                       |
| Airtel (Seychelles) Limited                   | 715              | 696              | Fellow subsidiary                       |
| Airtel Niger Limited.                         | 1,154            | 538              | Fellow subsidiary                       |
| Airtel Congo S.A                              | 286              | 220              | Fellow subsidiary                       |
| Airtel Money Transfer Limited                 | 84,515           | 189              | Subsidiary of Airtel Networks Kenya Ltd |
| Africa towers NV                              | 0                | 124              | Fellow subsidiary                       |
| Airtel Gabon S.A.                             | 112              | 70               | Fellow subsidiary                       |
| Airtel Madagascar S.A.                        | 313              | 37               | Fellow subsidiary                       |
| Bharti Airtel Lanka (Pvt Ltd), Sri Lanka      |                  | 3                | Fellow subsidiary                       |
| Bharti Hexacom Limited                        | 20               |                  | Fellow subsidiary                       |
| Bharti Airtel Africa B.V.                     | 324,866          |                  | Shareholder                             |
|   | <b>2,083,751</b> | <b>1,840,439</b> |   |

**(iv) Key management compensation**

|  | <b>2020</b>    | <b>2019</b>    |
|--|----------------|----------------|
| Employment benefits                                    | <b>391,123</b> | <b>325,841</b> |
| Details on key management compensation are as follows: |                |                |
| Total Salaries and Allowances                          | 276,009        | 248,431        |
| Annual Performance Bonuses                             | 58,689         | 40,265         |
| Long Term Incentive                                    | 12,577         | 3,062          |
| Director's remuneration                                | 14,457         | 11,263         |
| Social Security – Pension                              | 5,081          | 5,410          |
| Medical Expenses                                       | 6,027          | 6,955          |
| Termination Dues                                       | 18,283         | 10,455         |
|  | <b>391,123</b> | <b>325,841</b> |

Annual performance bonus is awarded based on achievement of set earnings before interest, tax, depreciation and amortisation, EBITDA, whereas long term incentive is meant to align senior management performance with the vision of the company. As at 31 December 2020, the provision for long term incentive was KShs 12 million (2019: KShs 3 million).

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

| <b>(v) Shareholder's loans</b>                            | <b>2019</b><br><b>KShs'000</b> | <b>2018</b><br><b>KShs'000</b> |
|---|--------------------------------|--------------------------------|
| Payable to Bharti Airtel Kenya B.V.                       | 52,360,109                     | 46,692,603                     |
| Terms and conditions of the loan are detailed in Note 28. |                                |                                |

**36 (i) INVESTMENT IN SUBSIDIARY**

|  | <b>Country of<br/>incorporation</b> | <b>Principal business</b>              | <b>Additional<br/>investment</b> | <b>2020</b> | <b>2019</b> |
|--|-------------------------------------|--|----------------------------------|-------------|-------------|
| Airtel Money<br>Transfer Limited<br>100% owned | Kenya                               | International Mobile<br>money transfer | 20,000                           | 40,000      | 20,000      |

The company started operations in March 2019.

The financial statements of Airtel Money Transfer Limited have not been consolidated in these financial statements as the amounts involved are not material and would be of no real value to the users of the financial statements. As per CBK requirement, during 2020 there was additional Share capital was infused of KSH 20 Mn.

The subsidiary has a bank balance of KSh 40 million which is equal to the investment made by Airtel Networks Kenya Limited.

The company has 99% shareholding in Airtel Money Transfer Limited which has been incorporated in Kenya.

**36 (ii)**

**OTHER CURRENT ASSETS**

|   | <b>2020</b>      | <b>2019</b>      |
|---|------------------|------------------|
| Prepaid expenses                        | 2,061,577        | 1,606,954        |
| Input VAT                               | 533,596          | 269,763          |
| Other advances to employees and vendors | 199,679          | 61,107           |
|   | <b>2,794,852</b> | <b>1,937,824</b> |

**OTHER NON CURRENT ASSETS**

|   | <b>2020</b>    | <b>2019</b>    |
|---|----------------|----------------|
| Paid under protest (legal case deposit) | 6,621          | 5,121          |
| Prepaid expenses aged more than 1 year  | 827,981        | 550,019        |
| Security deposits                       | 19,754         | 21,342         |
|   | <b>854,356</b> | <b>576,482</b> |

**Airtel Networks Kenya Limited**  
**Notes to the Financial Statements (continued)**  
*(All amounts are in KSH'000, unless stated otherwise)*

| <b>36 (iii) Deferred customer acquisition cost</b> | <b>2020</b>    | <b>2019</b>    |
|--|----------------|----------------|
| <b>At the beginning of the year</b>                | <b>394,012</b> | -              |
| Expenses deferred                                  | 1,342,680      | 763,143        |
| Amortization                                       | (1,091,877)    | (369,131)      |
| <b>At the end of the year</b>                      | <b>644,815</b> | <b>394,012</b> |
| <b>Deferred customer acquisition cost</b>          |                |                |
| - Current  | 644,815        | 394,012        |
| - Non-current                                      | -              | -              |
|  | <b>644,815</b> | <b>394,012</b> |

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 Ksh 394.01 Mn. The amounts relating to the prior and earlier years were not considered to be material requiring restatement of the prior year financial statements.

**37 OTHER LIABILITY**

|  | <b>2020</b>      | <b>2019</b>    |
|--|------------------|----------------|
| <b>CURRENT</b>   |                  |                |
| Taxes Payable  | <b>1,195,419</b> | <b>807,295</b> |
| Taxes payable includes value added tax, excise, withholding taxes and other taxes payable. |                  |                |
| <b>NON CURRENT*</b>  | <b>3,784</b>     | <b>3,376</b>   |

\*This majorly includes employee benefits ,i.e. deferred cash bonus

**38 COMPARATIVES**

Where necessary, comparative figures of 2019 have been reclassified to conform to changes in presentation in the current year.

**39 OPERATING LICENCE**

The Airtel Kenya license expired in Jan 2015 and the regulator approved that Airtel acquires the remaining term of the Essar License in lieu of renewing the Airtel license. In the course of 2015, the regulator **reneged** on its decision and demanded USD 20.025 M to renew the Airtel Licence. Airtel went to court for judicial review and on 18th Dec, 2017, obtained a court ruling compelling the regulator to issue Airtel with the licence. The regulator did not comply with the court order, forcing Airtel to **commence** 'contempt of court proceedings' against the Director General of the regulator. On the 24th of August 2020, Airtel has received the licences from the CA as per court order. At the same time, the CA still demanded that Airtel pays the **amount** of USD 20.025 Mn and **invited** Airtel to 60 day consultation **process** (commencing 24th August 2020) with the CA in regard to payment of the claimed amount. Airtel has raised objection on with CA on 15 Sep.'2020 The Minister for ICT has on 10th Nov 2020 wrote to Airtel indicating that Airtel needs to resolve outstanding issues with the regulator in order to receive the support it requires. The court proceedings for contempt of court are set for mention on the 22<sup>nd</sup> of March 2021.

**40 EVENTS AFTER THE REPORTING DATE**

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