

**AIRTEL MOBILE COMMERCE ZAMBIA
LIMITED**

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

for the year ended 31 December 2019

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

(Incorporated in Zambia)

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AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2019

The Directors present their annual report on the affairs of the company together with the financial statements and auditor's report for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

SHARE CAPITAL

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

RESULTS AND DIVIDEND

The Company had a profit after tax of **K144,922,198** for the year ended 31 December 2019 (2018: K58,245,914). The directors do not recommend the payment of a dividend for the year under review (2018: Nil)

FINANCIAL STATEMENTS

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

DIRECTORS

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

| | |
|-------------------|---|
| Rajeev Sethi | Executive Director (Resigned on 15 May 2019) |
| Apoorva Methrotra | Executive Director (Appointed on 1 November 2017) |
| Jaideep Paul | Executive Director (Appointed on 1 March 2019) |
| Ashish Kumar | Executive Director (Appointed on 30 September 2019) |
| James Chona | Executive Director (Appointed on 30 September 2019) |

None of the Directors held any shares in the company (2018: Nil)

PROPERTY, PLANT AND EQUIPMENT

During the year, the company acquired plant & equipment of **K8,821,534** (2018: K1,357,593).

NUMBER OF EMPLOYEES AND REMUNERATION

At the end of the year, the related wages and salaries cost was **K4,141,310** (2018: K 3,318,139). The number of employees for each month of the year was as follows

| Month | 2019 | 2018 |
|-----------|------|------|
| January | 7 | 5 |
| February | 8 | 5 |
| March | 8 | 7 |
| April | 8 | 6 |
| May | 8 | 7 |
| June | 8 | 7 |
| July | 8 | 7 |
| August | 9 | 7 |
| September | 9 | 7 |
| October | 9 | 7 |
| November | 10 | 7 |
| December | 10 | 7 |

HEALTH AND SAFETY

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

GIFTS AND DONATIONS

The Company did not make any donations or gifts to charitable organisations and events during the financial year (2018: Nil).

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

DIRECTORS' REPORT (Continued)
for the year ended 31 December 2019

AUDITORS

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

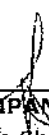
STATEMENT ON CORPORATE GOVERNANCE

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

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

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

By order of the Board



COMPANY SECRETARY
Sonia Shamwana Chinganya
LUSAKA

Date: February 2020

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019

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

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

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

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

In the opinion of the Directors:

- the statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the profit of the Company for the year ended 31 December 2019;
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2019;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due; and
- the financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Banking and Financial Services Act, 2017 and Companies Act, 2017; and
- the Directors have implemented and further adhered to the corporate governance principles or practices contained in Part VII, Sections 82 to 122 of the Companies Act, 2017.

Approval of the financial statements

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



Apoorva Mehrotra
DIRECTOR



James Chona
DIRECTOR

INDEPENDENT AUDITOR'S REPORT

To the members of
Airtel Mobile Commerce Zambia Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Airtel Mobile Commerce Limited (the "Company") set out on pages 7 to 35, which comprise the statement of financial position as at 31 December 2019, 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 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Banking and Financial Services Act, 2017 and the Companies Act, 2017.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Revised July 2016), parts 1 and 3 of the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (Revised July 2018) and other independence requirements applicable to performing audits of financial statements in Zambia. 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.

Other information

The Directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act, 2017. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance or conclusion thereon.

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

Report on other legal and regulatory requirements (Continued)

Further, Section 259(3) of the Companies Act, 2017 requires that in carrying out our audit, we consider and report that:

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



DELOITTE & TOUCHE



**F. NCHIMUNYA (AUD/F0000154)
PARTNER**

31 March 2020

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

for the year ended 31 December 2019

| Kwacha | Notes | 2019 | 2018 |
|---|--------------|----------------------|---------------|
| Revenue | 7 | 504 666 540 | 193 465 561 |
| Cost of sales | | (263 648 021) | (117 615 926) |
| Gross profit | | 241 018 519 | 75 849 635 |
| Distribution expenses | | (4 556 320) | (3 161 983) |
| Administrative expenses | | (25 285 383) | (13 032 676) |
| Operating profit | | 211 176 816 | 59 654 976 |
| Net exchange gains | 8 | 181 347 | 138 615 |
| Finance income | 9 | 1 784 938 | 357 197 |
| Profit before tax | 10 | 213 143 101 | 60 150 788 |
| Income tax expense | 12 | (68 220 903) | (1 904 874) |
| Profit and total comprehensive income for the year | | 144 922 198 | 58 245 914 |

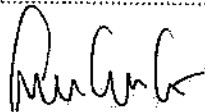
There were no items of other comprehensive income during the year (2018: K nil)

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED**STATEMENT OF FINANCIAL POSITION**
at 31 December 2019

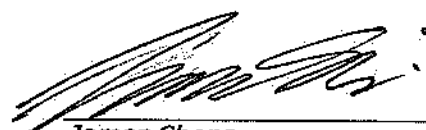
| Kwacha | Notes | 2019 | 2018 |
|---|-------|--------------------|---------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Plant and equipment | 14 | 8 100 201 | 687 933 |
| Intangible assets | 15 | 5 297 735 | 27 237 |
| Deferred tax asset (net) | 13 | 56 668 | 387 507 |
| Total non current assets | | 13 454 604 | 1 102 677 |
| Current assets | | | |
| Trade and other receivables | 16 | 5 820 956 | 5 614 360 |
| Amounts due from related parties | 22 | 112 004 195 | 36 660 169 |
| Funds held in trust | 17 | 579 596 707 | 345 970 838 |
| Bank and cash balances | 18 | 84 371 684 | 7 064 229 |
| Total current assets | | 781 793 542 | 395 309 596 |
| Total assets | | 795 248 146 | 396 412 273 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 19 | 2 000 000 | 2 000 000 |
| Accumulated profits (losses) | | 122 535 045 | (22 387 153) |
| Shareholders equity (deficiency) | | 124 535 045 | (20 387 153) |
| Current liabilities | | | |
| Due to customers | 20 | 579 598 726 | 345 972 786 |
| Trade and other payables | 21 | 25 184 428 | 5 888 153 |
| Income tax payable | 12 | 42 186 843 | 1 075 495 |
| Amounts due to related parties | 22 | 23 743 104 | 63 862 992 |
| Total current liabilities | | 670 713 101 | 416 799 426 |
| Total equity and liabilities | | 795 248 146 | 396 412 273 |

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

The financial statements on pages 7 to 35 were approved by the board of directors and authorised for issue on and signed on their behalf by:



Apoorva Mehrotra
DIRECTOR



James Chona
DIRECTOR

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

| Kwacha | Share capital | Retained earnings (deficit) | Total |
|----------------------------|----------------------|------------------------------------|---------------------|
| At 1 January 2018 | 2 000 000 | (80 633 067) | (78 633 067) |
| Profit for the year | - | 58 245 914 | 58 245 914 |
| At 31 December 2018 | 2 000 000 | (22 387 153) | (20 387 153) |
| At 1 January 2019 | 2 000 000 | (22 387 153) | (20 387 153) |
| Profit for the year | - | 144 922 198 | 144 922 198 |
| At 31 December 2019 | 2 000 000 | 122 535 045 | 124 535 045 |

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED**STATEMENT OF CASH FLOWS**

for the year ended 31 December 2019

| Kwacha | Notes | 2019 | 2018 |
|--|--------------|----------------------|---------------|
| Operating activities | | | |
| Profit before tax | | 213 143 101 | 60 150 788 |
| <i>Adjustments to reconcile profit before tax to net cash flows:</i> | | | |
| Depreciation expense | 14 | 1 409 266 | 1 371 626 |
| Amortisation of intangible assets | 15 | 2 352 392 | 299 605 |
| Trade receivable impairment reversal | | (281 541) | (166 754) |
| Interest income | 9 | (1 784 938) | (357 197) |
| | | 214 838 280 | 61 298 068 |
| <i>Working capital adjustments:</i> | | | |
| Decrease (increase) in trade and other receivables | | 74 945 | (4 458 518) |
| Increase in amounts due from related parties | | (75 344 026) | (36 162 542) |
| Decrease in amounts due to related parties | | (40 119 887) | (16 835 148) |
| Increase in amounts held in trust | | (233 625 868) | (274 152 124) |
| Increase in trade and other payables | | 19 296 275 | 816 397 |
| Increase in amounts due to customers | | 233 625 940 | 274 153 168 |
| | | 118 745 659 | 4 659 301 |
| Income tax paid | 12 | (26 778 716) | (821 357) |
| Net cash flows from operating activities | | 91 966 943 | 3 837 944 |
| Investing activities | | | |
| Interest received | 9 | 1 784 938 | 357 197 |
| Purchase of intangible assets | 15 | (7 622 890) | (326 842) |
| Purchase of property, plant and equipment | 14 | (8 821 534) | (1 357 593) |
| Net cash flows used in investing activities | | (14 659 486) | (1 327 238) |
| Net increase in cash and cash equivalents | | 77 307 455 | 2 510 706 |
| Cash and cash equivalents at beginning of the year | | 7 064 229 | 4 553 523 |
| Cash and cash equivalents at end of year | | 84 371 684 | 7 064 229 |

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. GENERAL INFORMATION

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

The address of the Company's registered office and principal place of business is disclosed below.

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

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

2. ADOPTION OF NEW AND REVISED STANDARDS

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

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 16 Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

*Amendments to IFRS 9
Prepayment Features with
Negative Compensation*

The Company has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

*Annual Improvements to
IFRS Standards 2015-2017
Cycle Amendments to IAS 12 Income Taxes*

The Company has adopted the amendments included in the Annual Improvements to IFRS Standards 2015-2017 Cycle for the first time in the current year. The Annual Improvements include amendments to the following applicable standard:

IAS 12 Income Taxes

The amendments clarify that the Company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Company originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

*Amendments to IAS 19
Employee Benefits Plan
Amendment, Curtailment or
Settlement*

The Company has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Company will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

*IFRIC 23 Uncertainty over
Income Tax Treatments*

The Company has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Company to:

- determine whether uncertain tax positions are assessed separately or as a group; and

- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

- If yes, the Company should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

- If no, the Company should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

2.2 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
and IAS 8

Definition of material

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

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

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

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

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Statement of compliance

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

3.2 Basis of preparation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Basis of preparation (continued)

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

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

3.3 Revenue recognition

Revenue arises from billing customers for P2P (person to person offnet) transactions; cash out (withdrawal) transactions, Airtel Money to bank transactions, collections of funds for customers purchasing goods and services using Airtel Money and commissions on sale of airtime and business revenue arising from bulk payment transactions.

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

3.4 Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions.

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

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss and other comprehensive income within finance income or cost.

3.5 Borrowings

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

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

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

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

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Basis of preparation (continued)

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

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

3.3 Revenue recognition

Revenue arises from billing customers for P2P (person to person offnet) transactions; cash out (withdrawal) transactions, Airtel Money to bank transactions, collections of funds for customers purchasing goods and services using Airtel Money and commissions on sale of airtime and business revenue arising from bulk payment transactions.

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

3.4 Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions.

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

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss and other comprehensive income within finance income or cost.

3.5 Borrowings

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

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

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

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

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Employee benefits

Retirement benefit obligations

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

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

Other entitlements

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

3.7 Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

(iii) Current and deferred tax for the year

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

3.8 Property, plant and equipment

Equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of equipment are required to be replaced in intervals, the Company recognises such parts as separate component of assets with specific useful lives and provides depreciation over their useful life. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Property, plant and equipment (continued)

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

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

The carrying amount of equipment that is disposed of is derecognized when the criteria for sale of goods in IFRS 15 is met.

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

| Categories | Years |
|------------------------|--------------|
| Computers | 3 years |
| Furniture and fittings | 2 to 5 years |

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

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

3.9 Intangible assets

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

Licenses are initially measured at cost and subsequently amortised on a straight-line basis over their useful lives. Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation periods are reviewed annually and adjusted prospectively as required. Gains or losses arising from derecognition of licenses are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised. Licenses are amortised over a period of 3 years.

At initial recognition, the separately acquired intangible assets are recognised at cost. Following initial recognition, the intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Gains or losses arising from derecognition of the assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

3.10' Impairment of non financial assets

Equipment and intangible assets

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

Reversal of impairment losses

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

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of comprehensive income date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

3.12 Receivables

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

3.13 Cash and cash equivalents

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

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

3.14 Statement of cash flow

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

3.15 Financial instruments

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

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

Financial assets

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

Financial assets (continued)

Classification of financial assets

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

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

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

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

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

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

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

(i) Amortised cost and effective interest method

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

Financial assets (continued)

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

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

Foreign exchange gains and losses

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

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

Impairment of financial assets

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

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

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

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

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (Continued)

Financial assets (Continued)

(i) Significant increase in credit risk

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligation

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

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

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

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company)

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (Continued)

Financial assets (Continued)

(iii) Credit-impaired financial assets

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

(iv) Write-off policy

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

(v) Measurement and recognition of expected credit losses

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

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

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

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets (continued)

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

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

Financial liabilities

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

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

Foreign exchange gains and losses

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

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

Derecognition of financial liabilities

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

3.16 Share capital

Issued ordinary shares are classified as 'share capital' in equity when the Company has an unconditional right to avoid delivery of cash or another financial asset, that is, when the dividend and repayment of capital are at the sole and absolute discretion of the Company and there is no contractual obligation whatsoever to that effect.

3.17 Payables

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial Instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets (continued)

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

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

Financial liabilities

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

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

Foreign exchange gains and losses

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

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

Derecognition of financial liabilities

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

3.16 Share capital

Issued ordinary shares are classified as 'share capital' in equity when the Company has an unconditional right to avoid delivery of cash or another financial asset, that is, when the dividend and repayment of capital are at the sole and absolute discretion of the Company and there is no contractual obligation whatsoever to that effect.

3.17 Payables

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Contingencies

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

3.19 Comparatives

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

3.20 Dividend

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

3.21 Interest income

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) Critical accounting estimates and assumptions

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

Receivables

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables. Factors taken into consideration in making such judgements include historical trends and the number of days a debt is past its due date for payment. The carrying amount of impaired receivables is set out in Note 16.

Taxes

1 Current income tax

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

2 Deferred tax

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

Determination of residual values and useful lives

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

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

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

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

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

5. Financial risk management objectives and policies

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

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

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

Market risk

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

(i) Foreign exchange risk

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

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

(ii) Interest rate risk

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

Credit risk

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

(i) Concentration of credit risk

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

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

| Kwacha | Note | Carrying amount | |
|----------------------------------|--------|--------------------|-------------------|
| | | 2019 | 2018 |
| Financial assets | | | |
| Trade receivables (net) | 16 | 2 057 823 | 5 614 360 |
| Amounts due from related parties | 22 (a) | 112 004 195 | 36 660 169 |
| Bank and cash balances | 18 | 84 371 684 | 7 064 229 |
| | | 198 433 702 | 49 338 758 |

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

| | Neither past | | Past due but not impaired | | | Past due and impaired |
|-------------|------------------|------------------|---------------------------|----------------|----------------|-----------------------|
| | due nor | | < 30 days | 30 - 60 days | 60 - 90 days | > 90 days |
| | Total | impaired | | | | |
| | K | K | K | K | K | K |
| 2019 | 2 141 609 | 906 355 | 891 241 | 165 030 | 95 197 | 83 786 |
| 2018 | 5 979 687 | 2 570 623 | 2 218 602 | 689 249 | 135 886 | 365 327 |

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 31 December 2019

5. Financial risk management objectives and policies (continued)**Liquidity risk**

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

| Financial liabilities | Note | Carrying amount | |
|--------------------------------|--------|-------------------|-------------------|
| | | 2019 | 2018 |
| Amounts due to related parties | 22 (c) | 23 743 104 | 63 862 992 |
| Trade and other payables | 21 | 25 184 428 | 5 888 153 |
| | | 48 927 532 | 69 751 145 |

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

| | Within 1 year | Between 1 - 2 years | Between 2 - 5 years | Greater than 5 years | Total |
|--------------------------------|-------------------|------------------------|------------------------|-------------------------|-------------------|
| | K | K | K | K | K |
| 31 December 2019 | | | | | |
| Amounts due to related parties | 23 743 104 | - | - | - | 23 743 104 |
| Trade and other payables | 25 184 428 | - | - | - | 25 184 428 |
| | 48 927 532 | - | - | - | 48 927 532 |
| 31 December 2018 | | | | | |
| Amounts due to related parties | 63 862 992 | - | - | - | 63 862 992 |
| Trade and other payables | 5 888 153 | - | - | - | 5 888 153 |
| | 69 751 145 | - | - | - | 69 751 145 |

Operational risk

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

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

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

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

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the year assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.

(i) Risk management

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

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

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 31 December 2019

5. Financial risk management objectives and policies (Continued)**Operational risk (Continued)****(ii) Operations**

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

6. Capital management

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

The capital structure of the Company consists of share capital and reserves. In order to maintain or adjust the capital structure, the Company may return loan capital to shareholders, issue new shares or sell assets to reduce debt.

7. REVENUE

| Kwacha | 2019 | 2018 |
|---|--------------------|--------------------|
| Transaction charge on cash withdrawals | 338 846 482 | 132 189 526 |
| Airtime recharge transaction fees | 57 053 063 | 21 968 847 |
| Other fees and charges | 55 745 216 | 19 690 933 |
| Merchant collection service fees | 38 298 016 | 17 045 099 |
| Transaction charge on cash withdraw (off net) | 8 481 083 | 373 445 |
| Bulk payment service fees | 4 032 030 | 1 651 310 |
| Bank transfer service fees | 1 215 006 | 68 734 |
| Service fees on international money transfers | 995 644 | 477 667 |
| | 504 666 540 | 193 465 561 |

8. NET EXCHANGE GAINS

| | | |
|--------------------|----------------|---------|
| Net exchange gains | 181 347 | 138 615 |
|--------------------|----------------|---------|

9. FINANCE INCOME

| | | |
|----------------------------------|------------------|---------|
| Interest income on bank balances | 1 784 938 | 357 197 |
|----------------------------------|------------------|---------|

10. PROFIT BEFORE TAX

Profit before tax is stated after recognising:

| | | |
|---|------------------|-----------|
| Interest income (note 9) | 1 784 938 | 357 197 |
| Receivables - reversal of provision for impairment losses (note 16) | 281 541 | 166 754 |
| and after charging: | | |
| Employee benefits expenses | 4 141 310 | 3 318 139 |
| Depreciation on property, plant and equipment (note 14) | 1 409 266 | 1 371 626 |
| Amortisation of intangible assets (note 15) | 2 352 392 | 299 605 |
| Auditors' remuneration | 309 110 | 296 881 |

11. EMPLOYEE BENEFIT EXPENSE

The following contributions to pensions/funds were included within the salaries and wages expenses:

| | | |
|--|----------------|----------------|
| Aon Zambia Pension Fund Administrators Limited | 251 992 | 195 176 |
| National Pension Scheme Authority | 67 902 | 50 258 |
| | 319 894 | 245 434 |

12. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2019 and 2018 are:

| | | |
|-------------------------------|-------------------|------------------|
| Deferred income tax (note 13) | 330 839 | (387 507) |
| Current income tax | 67 890 064 | 2 292 381 |
| Income tax expense | 68 220 903 | 1 904 874 |

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

Kwacha

12. INCOME TAX EXPENSE

2019

2018

The tax charge for the year can be reconciled to the profit before tax as follows:

| | | |
|--|--------------------|--------------|
| Profit before Income tax | 213 143 101 | 60 150 788 |
| Tax calculated at the statutory income tax rate of 35% | 74 600 085 | 21 052 776 |
| Tax effect of: | | |
| Adjustments | | |
| Deferred income tax (note 13) | 330 839 | - |
| Tax asset in respect of prior year | - | (19 457 761) |
| Other deductible expenses | (1 895 158) | - |
| Taxable loss | (6 418 960) | - |
| Expenses not deductible for tax purposes | 1 604 097 | 309 861 |
| Income tax expense | 68 220 903 | 1 904 874 |

Income tax payable (recoverable)

Current income tax movement in the statement of financial position:

| | | |
|---|---------------------|-----------|
| At 1 January | 1 075 495 | (395 528) |
| Payments during the year | (26 418 287) | (65 000) |
| Withholding tax Credits(Tax deducted at source) | (360 429) | (756 357) |
| Current tax charge for the year | 67 890 064 | 2 292 380 |
| At 31 December | 42 186 843 | 1 075 495 |

Tax losses are analysed as follows:

| Charge year | 1.1.2019 | Tax losses utilised | Expired tax losses | 31.12.2019 |
|-------------------------|-------------------|----------------------------|---------------------------|-------------------|
| 2015 | 8 843 586 | (8 843 586) | - | - |
| 2016 | 9 496 303 | (9 496 303) | - | - |
| Total tax losses | 18 339 890 | (18 339 890) | - | - |

13. DEFERRED TAX LIABILITIES/(ASSETS)

In prior years, deferred tax assets were not recognised because it was considered not probable that future taxable profit would be available against which these tax losses would be utilised or realised.

As it is now, there are taxable profits against which the deferred tax assets on tax losses will be utilised, deferred tax has been recognised. This has been calculated using the applicable enacted income tax rate of 35%.

The following are the major deferred tax assets and liabilities recognised by the company and movements thereof during the current and prior reporting period

| | | |
|-----------------------|------------------|--------------|
| | 2019 | 2018 |
| At beginning of year | (387 507) | (19 457 761) |
| Charge for the year | 330 839 | 19 070 253 |
| At end of year | (56 668) | (387 507) |

| | 01.01.2019 | Movement | 31.12.2019 |
|------------------------------|-------------------|-----------------|-------------------|
| | K | K | K |
| Deferred tax assets | | | |
| Other provisions | (127 864) | (64 113) | (191 977) |
| Property plant and equipment | (259 643) | 394 952 | 135 309 |

Net deferred tax assets

| | 01.01.2018 | Movement | 31.12.2018 |
|------------------------------|---------------------|-------------------|-------------------|
| | K | K | K |
| Deferred tax assets | | | |
| Tax losses | (19 317 461) | 19 317 461 | - |
| Other provisions | (169 911) | 42 047 | (127 864) |
| Property plant and equipment | 29 612 | (289 255) | (259 643) |
| | (19 457 761) | 19 070 253 | (387 507) |

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

Kwacha

14. PLANT AND EQUIPMENT

| | Computers | Furniture & other equipment | Capital work in progress | Total |
|---------------------------------|------------------|-----------------------------|--------------------------|-------------------|
| Cost | | | | |
| At 1 January 2018 | 3 660 476 | 3 397 450 | - | 7 057 926 |
| Additions | - | 1 357 593 | - | 1 357 593 |
| At 31 December 2018 | 3 660 476 | 4 755 043 | - | 8 415 519 |
| At 1 January 2019 | 3 660 476 | 4 755 043 | - | 8 415 519 |
| Additions | - | - | 8 821 534 | 8 821 534 |
| Transfers | - | 7 106 825 | (7 106 825) | - |
| At 31 December 2019 | 3 660 476 | 11 861 868 | 1 714 709 | 17 237 053 |
| Accumulated depreciation | | | | |
| At 1 January 2018 | 3 574 180 | 2 781 780 | - | 6 355 960 |
| Charge for the year | 86 296 | 1 285 330 | - | 1 371 626 |
| At 31 December 2018 | 3 660 476 | 4 067 110 | - | 7 727 586 |
| At 1 January 2019 | 3 660 476 | 4 067 110 | - | 7 727 586 |
| Charge for the year | - | 1 409 266 | - | 1 409 266 |
| At 31 December 2019 | 3 660 476 | 5 476 376 | - | 9 136 852 |
| Net book value | | | | |
| At 31 December 2019 | - | 6 385 492 | 1 714 709 | 8 100 201 |
| At 31 December 2018 | - | 687 933 | - | 687 933 |

15. INTANGIBLE ASSETS

| | Licence fees | Total |
|----------------------------|------------------|------------------|
| Cost | | |
| At 1 January 2018 | - | - |
| Additions | 326 842 | 326 842 |
| At 31 December 2018 | 326 842 | 326 842 |
| At 1 January 2019 | 326 842 | 326 842 |
| Additions | 7 622 890 | 7 622 890 |
| At 31 December 2019 | 7 949 732 | 7 949 732 |
| Amortization | | |
| At 1 January 2018 | - | - |
| Charge for the year | 299 605 | 299 605 |
| At 31 December 2018 | 299 605 | 299 605 |
| At 1 January 2019 | 299 605 | 299 605 |
| Charge for the year | 2 352 392 | 2 352 392 |
| At 31 December 2019 | 2 651 997 | 2 651 997 |
| Net book value | | |
| At 31 December 2019 | 5 297 735 | 5 297 735 |
| At 31 December 2018 | 27 237 | 27 237 |

The License fees are payable to Comviva Technologies Limited for mobility mobile financial services platform which allows for services such as the sending and transfer of money, bulk payments, merchant transactions, savings and loans.

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

| Kwacha | 2019 | 2018 |
|---------------------------------------|------------------|------------------|
| 16 Trade and other receivables | | |
| Trade receivables | 2 141 609 | 5 979 687 |
| Impairment provision | (83 786) | (365 327) |
| | 2 057 823 | 5 614 360 |
| Other receivables | 3 763 133 | - |
| | 5 820 956 | 5 614 360 |

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

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

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

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

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

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

As at 31 December 2019, trade receivables with an initial carrying value of **K83,786** (2018: K365,327) were impaired and fully provided for. The movement in impairment provisions is as follows:

| | Individually impaired | Collectively impaired | Total |
|----------------------------|--------------------------|--------------------------|------------------|
| | K | K | K |
| At 1 January 2018 | 532 081 | - | 532 081 |
| Credit for the year | (166 754) | - | (166 754) |
| At 31 December 2018 | 365 327 | - | 365 327 |
| Credit for the year | (281 541) | - | (281 541) |
| At 31 December 2019 | 83 786 | - | 83 786 |

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

| Kwacha | 2019 | 2018 |
|---|--------------------|--------------------|
| 17. Funds held in trust | | |
| Cash at bank held in trust | 535 118 593 | 327 480 849 |
| Interest earned on cash at bank held in trust | 44 478 114 | 18 489 989 |
| | 579 596 707 | 345 970 838 |

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

| Bank | 2019 | 2018 |
|-------------------------------------|----------|----------|
| Citi bank Zambia Limited | 9.50% | 9.50% |
| Atlas Mara Zambia | MPR - 2% | MPR - 2% |
| Zambia National Commercial Bank Plc | 7.00% | 7.00% |
| Barclays Bank | 9.50% | 9.50% |

18. Bank and cash balances

| | | |
|---|-------------------|------------------|
| Bank balance | 58 000 000 | 4 767 172 |
| Short term investment in fixed deposits | 24 603 616 | - |
| Cash balance | 1 768 068 | 2 297 057 |
| | 84 371 684 | 7 064 229 |

Bank accounts bear interest at the rate of 9.5% per annum (2018: 9.5%). Interest earned has been disclosed in note 9.

19. Share capital

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

20. Due to customers

| | | |
|-------------------------------------|--------------------|--------------------|
| Customer deposits | 535 118 593 | 327 479 947 |
| Interest earned on trust accounts * | 44 480 133 | 18 492 839 |
| | 579 598 726 | 345 972 786 |

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

21. Trade and other payables

| | | |
|----------------|-------------------|------------------|
| Trade payables | 4 842 432 | 533 294 |
| Other payables | 20 341 996 | 5 354 859 |
| | 25 184 428 | 5 888 153 |

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

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

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

22. Related party disclosures

Airtel Mobile Commerce Zambia Limited's immediate parent company is Airtel Mobile Commerce BV, a company incorporated in Netherlands and Step up parent company is Bharti Airtel Limited, a company incorporated in India.

The shareholding of the Company as at 31 December 2019 and 2018 is as stated below:

| Name of shareholder | 2019 and 2018 | |
|-----------------------------------|--------------------|----------------|
| | Number of shares | % shareholding |
| Airtel Mobile Commerce Holding BV | 2 000 000 | 1% |
| Airtel Mobile Commerce BV | 198 000 000 | 99% |
| | 200 000 000 | 100% |

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
for the year ended 31 December 2019**22. Related party disclosures (continued)****(a) Amounts due from related parties**

| Name of related parties | Nature of relationship | Country of incorporation | Nature of transactions | Balance at 31.12.2019 K |
|---------------------------------------|------------------------|--------------------------|---|----------------------------|
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Cross charges for AMB security deposits | 2 797 000 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Airtime recharge transaction fees | 56 478 113 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Churn reduction revenue share | 45 176 223 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Cash Collection transaction fees | 6 518 652 |
| Airtel Mobile Commerce Limited | Fellow subsidiary | Malawi | International money Transfer | 814 826 |
| Airtel Mobile Commerce Rwanda Limited | Fellow subsidiary | Rwanda | International money Transfer | 84 783 |
| Airtel Mobile Commerce Kenya Limited | Fellow subsidiary | Kenya | International money Transfer | 85 366 |
| Airtel Mobile Commerce Uganda | Fellow subsidiary | Uganda | International money Transfer | 49 232 |
| | | | | 112 004 195 |

| Name of related parties | Nature of relationship | Country of incorporation | Nature of transactions | Balance at 31.12.2018 K |
|---------------------------------------|------------------------|--------------------------|-------------------------------------|----------------------------|
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Cross charges for bulk payment tool | 47 915 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Airtime recharge transaction fees | 20 395 681 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Churn reduction revenue share | 9 693 408 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Cash Collection transaction fees | 5 203 303 |
| Airtel Malawi Limited | Fellow subsidiary | Malawi | International money Transfer | 1 285 212 |
| Airtel Mobile Commerce Rwanda Limited | Fellow subsidiary | Rwanda | International money Transfer | 34 649 |
| | | | | 36 660 168 |

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 31 December 2019

22. Related party disclosures (continued)**(b) Sale of services to related parties**

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

| Name of related parties | Nature of relationship | Country of incorporation | Nature of transactions | Balance at 31.12.2018 K |
|----------------------------|------------------------|--------------------------|-----------------------------------|----------------------------|
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Airtime recharge transaction fees | 21 968 847 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Bulk payment transaction fees | 224 488 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Churn reduction revenue share | 9 693 408 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Cash collection transaction fees | 5 203 303 |
| | | | | <u>37 090 046</u> |

(c) Amounts due to related parties

| Name of related parties | Nature of relationship | Country of incorporation | Nature of transactions | Balance at 31.12.2019 K |
|---|------------------------|--------------------------|------------------------------|----------------------------|
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Expenses paid on behalf | 10 624 046 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Management Fees | 8 936 769 |
| Airtel Mobile Commerce BV | Immediate parent | Netherlands | Expenses paid on behalf | 461 717 |
| Airtel Mobile Commerce Limited | Fellow subsidiary | Malawi | International money transfer | 558 027 |
| Airtel Mobile Commerce (Tanzania) Limited | Fellow subsidiary | Tanzania | International money transfer | 1 756 300 |
| Airtel Mobile Commerce Kenya | Fellow subsidiary | Kenya | International money transfer | 61 419 |
| Airtel Mobile Commerce Uganda | Fellow subsidiary | Uganda | International money transfer | 695 405 |
| Airtel Mobile Commerce Rwanda Limited | Fellow subsidiary | Rwanda | International money transfer | 649 421 |
| | | | | <u>23 743 104</u> |

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 31 December 2019

22. Related party disclosures (continued)**(c) Amounts due to related parties (continued)**

| Name of related parties | Nature of relationship | Country of incorporation | Nature of transactions | Balance at 31.12.2018 |
|---|------------------------|--------------------------|------------------------------|-----------------------|
| | | | | K |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Expenses paid on behalf | 60 204 670 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Management Fees | 1 260 410 |
| Airtel Mobile Commerce BV | Immediate parent | Netherlands | Expenses paid on behalf | 396 316 |
| Airtel Malawi Limited | Fellow subsidiary | Malawi | International money transfer | 746 873 |
| Airtel Mobile Commerce (Tanzania) Limited | Fellow subsidiary | Tanzania | International money transfer | 1 090 932 |
| Airtel Mobile Commerce Rwanda Limited | Fellow subsidiary | Rwanda | International money transfer | 163 791 |
| | | | | <u>63 862 992</u> |

(d) Purchase of services from related parties

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

Purchase of services from related parties

| Name of related parties | Nature of relationship | Country of incorporation | Nature of transactions | Balance at 31.12.2018 |
|----------------------------|------------------------|--------------------------|------------------------------------|-----------------------|
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Management fees | 1 260 410 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | USSD service charge | 60 000 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Bulk SMS charges | 665 646 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Common cost allocation | 457 301 |
| Airtel Networks Zambia Plc | Fellow subsidiary | Zambia | Shop Cash in & Cash out commission | 1 691 957 |
| | | | | <u>4 135 314</u> |

The above amounts due from / to related parties have no fixed repayment terms and does not carry an interest charge. The related parties reserve the right to demand payment at any time it desires.

There is no impairment of receivables relating to amounts owed by related parties as on 31 December 2019 and 2018.

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

23. Fair value measurements

Fair value of financial assets (Trade receivable, amount due from related parties, amount held in trust, and bank & cash balance) and financial liabilities (Trade and other payable, amount payable to related parties, and amount due to customer) approximate to their carrying amount as on 31 December 2019 and 2018 on account of their current nature and they are recognised at amortized cost as on 31 December 2019 and 2018.

| | Carrying value | | Fair value | | |
|----------------------------------|------------------------------|------------------------------|---------------|---|---------|
| | Financial assets | Financial liabilities | Level | | |
| | FVTPL - mandatorily measured | FVTPL - mandatorily measured | 1 | 2 | 3 Total |
| | Amortised cost | Amortised cost | Total | | |
| 31 December 2019 | | | | | |
| Cash and bank balances | 84 371 684 | - | 84 371 684 | - | - |
| Trade and other receivables | 1 982 762 | - | 1 982 762 | - | - |
| Amounts due from related parties | 112 004 195 | - | 112 004 195 | - | - |
| Amount held in trust | 579 596 707 | - | 579 596 707 | - | - |
| Trade and other payables | - | (20 403 083) | (20 403 083) | - | - |
| Amounts due to related parties | - | (23 743 104) | (23 743 104) | - | - |
| Amounts due to customer | - | (579 598 726) | (579 598 726) | - | - |
| | | | | | |
| 31 December 2018 | | | | | |
| Cash and bank balances | 7 064 229 | - | 7 064 229 | - | - |
| Trade and other receivables | 5 614 360 | - | 5 614 360 | - | - |
| Amounts due from related parties | 36 660 169 | - | 36 660 169 | - | - |
| Amount held in trust | 345 970 838 | - | 345 970 838 | - | - |
| Trade and other payables | - | (5 888 153) | (5 888 153) | - | - |
| Amounts due to related parties | - | (63 862 992) | (63 862 992) | - | - |
| Amounts due to customer | - | (345 972 786) | (345 972 786) | - | - |

AIRTEL MOBILE COMMERCE ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2019

24. Capital commitments

There are no material capital commitments as at 31 December 2019 (2018: Nil).

25. Contingent liabilities

There were no known material contingent liabilities as at 31 December 2019 (2018: Nil).

26. Events after the reporting date

Following the outbreak of Coronavirus disease (COVID-19) in China in 2019, the disease has spread throughout the world including Zambia. On 11th March 2020, the World Health Organization (WHO) classified COVID-19 as a pandemic. To prevent the COVID-19 from spreading further, countries have taken measures such as closing borders and non-essential businesses, ban on free movement of people and goods, etc. These measures have had a negative impact on the economy and businesses. The Directors are monitoring the situation whose impact of the COVID-19 will only be known later in the year.
