AIRTEL NETWORKS KENYA LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 2019

TABLE OF CONTENTS

The directors submit their report together with the audited annual financial statements for the year ended 31 December 2019, which disclose the state of affairs of the company.

1. PRINCIPAL ACTIVITIES

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

2. RESULTS

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

	2019 KShs '000	2018 KShs '000
Income	21,185,487	20,514,197
Loss before tax	(2,740,616)	(2,938,991)
Tax	(35,402)	52,187
Loss after tax	**(2,776,018)**	**(2,886,804)**

3. DIVIDEND

The directors do not recommend payment of a dividend in the year. (2018: Nil).

4. RESERVES

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

5. DIRECTORS

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

6. BUSINESS REVIEW

Airtel Kenya has continued the momentum in this year leveraging core business drivers of growing the customer base and offering best in class customer experience. At Airtel, we always put our customers at the heart of what we do. We take pride in providing wide choice of data and voice bundles. During the year we have increased the penetration of our hero products in both voice and data category, Tubonge voice and Amazing Data bundles are most attractive bundles in the market providing great value and experience to our loved customers. We are also excited to share the launch of revised pay as you go rates which will allow customers to browse data at the lowest rate in the industry without really getting into any hassle of enrolling into offers.

On the network side we have increased the population coverage of our 2G, 3G and 4G networks with close to 90% of our sites are either 3G or 4G. The network modernization is an ongoing process and the plan is to continue expanding the footprint in the coming year 2021 as well. On the business side we have grown the customer base by 19% which has led to over 50% growth in voice minutes and over 100% growth in data volumes. The business revenue has grown by 11.3% on comparative basis however adjusted for IFRS15 adoption the reported growth is 2.9% for the year.

We take this opportunity to sincerely thank all our valued stakeholders - Customers, Government Bodies, Regulators, Business Partners and Employees for their unstinted support during the year. For another consecutive year, we have delivered steady results and ensured value for our shareholders supported by growth across all our revenue streams.

We are confident of continue our growth into 2021 in both subscriber addition and revenue, and will continue being guided by the strategic pillars of distribution excellence, customer experience, network excellence, right cost model and people development. I look forward to the upcoming fiscal year with great optimism and purpose.

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

*Kenyan
**Congolese
***Indian
****British

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

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

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

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

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

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

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

PRINCIPAL BANKERS
NCBA Bank Kenya Plc.
P.O. Box 44286 – 00100
NAIROBI, KENYA

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

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

Absa Bank Kenya Plc.
P.O. Box 46661 – 00100
NAIROBI, KENYA

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

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

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

7. AUDITORS

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

8. DISCLOSURE OF INFORMATION TO AUDITORS

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

By Order of the Board

12 March 2020

SCRIBE SERVICES SECRETARIES

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

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

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors acknowledge that the continued existence of the company as a going concern depends on the outcome of various strategic measures that the directors continue to pursue to return the company to profitability and the continued financial support from the company's shareholders and bankers. The directors are confident that any financial support required by the company from its shareholders will be forthcoming and are of the view that the strategic turn-around measures that have been put in place will restore the company's solvency and will enable it to trade profitably in a sustainable manner.

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

Approved by the board of directors on 12th March 2020 and signed on its behalf by:

P D Sarma
Director

T Naikuni
Director

Deloitte

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

Tel: +254 (0) 20 423 0000
Cell: +254 (0) 719 039 000
Dropping Zone No.92
Email: admin@deloitte.co.ke
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To The Members of
AIRTEL NETWORKS KENYA LIMITED

Report on the audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Airtel Networks Kenya Limited, ("the Company"), set out on pages 8 to 54, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, 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 its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.
We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Relating to Going Concern

We draw attention to Note 2 to the financial statements which indicates that the company incurred a net loss of KShs 2.78 billion during the year ended 31 December 2019 (2018: net loss of KShs 2.89 billion) and, as of that date, the company's current liabilities exceeded its current assets by KShs 7.87 billion (2018: KShs 8.81 billion). These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter. However, financial support required by the company from its shareholders will be forthcoming as has been done in the past.

Other Information

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

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

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

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

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi

30 March 2020

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

Airtel Networks Kenya Limited
Statement of Profit & Loss
For the Year ended 31 December 2019

	Notes	2019 KShs'000	2018 KShs'000
Income			
Revenue	7	21,093,609	20,501,225
Other Income	9	91,878	12,972
		21,185,487	**20,514,197**
Expenses			
Cost of Sales	8	4,966,071	4,455,017
Distribution Costs	10	2,152,776	4,018,225
Administrative Expenses	11	1,646,602	2,673,666
Other Expenses	12	12,505,511	10,892,484
Finance Costs	13	2,655,143	1,413,796
		23,926,103	**23,453,188**
Profit/ (Loss) Before Tax		**(2,740,616)**	**(2,938,991)**
Tax (Expense) / Credit	16	(35,402)	52,187
Profit / (Loss) for the year		**(2,776,018)**	**(2,886,804)**

	Notes	2019 KShs'000	2018 KShs'000
Assets			
Non-current assets			
Property, plant and equipment	17	11,706,668	15,744,600
Capital work-in-progress	17	411,444	2,946,135
Right of use asset	19	9,280,771	-
Intangible assets	18	3,693,991	4,511,258
Income tax recoverable	16	301,287	294,861
Investment in subsidiary	36	20,000	20,000
Other non-current assets	36	576,482	35,784
		25,990,643	**23,552,638**
Current assets			
Inventories	22	21,102	43,595
Derivative Instrument	20	-	239
Trade and other receivables	23	8,915,308	9,671,790
Cash and cash equivalents	24	1,386,519	295,703
		10,322,929	**10,011,327**
Total Assets		**36,313,572**	**33,563,965**
Equity and liabilities			
Equity			
Ordinary share capital	25	3,350,000	2,625,000
Share premium – ordinary and preference shares	26	7,665,699	4,493,824
Redeemable preference shares	27	22,611,513	22,611,514
Accumulated losses		(71,413,563)	(68,090,426)
		(37,786,351)	**(38,360,088)**
Non-current liabilities			
Shareholders' loan	28	46,692,603	47,504,323
Lease liabilities - non current	29	9,164,430	5,925,554
Other non-current liabilities	37	47,589	39,646
		55,904,622	**53,469,523**
Current liabilities			
Borrowings	30	8,195,671	5,292,935
Lease liabilities – Current	29	1,689,480	806,988
Derivative Instrument	20	11,977	9,224
Trade and other payables	31	6,843,778	10,601,294
Provisions	32	1,454,395	1,744,089
		18,195,301	**18,454,530**
Total liabilities		**74,099,923**	**71,924,053**
Total equity and liabilities		**36,313,572**	**33,563,965**

The financial statements on pages 8 to 54 were approved by the Board of directors on ....2020 and signed on its behalf by

Director
P D Sarma

Director
T Naikuni

Airtel Networks Kenya Limited
Statement of Changes in Equity
For the Year ended 31 December 2019

	Ordinary Share capital KShs'000	Preference share capital KShs'000	Share premium – Ordinary shares KShs'000	Share premium – Redeemable preference shares KShs'000	Accumulated losses KShs'000	Total KShs'000
Year ended 31 December 2019						
At 1 January 2019 as previously stated	2,625,000	22,611,514	234,801	4,259,023	(68,090,426)	(38,360,088)
Adjustment on adoption of IFRS 15	-	-	-	-	80,085	80,085
Adjustment on adoption of IFRS 16	-	-	-	-	(627,204)	(627,204)
Adjustment to align with share certificate	-	(1)	-	-	-	(1)
At 1 January 2019 restated	**2,625,000**	**22,611,513**	**234,801**	**4,259,023**	**(68,637,545)**	**(38,907,208)**
Additional shares issued during the year	725,000	-	3,171,875	-	-	3,896,875
Loss for the year	-	-	-	-	(2,776,018)	(2,776,018)
Balance as at 31 December 2019	**3,350,000**	**22,611,513**	**3,406,676**	**4,259,023**	**(71,413,563)**	**(37,786,351)**
Year ended 31 December 2018						
Balance as at 1 January 2018	2,625,000	22,611,514	234,801	4,259,023	(65,203,622)	(35,473,284)
Loss for the year					(2,886,804)	(2,886,804)
Balance as at 31 December 2018	**2,625,000**	**22,611,514**	**234,801**	**4,259,023**	**(68,090,426)**	**(38,360,088)**

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

Airtel Networks Kenya Limited
Statement of Cash Flow
For the Year ended 31 December 2019

	2019 KShs '000	2018 KShs '000
Cash flows from operating activities		
Profit / (loss) before tax	(2,740,616)	(2,938,991)
Adjustments for:		
Depreciation and amortization	5,536,874	3,514,966
Interest expense (Note 13)	2,841,184	2,229,238
Other non-cash items	(455,480)	469,160
Operating cash flow before changes in working capital	**5,181,962**	**3,274,373**
Changes in working capital		
(Increase) / decrease in trade & other receivables	923,039	(1,535,113)
(Increase) / decrease in inventories	22,886	(41,906)
(Decrease) / increase in trade & other payables	(1,301,411)	2,216,700
(Decrease) / increase in provisions	(289,694)	311,699
(Decrease) / increase in other financial and non-financial liabilities	7,942	-
(Increase) / decrease in other financial and non-financial assets	(540,698)	(12,256)
Cash generated from operations before tax	**4,004,026**	**4,213,497**
Income tax paid (Note 16)	(6,425)	(9,470)
Net cash generated from operating activities (a)	**3,997,601**	**4,204,027**
Cash flow from investing activities		
Purchase of property, plant and equipment and capital work-in-progress	(4,598,571)	(4,356,331)
Purchase of intangible assets	(194,120)	(2,577,500)
Investment in subsidiary	-	(20,000)
Net cash used in investing activities (b)	**(4,792691)**	**(6,953,831)**
Cash flow from financing activities		
Issue of share capital (Note 25)	1,021,250	-
Proceeds from borrowings	3,098,056	1,528,756
Repayment of borrowings	(125,177)	-
Repayment of lease liabilities	(1,516,918)	-
Interest paid	(1,542,713)	(1,077,533)
Proceeds / (repayment) from borrowings from related parties	1,009,594	1,805,400
Net cash generated / (used in) from financing activities (c)	**1,944,092**	**2,256,623**
Net increase / (decrease) in cash and cash equivalents during the year (a+b+c)	**1,149,002**	**(493,181)**
Cash and cash equivalents at the beginning of the year	(123,846)	369,335
Cash and cash equivalents at the end of the year (Note 24)	**1,025,156**	**(123,846)**

1. GENERAL INFORMATION

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

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

The immediate holding company is Bharti Airtel Kenya B.V., a company incorporated in Netherlands. The step up parent company is Airtel Africa PLC., a company incorporated in England and Wales and Bharti Airtel Limited, a company incorporated in India.

2. GOING CONCERN BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In 2019, the company incurred a net loss of Kshs 2.78 billon (2018: loss of Kshs 2.89 billion). As at 31 December 2019, the company has accumulated losses of Kshs 71.41 billion (31 December 2018: Kshs 68.09 billion). Opening accumulated Losses have been adjusted by Kshs 0.55 billion due to adoption of IFRS 15 and IFRS 16 during 2019. Overall the company is in a net liability position of Kshs 37.79 billion (2018: Kshs 38.36 billion), it may be noted that company has Shareholders' loans of KShs 46.69 billion. The company is strongly supported by the parent company. Including shareholder's loan, there is sufficient liquidity to manage the operations. Further the unit has shown buoyant growth over the last three years with growth in revenue, with a consequent reduction in net losses.

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

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

b) Will continue to obtain funding from lenders whenever required;

c) The Company will be able to obtain from the shareholders any additional funding required to meet its obligations as and when they fall due. A commitment to this effect from the major shareholders has been obtained by the Company.

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act, 2015.

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

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

b) Basis of preparation

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (KShs), which is also the company's functional currency, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3r.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

g) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such circumstances include, though are not limited to, significant or sustained declines in revenues or earnings and material adverse changes in the economic environment.

An impairment test is performed at the level of each cash generating unit ('CGU') or groups of CGUs expected to benefit from acquisition-related synergies and represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, within an operating segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. To calculate value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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. Impairment losses, if any, are recognised in profit or loss as a component of depreciation and amortisation expense.

For all assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

h) Intangible assets

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

Separately acquired intangible assets are recognised at cost. The cost of intangible assets that are acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, the intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in an asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives (10 years for License, 2 years for YU brand and 4 years for YU customers) is recognised in profit or loss in an expense category that is consistent with the function of the intangible assets.

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

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(i) Mobile Phone Licenses

Acquired licenses are initially recognised at cost. Subsequently, license and spectrum entry fees are measured at cost less accumulated amortisation and accumulated impairment loss. Amortisation is recognised in profit or loss on a straight-line basis over the unexpired period of the license commencing from the date when the related network is available for intended use in the respective jurisdiction and is disclosed under administrative expenses.

(ii) YU Brand & Customer Base

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

i) Inventories

Inventories are valued at the lower of cost and net realisable value.

Basis of cost
Cost is determined by the First in First Out (FIFO) method. The cost of inventories comprises all the purchase and other costs in bringing the product to its present location but excludes borrowing costs.

Basis of net realisable value
Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and applicable variable selling expenses.

j) Financial instruments

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

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established using an ECL model in line with the requirements of IFRS 9 as outlined in the next section below. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is charged to profit or loss.

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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Consolidation

Subsidiaries

Subsidiaries are all entities over which the company has control. The company controls an investee if and only if the company has all the following:

- Power over the investee;
- Exposure, or rights to variable returns from its involvement with the investees; and
- The ability to use its power over the investee to affect the amount of the company's returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the company. They are de-consolidated from the date the control ceases.

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

d) Revenue recognition

The Company's revenue arises from billing customers for voice and data usage, interconnection, roaming, site sharing, sale of handsets and accessories, messaging and VAS revenue, other service revenue as well as revenue from Mobile Virtual Network Operator (MVNO). Revenue is measured at the fair value of the consideration received or receivable for the sale/provision of goods and services in the ordinary course of the company's business. Revenue is shown net of value-added tax (VAT), excise duties, discount and rebates.

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

i) Service revenues

Service revenues include amounts invoiced for usage charges, fixed monthly subscription charges and internet usage charges, roaming charges, activation fees and fees for value added services ('VAS'). Service revenues also include revenues associated with access and interconnection for usage of the telephone network of other operators for local, domestic long distance and international calls.

Service revenues are recognised as the services are rendered and are stated net of discounts, waivers and taxes. Revenues from pre-paid cards are recognised based on actual usage.

Revenues from national and international long distance operations comprise revenue from provision of voice services which are recognised on provision of services while revenue from provision of bandwidth services is recognised over the period of arrangement.

Unbilled revenue represents revenues recognised from the bill cycle date to the end of each month. These are billed in subsequent periods based on the terms of the billing plans.

Deferred revenue includes amount received in advance on pre-paid cards and advance monthly rentals on post-paid. The related services are expected to be performed within the next operating cycle.

ii) Sale of goods

Sales of goods (handsets and accessories) are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

iii) Site Sharing revenue

Site sharing revenue arises from rental fees charged to other operators for usage of sites owned or leased by Airtel Networks Kenya Limited in a sub-letting arrangement.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

iv) MVNO Revenue

MVNO refers to Mobile Virtual Network Operator. In 2014, Airtel Networks Kenya Limited entered into an agreement to sell excess network capacity to Finserve Africa Limited (Finserve). As per the agreement, Finserve pays Airtel Networks Kenya Limited for usage of infrastructure capacity in form of Voice, SMS and Data revenue. In addition, any other costs incurred by Airtel on behalf of Finserve are marked-up and cross-charged to Finserve.

v) Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets, classified as financial assets at fair value through profit or loss, interest income is recognised using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in 'other income' in the statement of profit or loss.

e) Functional currency and translation of foreign currencies

Transactions are recorded on initial recognition in Kenya Shillings, being the currency of the primary economic environment in which the company operates (the functional currency). Transactions in foreign currencies are converted into Kenya Shillings using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rates of exchange ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as 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.

f) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the company recognises such parts as separate components of assets with specific useful lives and provides depreciation over their useful lives. The carrying amount of the replaced part is derecognised. 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. All other repair and maintenance costs are recognised in profit or loss when incurred.

Assets are depreciated to their residual values on a straight-line basis over their estimated useful lives. Estimated useful lives of the assets are as follows:

Asset category	**Years**
Leasehold Land	Period of lease
Land	At Cost
Building	20
Leasehold Improvement	Period of lease or 10 years whichever is less
Plant and equipment	
- Network equipment (including passive infrastructure)	3 – 25
- Customer premises equipment	3 – 5
Computers/Servers	3 – 5
Furniture, Fixtures and Office equipment	2 – 5
Motor vehicles	3 – 5

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted prospectively if appropriate, at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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.

The Company write-offs debt only when there is objective evidence that the debt will not be recovered and after it has exhausted its collection avenues.

(iii) 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 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.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Interest-bearing loans are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Company's accounting policy for borrowing costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from the banks repayable within three months from the dates of advance.

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 recorded at the proceeds received, net of direct issue costs.

k) Share capital

Ordinary shares and qualifying preference shares that do not meet the definition of a financial liability are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, call deposits and other short-term highly liquid investments with an original maturity of three months or less, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents also include outstanding bank overdrafts shown within the borrowings in current liabilities in the statement of financial position and which are considered an integral part of the company's cash management.

m) Employee benefits

Retirement benefit obligations and long term incentives

The company operates a defined contribution retirement benefits scheme for its employees. The company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution scheme 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 assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the company and employees.

The company's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.

Other entitlements

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

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

n) Taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Value Added Tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable, and
- When receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the statement of financial position.

o) Provisions

i) General

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

Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Asset Retirement Obligation

Asset retirement obligations (ARO) are provided for those operating lease arrangements where the company has a binding obligation at the end of the lease period to restore the leased premises in a condition similar to inception of lease. ARO is provided at the present value of expected costs to settle the obligation using discounted cash flows and is recognised as part of the cost of that particular asset. ARO asset is recorded in property plant and equipment and ARO liability is recorded in provisions.

iii) Contingencies

Contingent liabilities are disclosed in the financial statements unless in cases where the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised. However, when the realization of income is virtually certain, then the related asset is no longer a contingent asset, and is recognised as an asset. Contingent assets are disclosed where an inflow of economic benefits is probable.

p) Borrowing Costs

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

q) Customer Acquisition Cost

In prior years, based on the then available information, the company considered that the average life of customers across its network was less than 12 months and had taken the practical expedient available under IFRS15 not to defer customer acquisition costs on recognition and amortise over the average anticipated customer life, but to expense customer acquisition costs as incurred. With increased and more reliable data the company now estimates that the historic average customer life is longer than 12 months and believes that its churn rate provides the best indicator of anticipated average customer life and has updated its policy on cost deferral recognition in these financial statements with a financial impact of increasing profits before tax by Kes 98.6mn. The amounts relating to the prior and earlier years are not considered under to be material requiring restatement of the prior year financial statements and are presented as exceptional item under distribution cost.

r) Dividends

Dividends payable are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

s) Critical accounting estimates and judgements

Critical accounting estimates and assumptions

The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, ARO Provision, lease classification especially site rentals, going concern and the disclosure of contingent liabilities, at the end of the reporting period. Assets retirement obligation (ARO) is an estimate of the cost of demolishing the sites once the lease term expires (note 3(n)). Estimates are made for amounts to be recognised in the books of account as the expected duration of lease agreements and estimated cost of restoration of the base transceiver station (BTS) sites to original state prior to occupancy. Management also evaluates and makes assumptions on factors that affect the company's ability to continue existing as a going concern. Estimates, assumptions 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. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements

In the process of applying the company's accounting policies, management has made the following judgements, which have significant effect on the amounts recognised in the financial statements:

Income taxes (Note 16)

Significant judgement is required in determining the company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets (Note 21)

Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred income taxes that can be recognised, based upon the likely timing of future taxable profits. Critical assumptions have been made by the directors in determining the recoverability of the deferred income tax asset.

Allowance for bad and doubtful debts (Note 23).

The company reviews its trade receivables at each reporting date to assess whether an allowance for bad and doubtful debts should be recorded in profit or loss. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables.

Revenue recognition and presentation

The company assesses its revenue arrangements against specific criteria including whether it has exposure to the significant risks and rewards associated with the sale of goods or rendering of services, in order to determine if it is acting as a principal or as an agent.

When deciding the most appropriate basis for presenting revenue or costs of revenue, both the legal form and substance of the agreement between the company and its business partners are reviewed to determine each party's respective role in the transaction. Where the company's role in a transaction is that of a principal, revenue comprises amount billed to the customer/distributor, after trade discounts.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment

Directors make estimates in determining the depreciation rates for property, plant and equipment. The rates used are set out in the accounting policy for property, plant and equipment.
These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances. Refer to Note 17.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite. Refer to Note 18.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Value in Use of non-financial assets

The company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Impairment exists when the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions at arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Note 17.

Contingent liabilities

As disclosed in note 33 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

Going concern

The company's management has made an assessment of its ability to continue as a going concern and obtained commitment from shareholders for financial support in order to continue in business for the foreseeable future. Furthermore, management has put in place sound business strategies to ensure that the company raises revenue and adequate cash flows to fund its operations. Therefore, the financial statements continue to be prepared on the going concern basis. Refer to Note 2.

Asset retirement obligations (ARO)

In measuring the provision for ARO the company uses technical estimates to determine the expected cost to dismantle and remove the infrastructure equipment from the site and the expected timing of these costs. The provision for asset retirement obligations is disclosed in Note 32.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

4.1 New and amended IFRS Standards that are effective for the current year ended 31 December 2019

Impact of initial application of IFRS 16 Leases

The Company has applied IFRS 16 using the modified retrospective approach with effect from January 1, 2019. The Company elected to apply the practical expedient included in IFRS 16 and therefore retained its existent assessment under IAS 17 and IFRIC 4 as to whether a contract entered or modified before January 1, 2019 contains a lease.
At inception of a contract, the Company assesses a contract as, or containing, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether the contract involves the use of an identified asset, the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and the Company has the right to direct the use of the asset.

(a) As a lessee

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

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

(b) Company as a lessor

Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Amounts due from lessees under a finance lease are recognized as receivables at an amount equal to the net investment in the leased assets. Finance lease income is allocated to the periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the finance lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.
When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

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

Plant and equipment

The Company leases passive infrastructure for providing telecommunication services under composite contracts which include lease of passive infrastructure and land on which the passive infrastructure is built as well as maintenance, security, provision of energy etc. services. These leases typically run for a period of 3 to 15 years. Some leases include an option to renew the lease mainly for an additional period of 3 to 10 years after the end of initial contract term.

A portion of certain lease payments change on account of changes in consumer price indices (CPI). Such payment terms are common in lease agreements in the countries where the Company operates. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Other leases

The Company's other leases comprise of lease of shops, showrooms, guest houses, warehouses, data centers, vehicles and Indefeasible right of use (IRU)

(c) Financial impact of initial application of IFRS 16

The Company has recognised KShs 9.28 Billion of right-of-use assets and KShs 10.58 Billion of lease liabilities upon transition to IFRS 16. KShs 547 Million is recognised in retained earnings on the date of initial application.

4.2 Amendments to IFRS Standards and Interpretations issued by the IASB that are effective the current year ended 31 December 2019

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.

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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates and changes in market prices of the company's products. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is extended to customers with an established credit history.

Market risk

Market risk is the risk that changes in market prices such as interest rate and foreign exchange rates will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i) Foreign exchange risk

The company's currency risk arises mainly from fluctuation of the Kenya Shilling against the US Dollar since the company has liabilities and receivables from related parties that are denominated in US Dollar. The company manages foreign exchange risk by converting its foreign currency balances into local currency on an on-going basis to cater for its operational requirements.

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

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

At 31 December 2019, if the KShs had weakened/strengthened by 5% against the US dollar with all other variables held constant, post tax profit for the period would have been KShs 2.49 billion (2018: KShs 2.33 billion) lower/higher, mainly as a result of US dollar denominated trade receivables, payables, bank balances and borrowings. There would be no impact on equity.

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

	2019 KShs'000	2018 KShs'000
Assets in foreign currencies		
Trade receivables	6,107,014	7,132,120
Bank balances	90,930	29,498
Total Assets	**6,197,944**	**7,161,618**
Liabilities in foreign currencies		
Trade and other payables	2,525,309	1,301,646
Shareholder's loan	46,692,603	47,504,323
Borrowings	6,834,307	4,872,676
Total Liabilities	**56,052,219**	**53,678,645**
Net foreign currency liability	**(49,854,274)**	**(46,517,027)**

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

ii) Price risk

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

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

iii) Cash flow and fair value interest rate risk

Interest rate risk arises from possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. Interest rate risk to the company is the risk of changes in market interest rates reducing the overall return or increasing the cost of finance to the company. The company limits interest rate risk by monitoring changes in interest rates in the currencies in which loans are denominated.

The company's only variable interest bearing financial liabilities are its external borrowings of KShs 7.89 Billion (2018: KShs 4.97 Billion) which are set at variable rates, and it is therefore exposed to cash flow interest rate risk. The company also relies on funding from shareholders of KShs 46.7 Billion (2018: 47.5 Billion) which is at a fixed rate and therefore not exposed to cash flow interest rate risk. The company regularly monitors financing options available to ensure optimum interest rates are obtained.

At 31 December 2019, an increase/decrease of 100 basis points would have resulted in a decrease/increase in pre-tax profit of KShs 78.87 million (2018: KShs 49.72 million).

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

	2019 KShs '000	2018 KShs '000
Financial liabilities		
HSBC-Mauritius loan	1,518,750	-
Citibank loan	5,006,813	4,428,191
Stanbic Bank loan	1,000,000	-
Standard Chartered bank loan	-	124,493
Bank overdraft	361,363	419,549
Total	**7,886,926**	**4,972,233**
Shareholder's loans	**46,692,603**	**47,504,323**

iv) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers.

Credit risk arises from cash and cash equivalents, amounts from related parties and trade and other receivables. The company has no significant concentrations of credit risk. The Credit Control function assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

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

Category	**Description**	**Basis for recognizing expected credit losses**
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >90 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit- Impaired
In default	Amount is >120 days past due or there is evidence indicating the asset is credit-impaired impaired	Lifetime ECL – credit-
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the company has no realistic prospect of recovery	Amount is written off

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The tables below detail the credit quality of the Company's financial assets as well as the Company's maximum exposure to credit risk by credit risk rating grade:

	Note	Internal/ external rating	12 months or lifetime ECL	Gross carrying amount	Loss allowance	Net amount
31-Dec-19				Sh'000	Sh'000	Sh'000
Trade receivables	23	Performing	Lifetime ECL (simplified approach)	1,992,541	1,542,051	450,490
Other Receivables	23	Performing	Lifetime ECL (simplified approach)	762,508	135,995	626,513
Cash and cash equivalents	24	Investment grade	12 months ECL	1,386,519	-	1,386,519
Due from related parties	35(a)	Performing	Lifetime ECL (simplified approach)	6,152,050	-	6,152,050
				10,293,618	1,678,046	8,615,572

	Note	Internal/ external rating	12 months or lifetime ECL	Gross carrying amount	Loss allowance	Net amount
31-Dec-18				Sh'000	Sh'000	Sh'000
Trade receivables	23	Performing	Lifetime ECL (simplified approach)	2,491,573	1,707,930	783,643
Other Receivables	23	Performing	Lifetime ECL (simplified approach)	966,276	188069	778,207
Cash and cash equivalents	24	Investment grade	12 months ECL	315,703	-	315,703
Due from related parties	35 (a)	Performing	Lifetime ECL (simplified approach)	6,939,811	-	6,939,811
				10,713,363	1,895,999	8,817,364

Bank balances are not restricted and include deposits held with banks that have high credit ratings. Bank balances deposits are thus considered investment grade.

The customers under the fully performing category are paying their debts as they continue trading.

The loss allowance represents the debt that is fully provided for in line with the expected credit loss model.

v) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities including facilities from the principal shareholders.

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

	Less than 1 year KShs'000	Between 1 and 2 years KShs'000	Between 2 and 5 years KShs'000	Totals KShs'000
At 31 December 2019:				
Liabilities				
Shareholder's loans	46,692,603	-	-	46,692,603
External borrowings	7,525,566	-	-	7,525,566
Bank overdraft	361,363	-	-	361,363
Accrued expenses and other payables	2,280,990	-	-	2,280,990
Amounts due to related companies	1,840,452	-	-	1,840,452
Trade payables	1,124,293	-	-	1,124,293
Total financial liabilities (contractual maturity dates)	**59,825,267**	**-**	**-**	**59,825,267**
At 31 December 2018:				
Liabilities				
Embedded derivative liability	9,224	-	-	9,224
Shareholder's loans	47,504,323	-	-	47,504,323
External borrowings	4,552,803	-	-	4,552,803
Bank overdraft	419,549	-	-	419,549
Accrued expenses and other payables	4,937,355	-	-	4,937,355
Amounts due to related companies	1,716,516	-	-	1,716,516
Trade payables	2,361,060	-	-	2,361,060
Total financial liabilities (contractual maturity dates)	**61,500,830**	**-**	**-**	**61,500,830**

Capital management

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

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

No changes were made in the objectives, policies or processes during the year ended December 31, 2019 and December 31, 2018. The company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as loans and borrowings less cash and cash equivalents.

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

The gearing ratios at 31 December 2019 and 2018 were as follows.

	2019 KShs'000	2018 KShs'000
Loans and borrowings	54,579,529	52,476,556
Less : Cash and cash equivalents	(1,386,519)	(315,703)
Net Debt	53,193,010	52,160,853
Equity	(37,786,351)	(38,360,088)
Gearing ratio	Over 100%	Over 100%

6 SEGMENTAL INFORMATION

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

Information reported to the managing director (chief decision maker) for purposes of resource allocation and assessment of segment performance focuses on nature of services provided. The directors of the company have decided to organize the company around differences in services and related regulatory structure. As a result, there are two operating segments: Airtel Networks Kenya Limited telecommunications business (GSM) and Airtel Kenya Networks Limited Mobile Commerce business.
Specifically, the company reports operating segments under IFRS 8 as follows:

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

6. SEGMENTAL INFORMATION (continued)

Segmental Performance

STATEMENT OF PROFIT OR LOSS

	GSM	Airtel Money		Total	GSM	Airtel Money		Total
	2019 KShs'000	2019 KShs'000	Intercompany elimination	2019 KShs'000	2018 KShs'000	2018 KShs'000	Intercompany elimination	2018 KShs'000
Revenue*	21,048,753	274,054	(137,320)	21,185,487	20,317,046	330,378	(133,227)	20,514,197
Total Net Revenue	**21,048,753**	**274,054**	**(137,320)**	**21,185,487**	**20,317,046**	**330,378**	**(133,227)**	**20,514,197**
Employee expenses	1,371,165	56,910	-	1,428,075	1,409,773	28,339	-	1,438,113
IT expenses	197,406	2,213	-	199,619	238,708	231,258	-	469,967
Marketing expenses	333,773	(3,592)	-	330,181	828,458	35,314	-	863,772
Sales and distribution expenses	2,240,419	6,763	(94,406)	2,152,776	4,007,531	96,224	(85,530)	4,018,225
Other Costs	11,289,454	197,921	(42,914)	11,444,461	10,662,099	303,399	(47,697)	10,917,801
Total Costs	**15,432,217**	**260,215**	**(137,320)**	**15,555,112**	**17,146,569**	**694,535**	**(133,227)**	**17,707,877**
(Loss)/profit before Tax, depreciation and amortization	5,616,536	13,839	-	5,630,376	3,170,477	(364,157)	-	2,806,320
Depreciation	(4,969,714)	(3,349)	-	(4,973,063)	(3,094,098)	(4,838)	-	(3,098,935)
Amortization	(556,745)	-	-	(556,745)	(417,137)	-	-	(417,137)
Interest expense	(2,841,184)	-	-	(2,841,184)	(2,229,238)	-	-	(2,229,238)
(Loss)/profit before tax	**(2,751,106)**	**10,490**	**-**	**(2,740,616)**	**(2,569,996)**	**(368,995)**	**-**	**(2,938,991)**
Tax expense	(35,402)	-	-	(35,402)	52,187	-	-	52,187
(Loss)/profit after tax	**(2,786,508)**	**10,490**	**-**	**(2,776,018)**	**(2,517,809)**	**(368,995)**	**-**	**(2,886,804)**

*Revenue is inclusive of other income.

6. SEGMENTAL INFORMATION (continued)

STATEMENT OF FINANCIAL POSITION

	GSM 2019 KShs'000	Airtel Money 2019 KShs'000	Intersegment elimination 2019 KShs'000	Total 2019 KShs'000	GSM 2018 KShs'000	Airtel Money 2018 KShs'000	Intersegment elimination 2018 KShs'000	Total 2018 KShs'000
Bank balance	368,741	1,017,778	-	1,386,519	246,838	48,865	-	295,703
Non-Current Assets	25,616,325	73,031	-	25,689,356	23,210,781	46,997	-	23,257,778
Other assets	9,431,946	268,562	(462,811)	9,237,697	15,461,701	77,743	(2,764,424)	12,775,020
Total Assets	**35,417,012**	**1,359,371**	**(462,811)**	**36,313,572**	**38,919,320**	**173,604**	**(2,764,424)**	**36,328,501**
Creditors	(8,679,359)	(328,687)	462,811	(8,545,235)	(13,135,530)	(2,994,612)	2,764,424	(13,365,718)
Shareholder's loans	(46,692,603)	-	-	(46,692,603)	(47,504,323)	-	-	(47,504,323)
Loans from banks	(8,195,671)	-	-	(8,195,671)	(6,099,923)	(112)	-	(6,100,035)
Other liabilities	(10,662,359)	(4,054)	-	(10,666,413)	(7,658,897)	(59,617)	-	(7,718,514)
Retained earnings	68,543,319	2,870,245	-	71,413,564	65,209,691	2,880,735	-	68,090,426
Share capital and share premium	(29,730,338)	(3,896,875)	-	(33,627,213)	(29,730,338)	-	-	(29,730,338)
Total equity and liabilities	**(35,417,012)**	**(1,359,371)**	**462,811**	**(36,313,572)**	**(38,919,320)**	**(173,605)**	**2,764,424**	**(36,328,501)**

	2019 KShs'000	2018 KShs'000

7. REVENUE

Analysis of revenue by category:

	2019 KShs'000	2018 KShs'000
Voice revenues	9,984,207	10,060,768
Data revenues	5,841,806	5,290,260
Interconnect revenues	2,205,508	2,166,707
Roaming revenues	281,747	429,626
Site sharing revenue (leased site)	13,550	12,856
Other service revenues	681,356	438,443
Sale of goods (handsets and accessories)	36,187	45,082
Revenue earned from Mobile Virtual Network Operator	245,508	301,992
Messaging & VAS revenue	1,803,739	1,755,491
	21,093,609	**20,501,225**

8. COST OF SALES

	2019 KShs'000	2018 KShs'000
Cost of handsets and accessories	28,445	51,585
Interconnect costs	4,712,686	4,043,592
Roaming charges	51,595	112,251
Other direct costs	173,345	247,589
	4,966,071	**4,455,017**

9. OTHER INCOME

	2019 KShs'000	2018 KShs'000
Other Income	91,878	11,865
Gain on sale of Towers	-	1,107
	91,878	**12,972**

10. DISTRIBUTION COSTS

	2019 KShs'000	2018 KShs'000
Sales Commission	1,454,405	2,609,906
Marketing costs	330,181	863,772
Sim cost	137,302	250,652
VAS Content	230,888	293,895
	2,152,776	**4,018,225**

	2019 KShs'000	2018 KShs'000

11. ADMINISTRATIVE EXPENSES

	2019 KShs'000	2018 KShs'000
Employee benefits expense (Note 14)	1,428,075	1,438,113
Travel costs	17,091	13,231
Professional fees	42,959	41,509
Auditors' remuneration	11,130	9,039
Provision for impairment on doubtful trade receivables	(166,557)	408,618
Office administration and maintenance costs	154,827	652,187
Repairs and maintenance costs	29,601	10,548
Directors' remuneration	11,263	10,141
Insurance expenses	18,432	12,158
Other administrative costs	99,781	78,122
	1,646,602	**2,673,666**

12. OTHER EXPENSES

	2019 KShs'000	2018 KShs'000
Network operation and maintenance costs	4,360,501	5,339,066
Leased lines	361,895	242,763
Amortization of license fees	563,811	486,686
Regulatory costs	2,098,039	1,661,468
Depreciation on property, plant and equipment	3,149,296	3,098,935
Depreciation on Right of use assets	1,823,767	-
Customer experience costs	117,272	104,625
Other operating expenses	30,929	28,489
Amortization of YU Brand	-	(862)
Amortization of YU Customer Base	-	(68,687)
	12,505,511	**10,892,484**

13. FINANCE COSTS

	2019 KShs'000	2018 KShs'000
Interest expense on borrowings	1,849,369	2,229,238
Interest expense on lease liabilities	991,815	-
Interest income	(12,176)	-
Upfront fees on bank loans	4,253	14,060
Foreign exchange losses/(Gain)	(212,834)	(843,545)
Bank charges	34,715	14,043
	2,655,143	**1,413,796**

	2019 KShs'000	2018 KShs'000

14. EMPLOYEE BENEFITS EXPENSE

	2019 KShs'000	2018 KShs'000
The following items are included within employee benefits expense:		
Salaries and wages	870,153	751,545
Other staff related costs	521,685	654,676
Social security costs – defined contribution plans	36,237	31,892
	1,428,075	**1,438,113**

15. Leave Encashment

	2019 KShs'000	2018 KShs'000
Opening Balance	46,780	37,494
Charge for the year	11,866	19,732
Payments for the year	(6,033)	(10,446)
Closing Balance	**52,613**	**46,780**

The Company has a policy for employee benefits, specifically applicable to leave encashment in line with IAS 19. The valuation is performed on a quarterly basis by a third party, and all assumptions considered for evaluation are revised on an annual basis.

16. INCOME TAX

Statement of financial position		
As at 1 January	294,861	285,391
Paid during the year	6,425	9,470
Tax recoverable	**301,287**	**294,861**

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

	2019 KShs'000	2018 KShs'000
Loss before income tax	(2,740,616)	(2,938,991)
Tax calculated at the statutory income tax rate of 30%	(822,185)	(881,697)
Net tax effect of:		
Income not subject to tax	(1,370,747)	(190,778)
Adjustment of deferred tax in prior year	-	(38,792)
Expenses not deductible for tax purposes	1,687,589	1,184,380
Deferred income tax asset not recognized during the year	505,343	(73,113)
Settlement of Various Disputes	(35,402)	52,187
Income tax expense	**(35,402)**	**52,187**

17. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2019	Leasehold improvements KShs'000	Land KShs'000	Technical assets KShs'000	Motor vehicles KShs'000	Office, IT & other equipment KShs'000	Furniture & fittings KShs'000	TOTAL KShs'000	Capital work in progress KShs'000
Gross Carrying Value								
At January 1, 2019	1,092,443	85,000	46,084,904	11,571	8,010,760	360,208	**55,644,887**	2,946,135
Reclassified (Note 19)	-	-	(8,894,475)	-	-	-	**(8,894,475)**	-
Adjusted balance at 1st January 2019	**1,092,443**	**85,000**	**37,190,429**	**11,571**	**8,010,760**	**360,208**	**46,750,412**	**2,946,135**
Additions	12,608	-	4,831,344	-	448,163	12,444	**5,304,558**	2,917,139
Disposal / Adjustments	-	-	-	-	-	-	**-**	(5,451,830)
At December 31, 2019	**1,105,051**	**85,000**	**42,021,773**	**11,571**	**8,458,923**	**372,652**	**52,054,970**	**411,444**
ACCUMULATED DEPRECIATION								
At January 1, 2019	900,657	-	30,856,049	7,896	7,366,320	769,364	**39,900,286**	-
Reclassified (Note19)	-	-	(2,701,282)	-	-	-	**(2,701,282)**	-
Adjusted balance at 1st January 2019	**900,657**	**-**	**28,154,767**	**7,896**	**7,366,320**	**769,364**	**37,199,004**	
Charge for the year	58,287	-	2,858,431	899	222,283	9,398	**3,149,298**	-
Adjustment	-	-	-	-	(131)	131	**-**	-
At December 31, 2019	**958,944**	**-**	**31,013,198**	**8,795**	**7,588,472**	**778,893**	**40,348,302**	**-**
Net Carrying Amount: At December 31, 2019	**146,107**	**85,000**	**11,008,575**	**2,776**	**870,451**	**(406,241)**	**11,706,668**	**411,444**

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

17. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2018	Leasehold improvements KShs'000	Land KShs'000	Technical assets KShs'000	Motor vehicles KShs'000	Office, IT & other equipment KShs'000	Furniture & fittings KShs'000	TOTAL KShs'000	Capital work in progress KShs'000
Gross Carrying Value								
At January 1, 2018	675,331	85,000	38,968,103	7,085	7,133,552	784,773	47,653,844	5,657,622
Additions	-	-	2,495,093	4,486	86,187	748	2,586,514	2,406,829
Disposal / Adjustment	417,112	-	4,621,709	-	791,021	(425,313)	5,404,529	-
At December 31, 2018	**1,092,443**	**85,000**	**46,084,905**	**11,571**	**8,010,760**	**360,208**	**55,644,887**	**2,946,135**
Accumulated Depreciation								
At January 1, 2018	531,209	-	28,085,702	7,085	7,133,552	758,633	36,516,181	-
Charge for the year	56,512	-	2,797,770	811	233,112	10,731	3,098,936	-
Disposal / Adjustment	312,936	-	(27,422)	-	(344)	-	285,170	-
At December 31, 2018	**900,657**	**-**	**30,856,050**	**7,896**	**7,366,320**	**769,364**	**39,900,287**	**-**
Net Carrying Amount: At December 31, 2018	**191,786**	**85,000**	**15,228,855**	**3,675**	**644,440**	**(409,156)**	**15,744,600**	**2,946,135**

The carrying amount of technical assets held under finance leases at 31 December 2018 was KShs 6.9 billion.
Adjustments consists of reversal of gross carrying value and accumulated depreciation on retirement of PPE and reclassification from one category of asset to another

18. INTANGIBLE ASSETS

	Prepaid mobile phone license	YU brand	YU customer base	Bandwidth	Total
2019	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Gross Carrying Value					
At 1 January 2019	5,772,902	16,180	1,289,300	370,008	7,448,390
Additions	80,097	-	-	114,024	194,121
Adjustments *	-	-	-	(484,032)	(484,032)
At December 31, 2019	**5,852,999**	**16,180**	**1,289,300**	**-**	**7,158,479**
AMORTISATION					
At January 1, 2019	1,595,198	16,180	1,289,300	36,454	2,937,132
Charge for the year	563,810	-	-	-	563,810
Adjustments	-	-	-	(36,454)	(36,454)
At December 31, 2019	**2,159,008**	**16,180**	**1,289,300**	**-**	**3,464,488**
Net carrying amounts	**3,693,991**	**-**	**-**	**-**	**3,693,991**
2018					
COST					
At 1 January 2018	3,288,657	17,042	1,357,987	370,008	5,033,694
Additions	2,577,500	-	-	-	2,577,500
Adjustments	(93,255)	(862)	(68,687)	-	(162,803)
At December 31, 2018	**5,772,902**	**16,180**	**1,289,300**	**370,008**	**7,448,390**
AMORTISATION					
At January 1, 2018	1,132,611	17,042	1,357,987	12,355	2,519,995
Charge for the year	462,587	(862)	(68,687)	24,099	417,137
At December 31, 2018	**1,595,198**	**16,180**	**1,289,300**	**36,454**	**2,937,132**
NET CARRYING AMOUNTS	**4,177,704**	**-**	**-**	**333,554**	**4,511,258**

*Adjustments consists of reversal of gross carrying value and accumulated depreciation on retirement of PPE and reclassification from one category of asset to another.
YU brand and customer base fully amortized as of 31st Dec 2017.

19. RIGHT OF USE ASSETS

Year ended 31 December 2019	Plant and equipment	Others	Total
	KShs'000	KShs'000	KShs'000
Gross Carrying Value			
Balance at Jan 01, 2019	8,894,475	-	8,894,475
Additions	4,785,737	125,606	4,911,344
As at 31 December 2019	**13,680,212**	**125,606**	**13,805,818**
DEPRECIATION			
Balance at Jan 01, 2019	(2,701,280)	-	(2,701,280)
Depreciation charge for the year	(1,721,059)	(102,708)	(1,823,767)
As at 31 December 2019	**(4,422,339)**	**(102,708)**	**(4,525,047)**
Net Carrying Amount as at 31 December 2019	**9,257,873**	**22,898**	**9,280,771**

In the previous year, the Company only recognised right-of-use assets in relation to leases that were classified as 'finance leases' under IAS 17 - Leases.

20. EMBEDDED DERIVATIVE

	2019 KShs'000'	2018 KShs'000'
ASSET		
At start of the year	239	4,459
(Charge)/credit to profit or loss	(239)	(4,220)
At end of the year	**-**	**239**
LIABILITY		
At start of the year	9,224	8,059
Charge to profit or loss	2,753	1,165
At end of year	**11,977**	**9,224**

21. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted tax rate of 30% (2018: 30%). The movement on the deferred income tax account is as follows

	2019 KShs'000	2018 KShs'000
At start of year	19,930,454	20,003,566
Credit to profit or loss	505,343	(73,112)
Unrecognized asset	(20,435,797)	(19,930,454)
At end of year	**-**	**-**

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

Year ended 31 December 2019	1.1.2019 KShs'000	Credit to profit or loss KShs'000	31.12.2019 KShs'000
Doubtful Debts	(1,910,842)	217,952	(1,692,890)
Inventory obsolescence	(48,120)	(393)	(48,513)
Accrued leave	(46,780)	(5,832)	(52,613)
Bonus	(89,339)	1,341	(87,998)
Provision for network removal (ARO)	(8,412)	(148)	(8,560)
Provision for tax cases	(182,663)	(252,051)	(434,714)
Provision for legal cases	(336,588)	46,617	(289,971)
ESOP Provision	(22,453)	17,646	(4,807)
Net unrealized exchange differences	815,780	(214,294)	601,486
Provision for Airtel Money/ Bank/ Cash balance	(590,570)	-	(590,570)
Right of use assets - IFRS 16	-	9,280,771	9,280,771
Lease Liability IFRS 16	-	(10,853,910)	(10,853,910)
Tax losses carried forward	(60,579,948)	824,429	(59,755,519)
Deferred income tax assets not recognized	62,999,936	937,871	63,937,808
Net deferred income tax assets	-	-	-

21. DEFERRED INCOME TAX (continued)

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

Year ended 31 December 2018	1.1.2018 KShs'000	Credit to profit or loss KShs'000	31.12.2018 KShs'000
Doubtful Debts	(1,502,259)	(408,583)	(1,910,842)
Inventory obsolescence	(50,156)	2,035	(48,121)
Accrued leave	(37,494)	(9,287)	(46,780)
Bonus	(72,730)	(16,609)	(89,339)
Provision for network removal (ARO)	(17,312)	8,900	(8,412)
Provision for legal cases	(371,720)	35,132	(336,588)
Provision for tax cases	(453,994)	271,330	(182,663)
IBM embedded derivative gain	8,059	(8,059)	(0)
Net unrealized exchange differences	(136,451)	952,231	815,780
ESOP Provision	(10,297)	(12,155)	(22,453)
Provision for Airtel Money/ Bank/ Cash balance	-	(590,570)	(590,570)
Tax losses carried forward	(60,200,554)	(379,394)	(60,579,948)
Deferred income tax assets not recognized	62,844,908	155,028	62,999,936
Net deferred income tax assets	-	-	-

A deferred tax asset of KShs 20.44 million (2018: KShs 19.99mn) has not been recognized in the financial statements as it is not probable that future taxable profits will be available against which the deferred tax asset can be utilized. The company's tax losses can be carried forward for ten years for offsetting.

22. INVENTORIES

	2019 KShs'000	2018 KShs'000
Finished goods (at cost)	69,615	91,715
Provision for stock obsolescence	(29,850)	(38,572)
Stock write-down	(18,663)	(9,548)
	21,102	**43,595**

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to KShs 28.45 million (2018: KShs 51.59 billion) (Note 8). Inventories include handsets and accessories.

23. TRADE AND OTHER RECEIVABLES

	2019 KShs'000	2018 KShs'000
Trade receivables	1,992,541	2,491,573
Less: Provision for impairment losses	(1,542,051)	(1,707,930)
Net trade receivables	**450,490**	**783,643**
Amount receivable from related companies (Note 35)	6,152,050	6,939,811
Prepayments	1,686,255	1,170,129
Other receivables	762,508	966,276
Less: Provision for impairment losses on other receivables	(135,995)	(188,069)
	8,915,308	**9,671,790**

Other receivables include value added tax recoverable, duty recoverable, and Airtime Credit services (Kopa credo) recoverable.

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

	2019 KShs'000	2018 KShs'000
At start of year	1,707,930	1,430,283
(Recovery) / provision for the year	(165,879)	277,818
Provisions reversed on write-off of bad debts aged over 3 years	-	(171)
At end of year	**1,542,051**	**1,707,930**

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

At start of year	188,069	57,269
(Recovery) / provision for the year	(52,074)	130,800
At end of year	**135,995**	**188,069**

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

24. CASH AND CASH EQUIVALENTS

	2019 KShs'000	2018 KShs'000
Cash at bank	356,998	263,467
Fixed Deposits*	992,250	-
Cash in hand	37,271	32,236
	1,386,519	295,703

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

Cash in hand and bank balances	394,269	295,703
Fixed Deposits	992,250	-
Bank overdraft (note 30)	(361,363)	(419,549)
	1,025,156	**(123,846)**

25. ORDINARY SHARE CAPITAL

	Number of shares	Par value KShs	Ordinary Shares KShs'000
Authorised, issued and fully paid-up share capital			
Balance as at 31 December 2018	2,625,000	1,000	2,625,000
Additions to share capital during the year	725,000	1,000	725,000
Balance as at 31 December 2019	3,350,000	1.000	3,350,000
	=======	=====	========

The Company's nominal share capital was increased by the addition of KShs 725,000,000 divided into 725,000 ordinary shares of KShs 1,000 each by a resolution of the company directors on 31st July 2019 in line with statutory requirements.

26. SHARE PREMIUM

	Ordinary shares	Redeemable preference shares	Total
2019	**KShs'000**	**KShs'000**	**KShs'000**
At start of year	234,801	4,259,023	4,493,824
Additions to share premium during the	3,171,875	-	3,171,875
At end of year	3,406,676	4,259,023	7,665,699
	=======	=======	========
2018			
At start and end of year	234,801	4,259,023	4,493,824
	=======	=======	========

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

27. REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Preference shares KShs'000	Share premium KShs'000	Total KShs'000
At 31 December 2018, and 31 December 2019	**22,611,513**	**22,611,513**	**4,259,023**	**26,870,536**
	=========	=========	======	========

The number of Authorised and Issued Preference Shares is 22,611,514 with a par value of KShs 1,000 each.
The preference shares are classified as equity in line with IAS 32, Financial Instruments; Presentation. They are denominated in Kenya Shillings and have no right to dividend.
There is no fixed redemption date for the preference shares; they will be redeemed at the discretion of the company.

28. SHAREHOLDER'S LOANS

	2019 KShs'000	2018 KShs'000
At start of year	47,504,323	43,434,755
Proceeds from new shareholder's loans (Net of Exchange loss)	820,565	1,805,400
Accumulated interest capitalized	1,243,340	1,151,505
Reclassification related party balances	-	1,112,663
Conversion of loan to Equity	(2,875,625)	-
At end of year	**46,692,603**	**47,504,323**
	=========	=========

These are loans from the immediate holding company, Bharti Airtel Kenya B.V. The loans are payable on demand. The loans are unsecured and bear 3% interest per annum.
In August 2019, the company infused KShs 3.897 Billion in the mobile money business by converting shareholder loan to equity KShs 2.876 Billion and a cash injection in the mobile money business of KShs 1.021 Billion.

29. LEASE LIABILITIES

i) As a lessee

(a) Analysed as;

	2019 KShs '000'	2018 KShs '000'
Non-current	9,164,430	5,925,554
Current	1,689,480	806,988
	10,853,910	**6,732,542**

(b) Maturity analysis:

	2019	2018
Less than one year	2,444,981	1,332,544
Later than one year but not later than two years	1,091,828	1,332,544
Later than two years but not later than five years	7,968,026	3,997,630
Later than five years but not later than nine years	2,091,885	2,527,367
Later than nine years	61,965	-
Total undiscounted lease liabilities	**13,658,685**	**9,190,085**
Lease liabilities included in the statement of financial position	**10,853,910**	**6,732,542**

Amounts recognized in profit or loss	
Interest on lease liabilities	991,815
	991,815

ii) As a lessor

The Company's lease arrangements as a lessor mainly pertain to passive infrastructure. Certain of these lease arrangements have escalations up to 5 % per annum.

Operating lease

Lease income recognized in profit or loss	**40,073**

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

Less than one year	42,879
One to five years	203,705
More than five years	60,139
Total	**306,723**

30. CURRENT BORROWINGS	**2019 KShs'000**	**2018 KShs'000**
At start of the year	4,873,386	581,925
Transfer from Non-current Borrowings	-	4,552,803
Repayment	(125,177)	(280,659)
Interest on shareholder loan	(13,272)	23,103
Debt Originating Cost	1,315	(3,787)
Stanbic bank ,Citi & HSBC loans	3,098,056	-
Closing Balance	**7,834,308**	**4,873,386**
Bank overdraft		
At start of the year	419,549	431,534
Repayments in the year	(58,186)	(11,985)
Repayment		
Closing Balance (Bank overdraft)	**361,363**	**419,549**
Total Current Borrowings	**8,195,671**	**5,292,935**
Current borrowings comprise:		
Citibank loan	5,006,816	4,552,803
Interest on shareholder loan	311,214	324,370
Debt Originating Cost	(2,472)	(3,787)
HSBC Mauritius	1,518,750	-
Stanbic Bank	1,000,000	-
	7,834,308	**4,873,386**

Current borrowings consist mainly of external loans from Citibank, HSBC-Mauritius and Stanbic Bank repayable within 12 months of 31 December 2019.

The overdraft facility extended by Standard Chartered Bank Kenya Limited has a limit of KShs 1 Billion being an extension from KShs 490 Million as at 2018 and bears 10.75% interest per annum. Interest accrues on the daily overdrawn balance and is payable monthly in arrears. As at 31st December 2019, the overdrawn balance was KShs 361.4 Million (KShs 419.6 Million as at 31st December 2018).

30. CURRENT BORROWINGS (continued)

Overdraft and undrawn facilities

At the end of the reporting period, the entity had the following financing facilities;

A Facility for overdraft, bonds and guarantees with a limit of KShs 1 Billion. The facility had an undrawn portion amounting to KShs 621.6 million

The entity had the contingent liabilities under bonds and guarantees facility with Standard Chartered PLC. amounting KSHs 17.06 Mn

The entity had forward deals with Standard Chartered PLC. amounting KSHs 368.87 Mn

The carrying amounts of the borrowings recognized in the financial statements approximate their fair values.

31. TRADE AND OTHER PAYABLES

	2019 KShs'000	2018 KShs'000
Trade payables	1,124,293	2,361,060
Amounts due to related parties (Note 36)	1,840,452	1,716,516
Accrued expenses and other payables	2,280,990	4,937,355
Deferred Airtime Revenue	1,070,956	1,057,721
Social security and others taxes	527,087	528,642
	6,843,778	**10,601,294**

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

32. PROVISIONS

	2019 KShs'000	2018 KShs'000
Provision for IT costs	2,258	4,710
Provision for VAS expenses	63,650	83,357
Provision for network expenses	391,167	288,714
Provision for call center costs	12,082	36,918
Provision for marketing and distribution costs	8,636	162,261
Provision for staff costs	192,471	316,785
Provision for Asset retirement obligations	-	353,775
Provision for legal claims and regulatory costs	724,685	401,807
Provision for Airtime Credit Services	57,974	56,563
Provision for professional fees	806	3,666
Other Provisions	664	35,533
	1,454,394	**1,744,089**

Provisions for legal and regulatory claims are made against outstanding cases. These provisions are evaluated based on facts of the cases and external inputs obtained from legal advisors.

Provisions for IT costs are made for IT costs incurred with various partners for IT support including provision for use of IT services and assets from Comviva, Avaya & Wipro.

Provisions for staff costs are mainly provision for performance bonus and year end expenses.

33. CONTINGENT LIABILITIES

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

	2019	2018
	KShs'000'	KShs'000'
Tax litigations		
Import duty and VAT	440,321	494,964
Legal litigations		
Civil and other legal cases	573,850	577,907

34. COMMITMENTS

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

	2019	2018
	KShs'000	KShs'000
Capital commitments		
Authorised and contracted		
Due within 1 year	**1,012,604**	**4,224,982**

35. RELATED PARTY TRANSACTIONS

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

(i) Sale of goods and services	2019 Kshs'000	2018 Kshs'000	Relationship
Bharti Airtel (UK) Limited	356,546	351,694	Fellow subsidiary
Airtel Uganda Limited	285,520	232,587	Fellow subsidiary
Bharti Airtel International (Netherlands) B.V	40,393	-	Step up parent
Airtel Networks Limited (Nigeria)	31,108	33,551	Fellow subsidiary
Airtel Madagascar S.A.	24,351	23,670	Fellow subsidiary
Airtel Networks Zambia Plc	16,425	20,449	Fellow subsidiary
Airtel Tanzania Limited	16,343	30,611	Fellow subsidiary
Bharti International (Singapore) Pte Ltd	13,872	1,789	Fellow subsidiary
Bharti Airtel Limited	13,230	114,372	Step up parent
Airtel Malawi Limited	12,257	7,402	Fellow subsidiary
Airtel Gabon S.A.	9,633	7,673	Fellow subsidiary
Airtel Congo (RDC) S.A	9,160	19,542	Fellow subsidiary
Airtel Niger Limited.	7,157	50,901	Fellow subsidiary
Airtel Rwanda Limited	6,635	6,358	Fellow subsidiary
Airtel Money Transfer Limited	6,465	-	Subsidiary of Airtel Networks Kenya Ltd
Airtel Congo S.A	6,307	6,292	Fellow subsidiary
Airtel Tchad S.A	5,131	3,758	Fellow subsidiary
Airtel (Seychelles) Limited	2,725	8,669	Fellow subsidiary
Airtel Mobile Commerce BV	611	-	Fellow subsidiary
Bharti Airtel Services Limited	550	-	Fellow subsidiary
Singapore Telecommunication Limited	524	-	Fellow subsidiary
Emtel Mauritius	280	-	Other related party
Airtel Ghana Limited	107	972	Joint venture
Jersey Airtel Limited	14	19	Fellow subsidiary
Bharti Airtel Lanka (Pvt Ltd), Sri Lanka	6	18	Fellow subsidiary
	865,350	**920,326**	

35. RELATED PARTY TRANSACTIONS (Continued)

(ii) Purchase of goods and services

	2019 Kshs'000	2018 Kshs'000	Relationship
Airtel Uganda Limited	469,257	267,764	Fellow subsidiary
Bharti Airtel (UK) Limited	300,007	141,302	Fellow subsidiary
Network i2i Ltd.	111,043	102,733	Step up parent
Bharti Airtel Limited	98,125	141,718	Step up parent
Airtel Tanzania Limited	54,116	79,751	Fellow subsidiary
Bharti Airtel International (Netherlands) B.V	48,939	-	Step up parent
Airtel Rwanda Limited	26,923	19,609	Fellow subsidiary
Bharti International (Singapore) Pte Ltd	22,579	44,486	Fellow subsidiary
Centum Learning Limited	13,794	-	Fellow subsidiary
Nxtra Data Limited	8,147	8,772	Fellow subsidiary
Airtel Congo (RDC) S.A	5,972	8,476	Fellow subsidiary
Airtel Networks Zambia Plc	5,749	18,135	Fellow subsidiary
Airtel Networks Limited (Nigeria)	4,634	7,363	Fellow subsidiary
Airtel Tchad S.A	4,215	270	Fellow subsidiary
Airtel Malawi Limited	3,630	16,694	Fellow subsidiary
Airtel Congo S.A	3,502	1,521	Fellow subsidiary
Emtel Mauritius	1,001	-	Other related party
Airtel Niger Limited.	576	70,939	Fellow subsidiary
Airtel Mobile Commerce BV	526	-	Fellow subsidiary
Airtel (Seychelles) Limited	486	1,172	Fellow subsidiary
Airtel Gabon S.A.	220	186	Fellow subsidiary
Airtel Money Transfer Limited	189	-	Subsidiary of Airtel Networks Kenya Ltd
Bharti Airtel Lanka (Pvt Ltd), Sri Lanka	42	151	Fellow subsidiary
Singapore Telecommunication Limited	27	-	Fellow subsidiary
Airtel Ghana Limited	7	12,819	Joint venture
Bharti Airtel Services Limited	-	3,589	Fellow subsidiary
Airtel Madagascar S.A.	-	382	Fellow subsidiary
	1,183,706	**947,834**	

Airtel Networks Kenya Limited
Notes to the Financial Statements (continued)
For the year ended 31 December 2019

35. RELATED PARTY TRANSACTIONS (Continued)

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

(a) Receivable from related parties	2019 Kshs'000	2018 Kshs'000	Relationship
Bharti Airtel International (Netherlands) B.V	5,174,637	5,182,464	Step up parent
Airtel Networks Limited (Nigeria)	247,191	323,402	Fellow subsidiary
Airtel Rwanda Limited	194,201	202,747	Fellow subsidiary
Airtel Niger Limited.	125,307	119,907	Fellow subsidiary
Bharti Airtel (UK) Limited	95,307	260,190	Fellow subsidiary
Airtel Tanzania Limited	74,947	236,944	Fellow subsidiary
Airtel Uganda Limited	61,624	144,563	Fellow subsidiary
Airtel Congo (RDC) S.A	36,405	52,484	Fellow subsidiary
Airtel Malawi Limited	27,451	149,136	Fellow subsidiary
Bharti Airtel Limited	23,551	48,862	Step up parent
Airtel (Seychelles) Limited	19,640	17,067	Fellow subsidiary
Airtel Madagascar S.A.	18,896	72,560	Fellow subsidiary
Airtel Gabon S.A.	13,017	35,310	Fellow subsidiary
Bharti International (Singapore) Pte Ltd	12,327	1,034	Fellow subsidiary
Airtel Networks Zambia Plc	9,581	23,732	Fellow subsidiary
Airtel Money Transfer Limited	6,465	-	Subsidiary of Airtel Networks Kenya Ltd
Airtel Tchad S.A	4,014	15,646	Fellow subsidiary
Airtel Ghana Limited	4,008	-	Joint venture
Airtel Congo S.A	2,671	53,756	Fellow subsidiary
Airtel Mobile Commerce BV	611	-	Fellow subsidiary
Singapore Telecommunication Limited	198	-	Fellow subsidiary
Jersey Airtel Limited	1	-	Fellow subsidiary
Bharti Airtel Lanka (Pvt Ltd), Sri Lanka	-	7	Fellow subsidiary
	6,152,050	**6,939,811**	

(b) Payable to related parties	2019 Kshs'000	2018 Kshs'000	Relationship
Airtel Tanzania Limited	805,106	936,902	Fellow subsidiary
Network i2i Ltd.	354,727	269,648	Step up parent
Airtel Uganda Limited	259,141	160,049	Fellow subsidiary
Bharti Airtel (UK) Limited	134,976	76,486	Fellow subsidiary
Bharti Airtel Limited	72,789	144,139	Step up parent
Bharti International (Singapore) Pte Ltd	54,349	28,607	Fellow subsidiary
Nxtra Data Limited	37,745	29,943	Fellow subsidiary
Bharti Airtel International (Netherlands) B.V	36,728	-	Step up parent
Airtel Congo (RDC) S.A	33,595	30,874	Fellow subsidiary
Airtel Rwanda Limited	15,302	5,227	Fellow subsidiary
Airtel Mobile Commerce BV	13,605	13,097	Fellow subsidiary
Airtel Ghana Limited	5,227	-	Joint venture
Bharti Airtel Services Limited	4,131	4,158	Fellow subsidiary
Airtel Tchad S.A	3,921	37	Fellow subsidiary
Centum Learning Limited	2,678	-	Fellow subsidiary
Airtel Networks Zambia Plc	2,420	9,281	Fellow subsidiary
Airtel Malawi Limited	1,335	2,737	Fellow subsidiary
Airtel Networks Limited (Nigeria)	787	3,689	Fellow subsidiary
Airtel (Seychelles) Limited	696	552	Fellow subsidiary
Airtel Niger Limited.	538	268	Fellow subsidiary
Airtel Congo S.A	220	631	Fellow subsidiary
Airtel Money Transfer Limited	189	-	Subsidiary of Airtel Networks Kenya Ltd
Africa towers NV	124	124	Fellow subsidiary
Airtel Gabon S.A.	70	32	Fellow subsidiary
Airtel Madagascar S.A.	37	19	Fellow subsidiary
Emtel Mauritius	13	-	Other related party
Bharti Airtel Lanka (Pvt Ltd), Sri Lanka	3	16	Fellow subsidiary
	1,840,452	**1,716,516**	

35. RELATED PARTY TRANSACTIONS (Continued)

(iv) Key management compensation

	2019 KShs'000	2018 KShs'000
Employment benefits	325,841	244,905

Details on key management compensation are as follows:

	2019	2018
Total Salaries and Allowances	248,431	203,991
Annual Performance Bonuses	40,265	20,245
Long Term Incentive (LTI)	3,062	2,642
Director's remuneration	11,263	10,141
Social Security – Pension	5,410	4,196
Medical Expenses	6,955	3,691
Termination Dues	10,455	-
	325,841	244,905

Annual performance bonus is awarded based on achievement of set earnings before interest, tax, depreciation and amortisation, EBITDA, whereas long term incentive is meant to align senior management performance with the vision of the company. As at 31 December 2019, the provision for long term incentive was KShs 3 million (2018: KShs 2.6 million).

(v) Shareholder's loans

	2019 KShs'000	2018 KShs'000
Payable to Bharti Airtel Kenya B.V.	46,692,603	47,504,323
Interest expense incurred on shareholder's loans	311,214	324,482

Terms and conditions of the loan are detailed in Note 28.

36 (i) INVESTMENT IN SUBSIDIARY

	Country of incorporation	Principal business	2019 KShs '000	2018 KShs '000
Airtel Money Transfer Limited 100% owned	Kenya	International Mobile money transfer	20,000	20,000

The company started operations in March 2019.

The financial statements of Airtel Money Transfer Limited have not been consolidated in these financial statements as the amounts involved are not material and would be of no real value to the users of the financial statements. The subsidiary has a bank balance of KSh 20 million which is equal to the investment made by Airtel Networks Kenya Limited.

The company has 99% shareholding in Airtel Money Transfer Limited.

The company is incorporated in Kenya.

36 (ii) OTHER NON CURRENT ASSETS

	2019 KShs'000	2018 KShs'000
Paid under protest (legal case deposit)	5,121	1,237
Prepaid expenses aged more than 1 year	550,019	1,129
Security deposits	21,342	33,418
	576,482	**35,784**

37. Details of other non-current liabilities are as below;

	2019 Kshs'000	2018 Kshs'000
Rent equalization liability	-	31,235
Asset retirement obligation	8,560	8,411
Other employee benefits*	39,029	-
	47,589	**39,646**

*Other employee balances relate to provision for leave encashment which were reported under trade and other payables as at 2018 following a current/non-current split during the year 2019.

38. COMPARATIVES

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The table below illustrates the reclassification made to the prior year balances for presentation purposes in the current year. Where necessary, comparative figures have been adjusted or excluded to conform to changes in presentation in the current year.

	KES'000 As Previously stated	Reclassification	KES'000 Reclassified amount	Notes
Balance Sheet				
Borrowings - Non current	(5,925,554)	5,925,554	-	29
Borrowings - Current	(6,099,923)	806,988	(5,292,935)	30
Lease Liabilities - Non current	-	(5,925,554)	(5,925,554)	29
Lease Liabilities - Current	-	(806,988)	(806,988)	29

39. OPERATING LICENCE

During the year ended 31 December 2014, The company acquired subscribers, brand name and license from Essar Telecommunication Limited. The company is operating under Essar license since January 2015, which is valid until 2025. The Company has requested the Communications Authority of Kenya (CA) to issue fresh documents incorporating new terms and conditions including roll out obligations bearing Airtel's name. In 2017, CA demanded USD 20.025 million from Airtel in license renewal fees. Airtel lodged a judicial review and the case was ruled in Airtel's favour but the CA appealed the case. The appeal is yet to be determined.

40. EVENTS AFTER THE REPORTING DATE

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