

AIRTEL NETWORKS ZAMBIA PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2021.

AIRTEL NETWORKS ZAMBIA PLC

(incorporated in Zambia)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2021

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AIRTEL NETWORKS ZAMBIA PLC

DIRECTORS' REPORT

for the year ended 31 December 2021

The Directors present their annual report on the affairs of Airtel Networks Zambia Plc (the 'Company') together with the financial statements and the auditor's report for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

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

SHARE CAPITAL

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

DIVIDEND

The Company did not pay any dividends during the year. Further Directors do not propose a final dividend for the year ended 31 December 2021 (2020: Nil).

RESULTS

The profit for the year ended 31 December 2021 amounted to K693.293 million (2020: Loss K340.558 million) and the operating profit for the year ended 31 December 2021 amounted to K1,253.647 million (2020: K718.945 million).

The Company continues to accelerate its revenue growth momentum with a 37.8% year-on-year growth led by growth across all its product lines. In the new world order post COVID-19, the Company remains excited about the business and continues to invest to ensure strong and sustainable growth.

ALLOTMENT OF RADIO SPECTRUM

The Zambia Information and Communications Technology Authority ("ZICTA") has allotted 10Mhz radio spectrum in the 800Mhz frequency band at a cost of USD12.5 million on 18 January 2021. As of 31 December 2021, the Company paid the license fees in full.

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

DIRECTORS

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

Name	Role	Date of appointment/resignation
K. Monica Musonda (Non-ED)	Chairperson	Appointed on 23 March 2016
Apoorva Mehrotra (ED)	Managing Director	Appointed on 1 March 2018
Jito Kayumba (Non-ED)	Board Member	Resigned on 26 November 2021
Jaideep Paul (Non-ED)	Board Member	Appointed on 2 November 2016
Ian Ferrao (Non-ED)	Board Member	Appointed on 23 September 2019
Rogany Ramiah (Non-ED)	Board Member	Appointed on 16 July 2019
Lynda Mataka (Non-ED)	Board Member	Appointed on 16 February 2022

NUMBER OF EMPLOYEES AND REMUNERATION

The total remuneration of employees during the year amounted to K231.203 million (2020: K203,403 million). The average number of employees for each month of the year was as follows:

Month	2021	2020
January	199	206
February	198	205
March	196	201
April	198	201
May	196	203

AIRTEL NETWORKS ZAMBIA PLC

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 December 2021

NUMBER OF EMPLOYEES AND REMUNERATION (CONTINUED)

Month	2021	2020
June	195	205
July	192	202
August	190	203
September	187	199
October	184	197
November	200	195
December	201	196

HEALTH AND SAFETY

The Company has policies and procedures to safeguard the occupational health, safety and welfare of its employees. To safeguard its employees against the Covid-19 pandemic, the Company has measures in place in line with the country's health guidelines which are monitored regularly.

COVID-19

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

GIFTS AND DONATIONS

During the year the Company made donations of K0.053 million. (2020: K5.275 million).

ROAMING

Roaming revenue is earned from foreign telephone operators when their subscribers utilise the Company's network. The Company accrued roaming revenue amounting to K14.214 million (2020: K11.028 million).

PROPERTY, PLANT AND EQUIPMENT

The Company purchased property, plant and equipment amounting to K555,698 million (2020: K614,963 million) during the year. In the opinion of the Directors, the recoverable amount of property, plant and equipment is not less than the carrying value. During the year the Company has made the payment towards the purchase of international bandwidth on indefeasible right of use (IRU) basis amounting to K16,662 million (2020: K33,710 million). The same has been presented as prepayment in the financial statements (note 20).

AUDITORS

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

STATEMENT ON CORPORATE GOVERNANCE

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

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

AIRTEL NETWORKS ZAMBIA PLC

DIRECTORS' REPORT (CONTINUED)
for the year ended 31 December 2021

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

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

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

By order of the Board.



Sonia Shamwana-Chinganya
Company SECRETARY

Date: 17 February 2022
LUSAKA

AIRTEL NETWORKS ZAMBIA PLC

STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2021

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

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

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

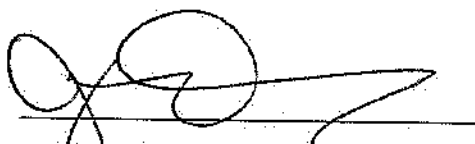
The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. In preparing the company's financial statements, the Directors are required to make an assessment of the Company's ability to continue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

In the opinion of the Directors:


- the statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the performance of the Company for the year ended 31 December 2021;
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2021;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due;
- based on the assessments, the Company should continue to adopt a going concern basis of accounting in preparing the financial statements.
- the financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2017 and the Securities Act of Zambia.
- the Directors have implemented and further adhered to the corporate governance principles or practices contained in Part VII, Sections 82 to 122 of the Companies Act, 2017 and the Securities Act of Zambia.

Approval of the financial statements

The financial Statements of the Company as indicated above, were approved by the Directors on 17 February 2022 and signed on behalf of the Board by:



K. Monica Musonda
CHAIRPERSON



Apoorva Mehrotra
MANAGING DIRECTOR

INDEPENDENT AUDITOR'S REPORT

To the members of

Airtel Networks Zambia Plc

Report on the financial statements

Opinion

We have audited the financial statements of Airtel Networks Zambia Plc set out on pages 9 to 49, which comprise the statement of financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Airtel Networks Zambia Plc as at 31 December 2021, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2017 and the Securities Act of Zambia.

Basis of opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources on the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue

Key audit matter description	<p>As set out in note 8, revenue of K3.6 billion (2020: K2.6 billion) is derived from the provision of telecommunication services. The majority of the customers of the Company subscribe to the services on a prepaid basis. Telecommunication service revenues mainly pertain to usage, subscription and customer onboarding charges, which include activation charges and charges for voice, data, messaging and value-added services. The Company's accounting policies on prepaid revenue is set out in note 4 (c).</p> <p>There is a presumed fraud risk around the accuracy of revenue recorded due to the complexity of the Company's revenue recording systems, the volume of customer data and manual interference in the transfer of data. We have therefore identified a key audit matter in relation to (i) the incorrect set up of system tariffs (ii) volume of transactional data involved which is complex in nature and (iii) the manual journal posting of revenue from the billing system to the general ledger. Errors in each would impact the accuracy of revenue.</p>
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A full list of partners and directors is available on request

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

How the scope of our audit responded to the key audit matter	Our procedures involved: <ul style="list-style-type: none">• Working with our IT specialists to test the IT environment in which the revenue recording systems reside, including interface controls between different IT applications;• Obtaining an understanding of and testing the relevant controls over (a) approvals and maintenance of new plans in the billing system and (b) authorisation of rate changes and the maintenance of rates within the billing systems;• Testing the reconciliation process between the general ledger and revenue recording systems including any manual adjustments posted;• Testing a sample of call record validations to test the accuracy of revenue and the resolution of exceptions;• Sample testing the accuracy of tariff set up in the system.• Performing independent call testing with the objective of testing the accuracy of plans by checking that a sample of each major tariff has been correctly set up.• Detailed substantive testing of journal entries processes around revenue to ensure these were appropriately authorised, complete and accurate.
Key observations	Based on our work, we noted no significant issues on the accuracy of revenue recorded in the year.

Other information

The Directors are responsible for the other information. The other information comprises the Directors' Report and the Statement of Directors' responsibilities, as required by the Companies Act, 2017 which we obtained prior to the date of this auditor's report and the Annual Report, which is expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the financial statements

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

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

The Directors are responsible for overseeing the Company's financial reporting process.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (Continued)

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

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

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

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

Report on other legal and regulatory requirements

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)


Report on other legal and regulatory requirements (Continued)

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

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

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


DELOITTE & TOUCHE


F. NCHIMUNYA (AUD/F000154)
PARTNER

28 February 2022

AIRTEL NETWORKS ZAMBIA PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

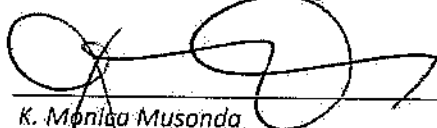
Kwacha'000	Note	For the year ended	
		31 December 2021	31 December 2020
Income			
Revenue	8	3 580 387	2 598 305
Other income	9	1 513	6 870
		<u>3 581 900</u>	<u>2 605 175</u>
Expenses			
Network operating expenses		(650 827)	(510 839)
Depreciation and amortisation	12(b)	(506 572)	(417 804)
Other expenses	12(a)	(295 959)	(282 457)
Sales and marketing expenses		(355 684)	(218 110)
Employee benefits expenses		(231 203)	(203 403)
Access charges		(131 072)	(130 626)
Licence fee/spectrum usage charges		(156 936)	(122 991)
		<u>(2 328 253)</u>	<u>(1 886 230)</u>
Operating profit		1 253 647	718 945
Finance income	11(b)	86	117
Net exchange gain/(loss)	10	71 844	(768 305)
Finance costs	11(a)	(222 494)	(212 922)
Profit/ (loss) before tax		1 103 083	(262 165)
Income tax expense	13	(409 790)	(78 393)
Profit/(loss) and total comprehensive income/(loss) for the year		<u>693 293</u>	<u>(340 558)</u>
Basic and diluted earnings per share (Kwacha)	14	<u>6.67</u>	<u>(3.27)</u>

AIRTEL NETWORKS ZAMBIA PLC

STATEMENT OF FINANCIAL POSITION

Kwacha '000	Note	As of	
		31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	17	1 934 899	1 694 522
Capital work-in-progress	17	107 448	174 133
Right-of-use assets	18	523 490	635 585
Intangible assets	19	240 124	2 716
Intangible assets under development	19	-	79 275
Deferred tax asset	16	18 874	126 063
Other non-current assets	20	183 225	174 675
		<u>3 008 060</u>	<u>2 886 969</u>
Current assets			
Inventories	21	4 183	3 776
Derivative financial instruments	36	-	8 658
Trade and other receivables	22	159 911	268 302
Contract assets	24	33 439	23 239
Cash and cash equivalents	25	41 507	66 137
Other current assets	23	151 126	159 473
		<u>390 166</u>	<u>529 585</u>
Total assets		<u><u>3 398 226</u></u>	<u><u>3 416 554</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	15	1 040	1 040
Share premium	15	24 962	24 962
Retained earnings/ (accumulated losses)		287 445	(405 848)
Total equity		<u>313 447</u>	<u>(379 846)</u>
Non-current liabilities			
Borrowings	29	328 698	264 817
Lease liabilities	32	842 734	1 313 275
Contract liabilities	28	6 558	-
		<u>1 177 990</u>	<u>1 578 092</u>
Current liabilities			
Borrowings	29	446 560	717 604
Lease liabilities	32	225 331	256 135
Derivative financial instruments	36	39 241	3 094
Trade and other payables	26	793 764	967 270
Contract liabilities	28	118 221	101 829
Current tax payable	13	159 242	83 935
Other current liabilities	27	124 430	88 441
		<u>1 906 789</u>	<u>2 218 308</u>
Total liabilities		<u><u>3 084 779</u></u>	<u><u>3 796 400</u></u>
Total equity and liabilities		<u><u>3 398 226</u></u>	<u><u>3 416 554</u></u>

The responsibilities of the Company's Directors with regard to the preparation of the financial statements are set out on page 4. The financial statements on pages 9 to 49 were approved for issue by the Board of Directors on 17 February 2022 and were signed on its behalf by:


 K. Monica Musonda
 CHAIRPERSON


 Apoorva Mehrotra
 MANAGING DIRECTOR

AIRTEL NETWORKS ZAMBIA PLC

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2021

Kwacha'000

	Share capital	Share premium	Retained earnings	Total
Balance at 1 January 2020	1 040	24 962	(65 290)	(39 288)
Total comprehensive loss for the year	-	-	(340 558)	(340 558)
Balance at 31 December 2020	<u>1 040</u>	<u>24 962</u>	<u>(405 848)</u>	<u>(379 846)</u>
At 1 January 2021	1 040	24 962	(405 848)	(379 846)
Total comprehensive income for the year	-	-	693 293	693 293
Balance at 31 December 2021	<u>1 040</u>	<u>24 962</u>	<u>287 445</u>	<u>313 447</u>

AIRTEL NETWORKS ZAMBIA PLC

STATEMENT OF CASH FLOWS

Kwacha '000	Note	For the year ended	
		31 December 2021	31 December 2020
Cash flows from operating activities			
Profit/ (loss) before income tax		1 103 083	(262 165)
Adjustments for:			
Finance income	11	(86)	(117)
Finance costs	11	222 494	212 922
Depreciation and amortisation	12(b)	506 572	417 804
Impairment loss recognised on trade receivables	22	3 317	4 812
Net exchange (gains)/ losses	10	(71 844)	768 305
(Gain)/loss on disposal of property, plant and equipment	9	(84)	446
Other adjustments (i)		(2 313)	(5 019)
Operating cash flows before changes in working capital		1 761 139	1 136 988
<i>Changes in working capital:</i>			
Decrease/ (Increase) in trade and other receivables		140 652	(76 208)
Increase in inventories		(407)	(397)
(Decrease)/increase in trade and other payables		(121 598)	489 999
(Increase)/decrease in other current and non current assets		(10 403)	19 961
(Decrease)/increase in other liabilities		(266 858)	27 763
Net cash generated from operations before tax		1 502 525	1 598 106
Income tax paid (ii)	13	(227 294)	(172 240)
Net cash generated from operating activities		1 275 231	1 425 866
Cash flows from investing activities			
Purchase of property and equipment	17	(555 698)	(614 963)
Interest received	11	86	117
Proceeds from disposal of property and equipment		40 471	434
Purchase of intangible assets	19	(192 398)	(79 275)
Net cash flows used in investing activities		(707 539)	(693 687)
Cash flows from financing activities			
Proceeds from borrowings	29	240 000	36 418
Repayment of borrowings	29	(403 494)	(384 437)
Interest paid on borrowings	11	(73 377)	(59 688)
Interest paid on lease liabilities	11	(149 117)	(153 234)
Repayment of lease liabilities	32	(261 252)	(165 390)
Net cash flows used in financing activities		(647 240)	(726 331)
Net (decrease)/ increase in cash and cash equivalents		(79 548)	5 848
Cash and cash equivalents at beginning of the year		(121 834)	(125 380)
Effects of currency translation on cash and cash equivalents		1 449	(2 302)
Cash and cash equivalents at end of the year	25	(199 933)	(121 834)

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

(ii) Income tax paid include recoveries from WHT for K1.65 million (2020: K1.57 million).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1. CORPORATE INFORMATION

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

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

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

The financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Directors on 17 February 2022.

2. GOING CONCERN

The Company ended the year 2021 with strong underlying operational performance with revenue growth of 37.8%. On account of appreciation of the Zambian Kwacha against the US Dollar during the year, there was a favourable impact of exchange gains amounting to K71.8 million (2020: loss of K768.3 million) hence the Company recorded a net profit of K693.3 million (2020: loss of K340.56 million). As at 31 December 2021, accumulated profits were K287.45 million (2020: losses of K405.85 million) and the Company was in a net current liability position of K1,516.62 million (2020: K1,688.72 million).

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The Directors are of the opinion that the Company is a going concern on the basis that the Company:

- a) Will generate cash inflows from operations of at least the amount projected in the management's annual operating plan. The generation of sufficient cash flows from operations is driven by and is dependent on stability of the Kwacha/US Dollar exchange rate, management achieving revenue growth targets. In their assessment, the Directors have assumed that the Kwacha will not depreciate significantly against the US Dollar and that the Company will achieve a revenue growth of at least similar to revenue growth for 2021; and
- b) Has access to financing facilities and will obtain sufficient funding from banks and holding company to meet its obligations as and when they fall due. The terms of the facilities are disclosed in note 25 to the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

3 ADOPTION OF NEW AND REVISED STANDARDS

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

Impact of the initial application of Covid-19-Related Rent Concessions beyond 30 June 2021 -Amendment to IFRS 16

In March 2021, the Board issued Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022.

In the current financial year, the Company has applied the amendment to IFRS 16 (as issued by the Board in May 2021) in advance of its effective date.

The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification.

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

- a The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- b Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022).
- c There is no substantive change to other terms and conditions of the lease.

The Company has not been impacted by the amendment to IFRS 16 (as issued by the IASB in March 2021) in advance of its effective date.

3.2 New and revised Standards in issue but not yet effective

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

Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment—Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts—Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards 2018–2020 Cycle	<i>IFRS 9 Financial Instruments and IFRS 16 Leases</i>
Amendments to IAS 1 and IFRS Practice	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a single transaction.</i>

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

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

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

3. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

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

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

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

Amendments to IFRS 3 – Reference to the Conceptual Framework

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

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

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

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

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

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

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

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

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

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

3 ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

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

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

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

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

Annual Improvements to IFRS Standards 2018-2020— IFRS 9 Financial Instruments and IFRS 16 Leases.

The Annual Improvements include amendments to two Standards.

IFRS 9 Financial Instruments

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

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

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

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.

As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements - Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

3: ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies (continued)

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- a A change in accounting estimate that results from new information or new developments is not the correction of an error.
- b The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments to IAS 12 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- a A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
 - Right-of-use assets and lease liabilities
 - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset
- b The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

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

(b) Basis of preparation

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

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

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

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

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

(c) Revenue recognition

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

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

The Company has entered into certain multiple-element revenue arrangements which involve the delivery or performance of multiple products, services or rights to use assets. At the inception of the arrangement, all the deliverables therein are evaluated to determine whether they represent distinct performance obligations, and if so, they are accounted for separately. Total consideration related to the multiple element arrangements is allocated to each performance obligation based on their relative standalone selling prices. The stand-alone selling prices are determined based on the list prices at which the Company sells equipment and network services separately. Revenue is recognised when, or as, each distinct performance obligation is satisfied.

Service revenue is derived from the provision of telecommunication services to customers. The majority of the customers of the Company subscribe to the services on a pre-paid basis. Telecommunication service revenues mainly pertain to usage, subscription and customer onboarding charges, which include activation charges and charges for voice, data, messaging and value added services.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition (continued)

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

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

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

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

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

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

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

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

The Company has estimated that the historic average customer life is longer than 12 months and believes that its churn rate provides the best indicator of anticipated average customer life and costs are deferred over the expected average customer life.

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

(d) Segment Reporting

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

(e) Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the foreign exchange rate ruling at that date. Exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the closing date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate prevalent, at the date of initial recognition (in case they are measured at historical cost) or at the date when the fair value is determined (in case they are measured at fair value) – with the resulting foreign exchange difference, on subsequent re-statement/settlement, recognised in the profit and loss, except to the extent that it relates to items recognised in the other comprehensive income or directly in equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment

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

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

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

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

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

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

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

(g) Borrowing costs

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

All other borrowing costs are recognised in the profit and loss in the period in which they are incurred.

(h) Leases

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

The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee in the statement of financial position. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases (continued)

i. (a) The Company as a lessee (continued)

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

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

Subsequent to initial recognition, right-of-use assets 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.

i. Short-term leases

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

(b) The Company as lessor

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

Amounts due from lessees under a finance lease are recognised as receivables at an amount equal to the net investment in the leased assets. Finance lease income is allocated to 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories

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

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

(j) Cash and cash equivalents

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

(k) Statement of cash flows

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

(l) Financial instruments

i. Recognition, classification and presentation

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

The Company classifies its financial assets in the following categories:

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

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

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

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

ii. Measurement - Non-derivative financial instruments

i. Initial measurement

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Financial instruments (continued)

II. Subsequent measurement - financial assets

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

• **Financial assets measured at amortised cost**

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

EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the gross carrying amount of the financial asset or to the amortised cost of a financial liability.

• **Financial assets at fair value through profit or loss ('FVTPL')**

All equity instruments and financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income ('FVTOCI') are measured at FVTPL. Interest (basis EIR method) and dividend income from financial assets at FVTPL is recognised in the profit and loss within finance income/finance costs separately from the other gains/losses arising from changes in the fair value.

Impairment

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

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

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

iii. Measurement - derivative financial instruments

Derivative financial instruments, including separated embedded derivatives that are not designated as hedging instruments in a hedging relationship are classified as financial instruments at fair value through profit or loss. Such derivative financial instruments are initially recognised at fair value. They are subsequently measured at their fair value, with changes in fair value being recognised in profit or loss within finance income/finance costs.

iv. Hedging activities

I. Fair value hedge

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

ii. Cash flow hedge

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

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

v. Derecognition

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

(m) Share capital and Share premium

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

(n) Employee benefits

1. Retirement benefit obligations

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

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

2. Other entitlements

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Taxation

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

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

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised, 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.

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

(p) Intangible assets

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Impairment of non-financial assets

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

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

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

Reversal of impairment losses

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

(s) Dividends

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

(t) Provisions

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

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

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

(u) Contingencies

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

(v) Earning per share (EPS)

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) Critical accounting estimates and assumptions:

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

Receivables

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

Deferred Tax Assets

Deferred tax assets are recognised by the Company, for the unused tax losses and temporary differences for which there is probability of utilisation against the taxable profit. Uncertainties exist in determination of the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, future tax planning strategies and recent business performances and developments. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the reporting date. For details, refer Note 16.

Determination of residual values and useful lives

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

Contingent liabilities and provisions

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

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

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

(a) Determining the incremental borrowing rate for lease contracts

The Company has recognised lease liabilities at present value using the incremental borrowing rate (IBR) based on considerations specific to the lease agreement. Since determination of incremental borrowings is not directly available for the given markets in which Company operates, the Company has used judgement in determining the IBR by taking into consideration risk free borrowing rate based on US\$ bonds and adjusting it for country and Company specific risk premiums. The IBR used across the Company is 9.84% for USD leases and 17.61% for ZMW leases.

(b) Separating lease and non-lease components

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) for the year ended 31 December 2021

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

(c) Income taxes

The Company is subject to income taxes in Zambia. 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 based on detailed calculations of what tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provisions in the period in which such determination is made.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

Currency exposure arising from liabilities denominated in foreign currencies is managed primarily through the holding of bank balances in the relevant foreign currencies and hedging through foreign currency forward contract. Policy is consistent with previous period.

The sensitivity of the statement of profit/loss before tax is the effect of the assumed changes in the respective market risks. This is based on the financial assets and financial liabilities held as of 31 December 2021 and 31 December 2020.

At 31 December 2021, if the Kwacha had weakened/strengthened by 5% against the US dollar with all other variables held constant, profit before tax for the period would have been K40,802 million (2020: K92,811 million) lower/higher, mainly as a result of US dollar denominated trade receivables, payables, lease liability and borrowings. There would be no impact on equity.

Exposure to currency risk

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

Exposure to currency risk

	2021	2020
	K'000	K'000
Cash & cash equivalents (net)	7 220	21 338
Trade and other receivables	112 198	177 345
Trade and other payables	(129 261)	(118 072)
Lease liabilities	(806 192)	(1 142 384)
Borrowings (note 29)	-	(794 450)
	<u>(816 035)</u>	<u>(1 856 223)</u>
The following US Dollar exchange:		
Average Rate	16.752	18.278
Closing Rate	16.651	21.185

(ii) Price risk

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's debt interest obligations with floating interest rates.

The Company's interest bearing financial liabilities were the overdraft of K241.440 million (2020: K187.971 million) and the borrowing of K533.818 million at year end (2020: K794.450 million). The Company regularly monitors financing options available to ensure optimum interest rates are obtained. At 31 December 2021, if effective interest rates on borrowings had been 2% higher/lower with all other variables held constant, pre tax profit would have been K15.505 million (2020: K19.648 million) lower/higher.

Credit risk

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

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

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

The amount that best represents the Company's maximum exposure to credit risk at 31 December 2021 is made up as follows:

	Note	2021 K'000	2020 K'000
Cash and cash equivalents	25	41 507	66 137
Contract assets	24	33 439	23 239
Amounts due from related parties	33	95 813	230 627
Trade receivables (net)	22	64 098	37 675
		<u>234 857</u>	<u>357 678</u>

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

Impairment losses

The ageing of trade receivables at the reporting date was:

	2021 K'000	2021 K'000	2020 K'000	2020 K'000
	Gross amount	Impaired	Gross amount	Impaired
30 days	11 638	-	20 127	-
60 days	49 799	-	12 792	-
90 days and above	88 963	86 302	87 741	82 985
	<u>150 400</u>	<u>86 302</u>	<u>120 660</u>	<u>82 985</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Impairment losses (continued)

Collateral is held for some of the above assets namely distributors with bank guarantees of K10.170 million, K1.089 million post-paid deposits and nil channel partner deposits as at 31 December 2021 (2020: K9.12 million distributors with bank guarantees, K0.998 million post-paid deposits and K7.405 million channel partner deposits). Trade receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

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

	2021	2020
	K'000	K'000
Past due but not impaired:		
- by up to 30 days	31 588	8 749
- by 31 to 90 days	17 018	4 385
- by 91 days and over	2 661	4 141
Total past due but not impaired	<u>51 267</u>	<u>17 275</u>

Liquidity risk

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

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

	Note	Less than 1 year K'000	Between 1 and 2 years K'000	Between 2 and 5 years K'000	Over 5 years K'000
At 31 December 2021					
- Trade and other payables	26	793 764	-	-	-
- Bank overdrafts	25	241 440	-	-	-
- Term loans	29	205 120	328 698	-	-
At 31 December 2020					
- Trade and other payables	26	967 270	-	-	-
- Bank overdrafts	25	187 971	-	-	-
- Term loans	29	529 633	264 817	-	-

7. CAPITAL MANAGEMENT

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

Kwacha'000

7. CAPITAL MANAGEMENT (CONTINUED)

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

The gearing ratios at 31 December 2021 and 31 December 2020 were as follows:

	2021	2020
Total borrowings (including bank overdraft and lease liabilities)	1 843 323	2 551 831
Less: cash and cash equivalents	(41 507)	(66 137)
Net debt	<u>1 801 816</u>	<u>2 485 694</u>
Total equity	313 447	(379 846)
Total capital	<u>2 115 263</u>	<u>2 105 848</u>
Gearing ratio	<u>85%</u>	<u>118%</u>

8. REVENUE

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

Analysis of revenue by category:

Airtime revenue	1 903 101	1 397 520
Data revenue	1 315 748	891 983
Interconnect revenue	205 162	192 625
Other services	87 292	77 131
Short Messaging Services	73 563	64 964
Value added services content	67 313	55 807
Roaming revenue	14 214	11 028
Connection revenue	16 841	14 757
Handsets and accessories	13 331	10 280
Trade discount	(116 178)	(117 790)
	<u>3 580 387</u>	<u>2 598 305</u>

Performance obligations that are unsatisfied (or partially unsatisfied) amounting to K124,779 million at 31 December 2021 and K101,829 million as at 31 December 2020 will be satisfied within a period of one year, respectively.

Revenue recognised that was included in the contract liability balance at the beginning of the year is K101,829 million (2020: K79,667 million). Transfers from contract assets recognized at the beginning of the period to receivables is K23,239 million for the year ended 31 December 2021 (2020: K30,445 million).

9. OTHER INCOME

Gain/(loss) on disposal of property, plant and equipment	84	(446)
Other operating income	1 429	7 316
	<u>1 513</u>	<u>6 870</u>

10. NET EXCHANGE GAINS/(LOSSES)

Net exchange gain/(loss) arose on:

Lease liabilities	256 490	(483 235)
Borrowings and cash and cash equivalents	98 587	(380 547)
Other balances	(283 233)	95 477
	<u>71 844</u>	<u>(768 305)</u>

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

Kwacha'000	2021	2020
11. FINANCE COST AND INCOME		
(a) Finance costs		
Interest on lease liability	149 117	153 234
Interest expense on borrowings	73 377	59 688
	<u>222 494</u>	<u>212 922</u>
(b) Finance income		
Interest income on deposits	(86)	(117)
12. PROFIT/ (LOSS) BEFORE TAX		
Profit/(loss) before tax is stated after debiting:		
(a) Other expenses		
Content charges	114 465	62 026
Management fees	74 699	70 148
IT expenses	52 604	72 314
Other expenses	34 811	45 755
Cost of goods sold	12 534	25 317
Provision for impairment losses	3 317	4 812
Auditors' remuneration	3 529	2 085
	<u>295 959</u>	<u>282 457</u>
(b) Depreciation and amortisation		
Depreciation on property and equipment (Note 17)	341 560	289 467
Depreciation on right-of-use assets (Note 18)	130 872	127 875
Amortisation of intangible assets (Note 19)	34 140	462
	<u>506 572</u>	<u>417 804</u>
13. INCOME TAX EXPENSE		
Current income tax	310 303	171 415
Deferred income tax (Note 16)	107 189	(97 367)
Prior year (over)/ under provision	(10 301)	4 345
Other adjustments*	2 599	-
Income tax expense	<u>409 790</u>	<u>78 393</u>
*Other adjustments relates to property transfer tax paid during the year on shares that were transferred from Bharti Airtel International (Netherlands) BV ("BAIN") to Airtel Africa Plc in prior years.		
The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
Profit/ (loss) before income tax	1 103 083	(262 165)
Tax calculated at the statutory income tax rate of 40%	441 233	(104 866)
Tax effect of:		
Expenses not deductible for tax purposes (net)	(130 930)	276 281
Other adjustments	2 599	-
Origination and reversal of timing differences (note 16)	107 189	(97 367)
Prior year (over)/ under provision	(10 301)	4 345
Income tax expense	<u>409 790</u>	<u>78 393</u>

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

Kwacha'000

13. INCOME TAX (continued)	2021	2020
Income tax payable		
<i>Current income tax movement in the statement of financial position:</i>		
At January	83 935	80 415
Current income tax charge	310 303	171 415
Prior year (over)/ under provision	(10 301)	4 345
WHT recoveries in respect of current year	(1 649)	(1 573)
Payments during the year	(225 645)	(170 667)
Other adjustments*	2 599	-
At end of the year	159 242	83 935

*Other adjustments relates to property transfer tax paid during the year on shares that were transferred from Bharti Airtel International (Netherlands) BV ("BAIN") to Airtel Africa Plc in prior years.

Income tax provisional returns have been filed with the Zambia Revenue Authority ("ZRA") for the year ended 31 December 2021. Quarterly payments for the year ended 31 December 2021 were made on the due dates during the year.

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. There were no potentially dilutive shares outstanding at 31 December 2021 and 31 December 2020. Diluted earnings per share is therefore the same as basic earnings per share.

Profit/(loss) attributable to the equity holders of the Company	693 293	(340 558)
Weighted average number of ordinary shares (Nos '000)	104 000	104 000
Basic/diluted earnings per share (Kwacha)	6.67	(3.27)

15. SHARE CAPITAL

	Number of shares (million)	Ordinary shares (K 000)	Share premium (K 000)
At 31 December 2021	104	1 040	24 962
At 31 December 2020	104	1 040	24 962

The total authorised number of ordinary shares is 150 million (2020: 150 million) with a par value of K0.01 per share. The issued and fully paid ordinary shares is 104 million (2020: 104 million).

16. DEFERRED TAX

Deferred tax liability is calculated using the enacted income tax rate of 40% (2020: 40%). The movement on the deferred tax account is as follows:

1 January	2021	2020
Charge/ (credit) to profit or loss	(126 063)	(28 696)
	107 189	(97 367)
At 31 December	(18 874)	(126 063)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

Kwacha'000

16. DEFERRED TAX (CONTINUED)

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

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

	At 1 January	Charged/ (credited) to income statement	At 31 December
31 December 2021			
Deferred tax liabilities			
Property and equipment	245 119	5 981	251 100
Unrealised exchange gains	27 366	(28 734)	(1 368)
Deferred tax assets			
Other temporary deductible differences	(42 483)	(119 567)	(162 050)
Other provisions	(50 785)	2 487	(48 298)
Unrealised exchange losses	(2 853)	6 834	3 981
IFRS 16 incremental impact	(302 427)	240 188	(62 239)
Net deferred tax	(126 063)	107 189	(18 874)
31 December 2020			
Deferred tax liabilities			
Property and equipment	200 873	44 246	245 119
Unrealised exchange gains	14 883	12 483	27 366
Deferred tax assets			
Other temporary deductible differences	(58 441)	15 958	(42 483)
Other provisions	(48 414)	(2 371)	(50 785)
Unrealised exchange losses	(6 428)	3 575	(2 853)
IFRS 16 transition adjustment	(131 169)	(171 258)	(302 427)
Net deferred tax	(28 696)	(97 367)	(126 063)

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

Kwacha'000

17. PROPERTY, PLANT AND EQUIPMENT

Historical Cost:	Buildings	Leasehold improvements	Telecom equipment	Fixture, fittings, office & other IT equipment	Total	Capital work in progress (i)
At 1 January 2020	115 295	17 963	3 496 264	612 793	4 242 315	83 614
Additions	-	-	-	-	-	614 963
Transfers	4	1 736	454 542	71 224	527 506	(527 506)
Adjustments/ disposals	-	-	(9 529)	-	(3 529)	3 062
At 31 December 2020	115 299	19 699	3 947 277	684 017	4 766 292	174 133
At 1 January 2021	115 299	19 699	3 947 277	684 017	4 766 292	174 133
Additions	-	-	-	-	-	555 698
Transfers	-	(47)	570 849	51 522	622 324	(622 324)
Adjustments/ disposals	-	-	(23 389)	(62 382)	(85 771)	(59)
At 31 December 2021	115 299	19 552	4 494 737	673 157	5 302 845	107 448
Depreciation						
At 1 January 2020	38 983	14 931	2 185 586	545 452	2 784 952	-
Charge for the year	5 785	776	2 44 968	37 938	289 467	-
Adjustments/ disposals	-	-	(2 649)	-	(2 649)	-
At 31 December 2020	44 768	15 707	2 427 905	583 390	3 071 770	-
At 1 January 2021	44 768	15 707	2 427 905	583 390	3 071 770	-
Charge for the year	5 757	1 896	297 202	36 705	341 560	-
Adjustments/ disposals	-	-	(22 848)	(22 536)	(45 384)	-
At 31 December 2021	50 525	17 603	2 702 259	597 559	3 367 946	-
Carrying amount:						
At 31 December 2021	64 774	2 049	1 792 478	75 598	1 934 899	107 448
At 31 December 2020	70 531	3 992	1 519 372	100 627	1 694 522	174 133

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

(i) The carrying value of CWIP as at 31 December 2021 and 2020 is K107 448 million and K174 133 million respectively, which mainly pertains to telecom equipment. In 2020 and 2021, adjustments/disposals include reversal of provision due to deployment of aged inventory.

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

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18. RIGHT-OF-USE ASSETS

	Leasehold buildings	Telecom equipment	Motor vehicles	Total
Cost:				
At 1 January 2020 (i)	6 452	977 458	6 160	990 070
Additions	1 653	155 992	-	157 645
Asset retirement	-	(11 039)	-	(11 039)
At 31 December 2020	8 105	1 122 411	6 160	1 136 676
At 1 January 2021	8 105	1 122 411	6 160	1 136 676
Additions	5 379	20 837	-	26 216
Asset retirement	-	(13 876)	-	(13 876)
At 31 December 2021	13 484	1 129 372	6 160	1 149 016
Depreciation				
At 1 January 2020 (i)	2 549	371 657	3 308	377 514
Charge for the year	3 296	121 913	2 666	127 875
Asset retirement	-	(4 298)	-	(4 298)
At 31 December 2020	5 845	489 272	5 974	501 091
At 1 January 2021	5 845	489 272	5 974	501 091
Charge for the year	3 716	126 971	185	130 872
Asset retirement	-	(6 437)	-	(6 437)
At 31 December 2021	9 561	609 806	6 159	625 526
Carrying amount:				
At 31 December 2020	3 923	519 566	1	523 490
At 31 December 2021	2 260	633 139	185	635 585

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

Kwacha'000			*Intangible
19. INTANGIBLE ASSETS	Cellular	Internet-	assets
	license	service	under
		provider	development
		license	
			Total
Cost			
At 1 January 2020	7 372	125	7 497
Additions			-
Adjustments/disposals (i)	(326)	-	(326)
At 31 December 2020	7 046	125	7 171
At 1 January 2021	7 046	125	7 171
Additions	192 398	-	192 398
Transfers	79 275	-	79 275
At 31 December 2021	278 719	125	278 844
Amortization			
At 1 January 2020	4 194	125	4 319
Charge for the year	462	-	462
Adjustments/disposals (i)	(326)	-	(326)
At 31 December 2020	4 330	125	4 455
At 1 January 2021	4 330	125	4 455
Charge for the year	34 140	-	34 140
Adjustments/disposals (i)	125	-	125
At 31 December 2021	38 595	125	38 720
Carrying amount			
At 31 December 2021	240 124	-	240 124
At 31 December 2020	2 716	-	2 716

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

*Intangible assets under development relates to the amount of spectrum awarded to the Company. The Zambia Information and Communications Technology Authority ("ZICTA") has allotted 10Mhz radio spectrum in the 800Mhz frequency band at a cost of USD12.5 million on 18 January 2021. As of 31 December 2021, the Company paid the license fees in full and the amount was transferred to Cellular license.

20. OTHER NON-CURRENT ASSETS	2021	2020
Indefeasible right of use (IRU) of bandwidth (i)	162 523	162 126
Deferred customer acquisition cost (ii)	20 702	12 549
	<u>183 225</u>	<u>174 675</u>

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

Cost	Indefeasible
	right of
	use (IRU)
At 1 January 2020	192 749
Additions	33 710
At 31 December 2020	<u>226 459</u>
At 1 January 2021	226 459
Additions	16 662
At 31 December 2021	<u>243 121</u>

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

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20. OTHER NON-CURRENT ASSETS (CONTINUED)

		Indefeasible right of use (IRU)
(i) Indefeasible right of use (IRU) of bandwidth (continued)		
Amortization		
At 1 January 2020		30 609
Charge for the year		16 387
At 31 December 2020		46 996
At 1 January 2021		46 996
Charge for the year		15 949
At 31 December 2021		62 945
Carrying amount		
At 31 December		
	2021	2020
- Current prepayment	17 653	17 337
- Non-current prepayment	162 523	162 126
	<u>180 176</u>	<u>179 463</u>
(ii) Deferred customer acquisition cost		
At the beginning of the year	42 618	25 980
Expenses deferred	76 144	49 605
Amortisation	(47 439)	(32 967)
At the end of the year	<u>71 323</u>	<u>42 618</u>
Deferred customer acquisition cost		
- Current prepayment*	50 621	30 069
- Non-current prepayment	20 702	12 549
	<u>71 323</u>	<u>42 618</u>

* Current prepayment is included in prepayments under other current assets in note 23.

21. INVENTORIES

Merchandise held for sale	18 376	16 400
Less provision for obsolete stock	(14 193)	(12 624)
	<u>4 183</u>	<u>3 776</u>

The cost of inventories recognized as an expense and included in 'other expenses' amounted to K0.03 million (2020: K1.89 million).

22. TRADE AND OTHER RECEIVABLES

Trade receivables	150 400	120 660
Less provision for impairment losses	(86 302)	(82 985)
Net trade receivables	64 098	37 675
Amounts due from related parties (refer note 33)	95 813	230 627
	<u>159 911</u>	<u>268 302</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

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22. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

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

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

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

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

	2021	2020
Balance as at 1 January	82 985	78 173
Transfer to credit-impaired	3 317	4 812
Balance as at 31 December	<u>86 302</u>	<u>82 985</u>
23. OTHER CURRENT ASSETS		
Prepayments	105 286	92 665
Others assets	41 165	61 670
Advances to suppliers	4 675	5 138
	<u>151 126</u>	<u>159 473</u>
24. CONTRACT ASSETS		
Revenue from interconnect customers	17 850	10 612
Revenue from post paid customers	8 484	9 590
Revenue from sale of handsets to corporate/enterprise Customers	6 710	2 569
Revenue from roaming customers	395	468
Current	<u>33 439</u>	<u>23 239</u>
Non-Current	<u>-</u>	<u>-</u>

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

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

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25. CASH AND CASH EQUIVALENTS	2021	2020
Balances in banks		
- Current accounts	16 905	51 849
Cash on hand	24 602	14 288
	<u>41 507</u>	<u>66 137</u>

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

Cash and bank balances	41 507	66 137
Bank overdrafts	(241 440)	(187 971)
	<u>(199 933)</u>	<u>(121 834)</u>

The Company has ten overdraft/ facilities with limits of up to K545 million and US\$76.363 million as shown below. These facilities are subject to annual review. Overdraft facilities from Citibank Zambia Limited and Standard Chartered Bank Zambia Plc are available for utilization in both USD and ZMW.

(i) Bharti Airtel Zambia Holdings BV	\$ 50 million	3 Months Libor + 4.5%
(ii) Citibank Zambia Limited	\$ 11 million	3 Months Libor + 1.75% (MPR+ liquidity premium + 1.5% margin)
(iii) Standard Chartered Bank Zambia Plc	\$ 2.363 million	1 Months Libor + 2% (MPR+ Libor + 2% margin)
(iv) Standard Chartered Bank Zambia Plc	\$ 13 million	MPR +9.75%
(v) Barclays Bank Zambia Plc	K 20 million	MPR +7.5%
(vi) Stanbic Bank Zambia Limited	K 20 million	MPR +7.55%
(vii) Ecobank Zambia Limited	K 165 million	MPR +7.5%
(viii) Access Bank Limited	K 65 million	MPR +8%
(ix) Indo Zambia Bank Plc	K 100 million	MPR +8.5%
(x) Zambia National Commercial Bank Plc	K 175 million	

The Company had drawn amounts as at the year-end of K241.44 million and US\$ Nil (2020: K187.971 million and US\$ Nil).

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

26. TRADE AND OTHER PAYABLES	2021	2020
Trade payables	503 100	557 322
Amounts due to related parties (refer note 33)	269 442	370 191
Accrued expenses	21 222	39 757
	<u>793 764</u>	<u>967 270</u>

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

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

27. OTHER CURRENT LIABILITIES	2021	2020
Other taxes payable	124 430	88 441

28. CONTRACT LIABILITIES	2021	2020
Amounts received in advance from prepaid customers for delivery of internet and voice service.		
Deferred income	124 779	101 829
Current	118 221	101 829
Non-current	6 558	-
	<u>124 779</u>	<u>101 829</u>

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

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29. BORROWINGS	2021	2020
Non-current		
Term loans	533 818	794 450
Less: current	(205 120)	(529 633)
	<u>328 698</u>	<u>264 817</u>
Current maturity of long term debts	205 120	529 633
Current		
Bank overdraft	241 440	187 971
	<u>241 440</u>	<u>187 971</u>
Total current borrowings	<u>446 560</u>	<u>717 604</u>

The term loans are due to the following commercial banks:

	Standard Chartered Bank Zambia Plc	Citibank Zambia Limited	ABSA Bank Zambia Plc	ABSA Bank Mauritius Limited	Total	
At 1 January 2020	69 474	-	333 480	361 270	764 224	
Draw-down during the year	-	36 418	-	-	36 418	
Repayments in the year	(90 467)	(36 250)	(123 706)	(134 014)	(384 437)	
Exchange loss/ (gain)	20 993	(168)	171 562	185 858	378 245	
At 31 December 2020	-	-	381 336	413 114	794 450	
	First National Bank Zambia Plc	Standard Chartered Bank Zambia Plc	Citibank Zambia Limited	ABSA Bank Zambia Plc	ABSA Bank Mauritius Limited	Total
At 1 January 2021	-	-	-	381 336	413 114	794 450
Drawn down during the year	160 000	80 000	-	-	-	240 000
Repayments in the year	-	(19 228)	-	(199 819)	(184 447)	(403 494)
Refinancing/ loan transfer	-	-	-	178 155	(178 155)	-
Exchange gain	-	-	-	(46 626)	(50 512)	(97 138)
At 31 December 2021	<u>160 000</u>	<u>60 772</u>	-	<u>313 046</u>	-	<u>533 818</u>

> The Company agreed with ABSA Bank Zambia Plc to convert the existing medium term credit facility of US\$50 million lent jointly by ABSA Bank Zambia Plc (US\$24 million) and ABSA Bank Mauritius Limited (US\$26 million) in July 2019. The outstanding balance of USD18.75 million of the above facility was converted to Kwacha on 24 December 2021 at the rate of K16.69 per dollar which was the ABSA Bank Zambia Plc spot rate on the effective date resulting into a new facility of K313 million. The loan carries an interest rate of Monetary Policy Rate + 6.25% per annum. The facility is payable on semi-annual up to 31st December, 2024. The loan is guaranteed by Bharti Airtel International (Netherlands) BV (Step up parent) and is unsecured.

> In March 2021, the Company obtained a short term credit facility from Standard Chartered Bank Zambia Plc for K80 million which was a monthly revolving facility. On 3 December 2021, the revolving facility was K60.77 million and was rolled over on revised terms. The loan carries an interest rate of Monetary Policy Rate + 6.5 % per annum. The facility is repayable on 3 March 2022 and is unsecured.

> In September 2021, the Company obtained a long term credit facility from First National Bank Zambia Limited for K160 million. The loan carries an interest rate of Monetary Policy Rate + 9% per annum. The facility will be repayable within 36 months. The loan is backed by a comfort letter from Bharti Airtel International (Netherlands) BV (Step up parent) and is unsecured.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

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30. CONTINGENT LIABILITIES

Legal proceedings

The Company had some pending legal proceedings as at 31 December 2021. The management is of the opinion, having obtained relevant legal advice, that it is possible, but not probable, that contingent liability of K0.361 million (2020: K0.361 million) arising from pending proceedings against the Company will crystallise.

Tax proceedings

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

Based on management's evaluation, assessments totalling K2.06 million (2020: K2.06 million) were deemed probable and provided for. As at 31 December 2021, there was K17.271 million assessments identified under contingent liability (2020: K17.271 million), as the possibility of pay-out on remaining assessments was deemed remote.

Taxes, duties and other demands

(Under adjudication / appeal / dispute)

	2021	2020
Income Tax	17 271	17 271
TOTAL	17 271	17 271

31. CAPITAL COMMITMENTS

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

At 31 December	347 746	314 390
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32. LEASE LIABILITIES

(a) Analysed as:

Non-current	842 734	1 313 275
Current	225 331	256 135
	1 068 065	1 569 410

(b) Maturity analysis:

Less than one year	350 509	407 685
Later than one year but not later than two years	326 458	452 304
Later than two years but not later than five years	569 293	1 057 283
Later than five years but not later than nine years	81 436	102 748
Later than nine years	16 953	9 593
	1 344 649	2 029 613
Less: future finance charges	(276 584)	(460 203)
	1 068 065	1 569 410

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

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32. LEASE LIABILITIES (CONTINUED)

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

	2021	2020
At the beginning of the year	1 569 410	1 102 618
Additions during the year	26 216	157 645
Retirement during the year	(9 819)	(8 698)
Repayments during the year	(261 252)	(165 390)
Exchange (gain)/loss	(256 490)	483 235
Net obligations under lease liabilities	1 068 065	1 569 410

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

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

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

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

33. RELATED PARTY DISCLOSURES

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

The shareholding of the Company as at 31 December 2021 and 2020 is as stated below:

Name of shareholder	2021 and 2020	
	Number of shares	% shareholding
Bharti Airtel Zambia Holdings BV	100 215 630	96.36%
Public (institutions and individual investors)	3 784 370	3.64%
	104 000 000	100.00%

The following transactions were carried out with related parties:

i) Purchase of goods and services

Name of related party	Country of incorporation	Relationship to Company	2021	2020
Airtel Mobile Commerce Zambia Limited	Zambia	Fellow subsidiary	342 467	186 084
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	28 365	14 272
Network i2i Ltd.	Mauritius	Step up parent	19 902	19 113
Centum Learning Limited	India	* Other related party	3 796	-
Airtel Malawi plc	Malawi	Fellow subsidiary	3 012	2 538
Airtel Congo (RDC) S.A.	Congo (DRC)	Fellow subsidiary	2 150	2 028
Airtel Tanzania plc	Tanzania	Fellow subsidiary	957	591
Nxtra Data Limited	India	Fellow subsidiary	471	1 814
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	324	1 323
Airtel Networks Limited	Nigeria	Fellow subsidiary	230	184
Bharti Airtel Limited	India	Step up parent	137	88
Airtel Uganda Limited	Uganda	Fellow subsidiary	127	91
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	91	251
Airtel Congo S.A.	Congo B	Fellow subsidiary	6	3
Airtel (Seychelles) Limited	Seychelles	Fellow subsidiary	5	-
Airtel Madagascar S.A.	Madagascar	Fellow subsidiary	1	1
			402 041	228 381

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

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33. RELATED PARTY DISCLOSURES (CONTINUED)

ii) Sale of goods and services

Name of related party	Country of incorporation	Relationship to Company	2021	2020
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	87 967	75 644
Airtel Mobile Commerce Zambia Limited	Zambia	Fellow subsidiary	40 314	25 989
Airtel Malawi plc	Malawi	Fellow subsidiary	15 859	12 431
Airtel Congo (RDC) S.A.	Congo (DRC)	Fellow subsidiary	13 300	13 103
Airtel Networks Limited	Nigeria	Fellow subsidiary	2 622	11 171
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	1 194	1 349
Airtel Tanzania plc	Tanzania	Fellow subsidiary	536	1 312
Airtel Uganda Limited	Uganda	Fellow subsidiary	227	144
Bharti Airtel Limited	India	Step up parent	36	-
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	10	94
Jersey Airtel Limited	Jersey	Fellow subsidiary	2	-
			162 067	141 237

iii) Management fees expenses

Bharti Airtel International (Netherlands) BV	Netherlands	Step up parent	74 699	70 148
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iv) Receivable from related parties

Name of related party	Country of incorporation	Relationship to Company	2021	2020
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	56 532	45 943
Airtel Congo (RDC) S.A.	Congo (DRC)	Fellow subsidiary	13 278	37 722
Airtel Malawi plc	Malawi	Fellow subsidiary	12 974	31 682
Bharti Airtel Limited	India	Step up parent	1 280	1 475
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	1 095	1 733
Airtel Networks Limited	Nigeria	Fellow subsidiary	400	3 422
Airtel Tanzania plc	Tanzania	Fellow subsidiary	124	35 013
Bharti Airtel Services Limited	India	Fellow subsidiary	56	70
Airtel Uganda Limited	Uganda	Fellow subsidiary	28	36
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	19	704
Airtel Gabon S.A.	Gabon	Fellow subsidiary	15	19
Airtel Congo S.A.	Congo B	Fellow subsidiary	11	1 006
Bharti Airtel Lanka (Private) Limited	Sri Lanka	Fellow subsidiary	1	-
Celtel Niger S.A.	Niger	Fellow subsidiary	-	1 655
Airtel Tchad S.A.	Chad	Fellow subsidiary	-	5 734
Airtel (Seychelles) Limited	Seychelles	Fellow subsidiary	-	-
Airtel Mobile Commerce Zambia Limited	Zambia	Fellow subsidiary	-	64 324
Bharti Hexacom Limited	India	Fellow subsidiary	-	89
			95 813	230 627

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

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33. RELATED PARTY DISCLOSURES (CONTINUED):			2021	2020
v) Payable to related parties				
Name of related party	Country of incorporation	Relationship to Company		
Airtel Mobile Commerce Zambia Limited	Zambia	Fellow subsidiary	178 586	293 962
Bharti Airtel International (Netherlands) BV	Netherlands	Step up parent	68 412	41 543
Network i2i Ltd.	Mauritius	Step up parent	5 250	12 064
Airtel Networks Limited	Nigeria	Fellow subsidiary	4 664	5 937
Airtel Networks Kenya Limited	Kenya	Fellow subsidiary	2 977	3 357
Airtel Tanzania plc	Tanzania	Fellow subsidiary	2 923	3 637
Bharti Airtel Limited	India	Step up parent	2 064	1 369
Airtel Rwanda Limited	Rwanda	Fellow subsidiary	1 152	1 413
Airtel Malawi plc	Malawi	Fellow subsidiary	1 088	1 881
Bharti Airtel (UK) Limited	United Kingdom	Fellow subsidiary	902	2 677
Nxtra Data Limited	India	Fellow subsidiary	898	1 656
Airtel Madagascar S.A.	Madagascar	Fellow subsidiary	180	230
Airtel Congo (RDC) S.A.	Congo (DRC)	Fellow subsidiary	170	375
Airtel Ghana Limited (JV)	Ghana	* Other related party	113	31
Bharti Hexacom Limited	India	Fellow subsidiary	28	37
Airtel Uganda Limited	Uganda	Fellow subsidiary	21	7
Bharti Airtel Zambia Holdings BV	Netherlands	Holding Company	10	10
Airtel (Seychelles) Limited	Seychelles	Fellow subsidiary	2	-
Airtel Tchad S.A.	Chad	Fellow subsidiary	2	3
Airtel Congo S.A	Congo B	Fellow subsidiary	-	2
			<u>269 442</u>	<u>370 191</u>

No provisions for impairment losses have been required in 2021 and 2020 for any related party receivables.

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

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

	2021	2020
vi) Key management compensation		
Salaries and other short-term employment benefits:	<u>51 708</u>	<u>71 479</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

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33. RELATED PARTY DISCLOSURE (CONTINUED)

vii) Compensation of directors for the year ended 31 December 2021

	Sitting Fees	Basic Salary	Performance Bonus	Out of Country Allowance	Housing Allowance	Others	Total
<u>Non-Executive</u>							
Jito Kayumba	588	-	-	-	-	-	588
Monica K. Musonda	812	-	-	-	-	-	812
<u>Executive</u>							
Apoorva Mehrotra	-	5 162	4 272	-	1 023	8 415	18 872
	<u>1 400</u>	<u>5 162</u>	<u>4 272</u>	<u>-</u>	<u>1 023</u>	<u>8 415</u>	<u>20 272</u>

Compensation of directors for the year ended 31 December 2020

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

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

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

Classes and categories of financial instruments and their fair values

The following table combines information about:

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

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

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

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

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

Foreign exchange forward contracts

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

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

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

AIRTEL NETWORKS ZAMBIA PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2021

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

		Carrying value	Fair value
<u>31 December 2021</u>			
Derivative financial Liability	Level 2	(39 241)	(39 241)
Cash and bank balances		41 507	41 507
Trade and other receivables		159 911	159 911
Contract assets		33 439	33 439
Bank overdraft		(241 440)	(241 440)
Trade and other payables		(793 764)	(793 764)
Lease liabilities		(1 068 065)	(1 068 065)
Term loans		(533 818)	(533 818)
<u>31 December 2020</u>			
Derivative financial Assets	Level 2	8 658	8 658
Derivative financial Liability	Level 2	(3 094)	(3 094)
Cash and bank balances		66 137	66 137
Trade and other receivables		268 302	268 302
Contract assets		23 239	23 239
Bank overdraft		(187 971)	(187 971)
Trade and other payables		(967 270)	(967 270)
Lease liabilities		(1 569 410)	(1 569 410)
Term loans		(794 450)	(794 450)

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

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

During the year ended 31 December 2021 and year ended 31 December 2020 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurements. The fair value of financial assets and liabilities above are classified under level 3 fair value measurement with the exception of derivatives which are classified under level 2 category.

35. EMPLOYEE BENEFIT EXPENSE

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

	31 December 2021	31 December 2020
Aon Zambia Pension Fund Administrators Limited	9 155	8 259
National Pension Scheme Authority	4 402	3 404

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2021

36. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2021	31 December 2020
The details of derivative financial instruments are as follows:		
Foreign currency forward contracts (assets)	-	8 658
Foreign currency forward contracts (liabilities)	<u>(39 241)</u>	<u>(3 094)</u>

37. SEGMENT REPORTING

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

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

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

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

38. EVENTS AFTER REPORTING DATE

There were no material subsequent events for the year ended 31 December 2021. The Directors are not aware of any other matter or circumstances since the financial year end and the date of this report, not otherwise dealt with in the financial statements, which significantly affects the financial position of the Company and the results of its operations.
