Deloitte.

AIRTEL NETWORKS KENYA LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2017

AIRTEL NETWORKS KENYA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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AIRTEL NETWORKS KENYA LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

DIRECTORS

Mr. Prasanta Das Sarma****	- (Appointed on 1st February 2017)
Mr. Daddy Mukadi**	
Mr. Titus Naikuni*	
Mr Alok Bafna***	- (Appointed on 1st April 2017)
Adil El Youssefi*****	- (Resigned on 1st February 2017)
Mr. Christian De Faria******	- (Resigned on 1st April 2017)

*Kenyan
**Congolese
***Indian
**** Indian
*****Moroccan
******French

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

COMPANY SECRETARY
Africa Registrars
Certified Public Secretaries (Kenya)
P.O. Box 1243 - 00100
NAIROBI, KENYA

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

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

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

Coulson Harney
P.O. Box 10643 - 00100,
NAIROBI, KENYA

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

PRINCIPAL BANKERS
Commercial Bank of Africa Limited
P.O. Box 44286 - 00100
NAIROBI, KENYA

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

Standard Chartered Bank Kenya Limited
48 Westlands Road, Chiromo
P.O. Box 30003 - 00100
NAIROBI, KENYA

Barclays Bank of Kenya Limited
P.O. Box 46661 - 00100
NAIROBI, KENYA

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

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

AIRTEL NETWORKS KENYA LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors submit their report together with the audited annual financial statements for the year ended 31 December 2017, which disclose the state of affairs of the company.

1. PRINCIPAL ACTIVITIES

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

2. RESULTS

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

	2017 KShs '000
Loss before taxation	(5,950,031)
Taxation	-
Loss after taxation	(5,950,031)

3. DIVIDEND

The directors do not recommend payment of a dividend in the year. (2016: Nil).

4. RESERVES

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

5. DIRECTORS

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

6. BUSINESS REVIEW

The company is happy to announce strengthening of its key operational metrics in the second half of 2017. What is heartening to see is that this has been achieved despite significant environmental challenges and political uncertainty. The acquired momentum will help us to further solidify our position by growing the customer base rapidly and improving our Revenue Market share in 2018.

Our drive for growing the customer base revolves around expanding our distribution by following the network coverage and enhancing the network footprint to cover more customers in 56 key districts where 80% of the population resides and 72% of industry revenue is generated. As part of the plan to improve distribution excellence, we added more than 700 of Airtel branded Distribution Centres, Franchise shops and Kiosks in the 2nd half of 2017. Our product strategy revolves around simple and easy to understand products which provide more value to the customer the more he spends; this is backed by a sustained marketing campaign and enhanced visibility of the brand. This strategy has helped in not only ramping up data revenue but also growing the voice and VAS revenue.

As a next step and following acquisition of the 800MHz spectrum, we have now embarked on a very aggressive plan to improve our 3G and 4G network coverage which is expected to provide enhanced high-speed data coverage to our customers thereby bringing on board a larger share of Smart Phone users.
When it comes to employees, we are working on building competencies, filling the skill gaps and adding more feet on the street to further improve our presence in the market.

All the above mentioned strategies have helped us to grow our subscriber base by 10% over the previous year, taking the total subscriber base to 7.4 Mn. Our on-going focus on acquiring quality customers by providing affordable products resulted in lowering of new customer decay & improving retention of tenured customer base. In financial terms, these actions have resulted in 4% increase in gross profit coupled with reduction in cost by 11%. This enabled us to lower our loss by 32% in 2017.

When it comes to Airtel Money, the company also redesigned its distribution infrastructure to facilitate better reach and growth of Airtel Money. The enhanced presence of our owned and Franchise shops & Kiosks is helping in improving the supply of Airtel Money float available to the consumer. In the last quarter of 2017 the company has witnessed 39% growth in Airtel Money customer base and 50% increase in number of transactions and 119% growth in Float supply respectively between Sep and Dec 2017.

6. BUSINESS REVIEW (Continued)

Additionally, the commencement of implementation of wallet to wallet mobile money interoperability between Airtel and the other two operators towards the end of 2017 promises to further boost the growth of Airtel Money in 2018 and beyond, as this will introduce more options and convenience for Airtel Money customers as they transact within the network.

The company has re-positioned the brand "Airtel" in Kenya as "Kenya's Most Affordable Network" and this has helped us to grow our voice and data by 4.2% and 25.5% points respectively. Airtel also received an award for "Best call rates within and across networks" in 2017.

The company takes this opportunity to sincerely thank all our valued stakeholders - customers, government bodies, business partners and employees for their unstinted support during the year and wish to assure that we at Airtel remain firmly committed to usher in the benefits of the global voice and data revolution to our customers.

Airtel is well positioned to continue our growth into 2018 in both subscriber addition and revenue, and will continue being guided by the strategic imperatives of distribution excellence, customer experience, network excellence, right cost model and people development. It is for this reason that we look forward to the upcoming fiscal year with great optimism and purpose.

7. APPOINTMENT OF AUDITORS

Deloitte & Touche were appointed as auditors of the company during the year and having expressed their willingness, continue in office in accordance with the provisions of the Kenyan Companies Act.

8. DISCLOSURE OF INFORMATION TO AUDITORS

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

By Order of the Board

for: AFRICA REGISTRARS - CO. SECRETARY

27/April/ 2018

AFRICA REGISTRARS
SECRETARIES

AIRTEL NETWORKS KENYA LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

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

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

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

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

Approved by the board of directors on 27/April/ 2018 and signed on its behalf by:

P D Sarma
Director

T Naikuni
Director

Deloitte.

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

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

Report on the Financial Statements

Opinion

We have audited the financial statements of Airtel Networks Kenya Limited, ("the Company"), set out on pages 8 to 60, which comprise the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

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

Material Uncertainty Relating to Going Concern

We draw attention to Note 2 to the financial statements which indicates that the company incurred a net loss of KShs 5.95 billion during the year ended 31 December 2017 (2016: net loss: KShs 8.10 billion) and, as of that date, the company's current liabilities exceeded its current assets by KShs 46.30 billion (2016: KShs 45.70 billion).These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF AIRTEL NETWORKS KENYA LIMITED (Continued)

Report on the Financial Statements (Continued)

Responsibilities of the Directors for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting processes.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OFAIRTEL NETWORKS KENYA LIMITED (Continued)

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

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors for the financial year ended 31 December 2017 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is ***CPA F. Okwiri P/No. 1699.***

Deloitte & Touche

Certified Public Accountant (Kenya)
Nairobi, Kenya
30 April **2018**

AIRTEL NETWORKS KENYA LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 KShs'000	2016 KShs'000
REVENUE	7	16,759,180	16,920,251
COST OF SALES	8	(5,357,101)	(5,941,004)
GROSS PROFIT		11,402,079	10,979,247
OTHER (COSTS)/INCOME	9	(75,373)	221,686
DISTRIBUTION COSTS	10	(1,561,278)	(2,313,323)
ADMINISTRATIVE EXPENSES	11	(3,363,160)	(3,570,194)
OTHER EXPENSES	12	(10,258,619)	(11,451,907)
FINANCE COSTS	13	(2,093,680)	(1,945,727)
LOSS BEFORE TAXATION	14	(5,950,031)	(8,080,218)
INCOME TAXATION	16	-	-
LOSS FOR THE YEAR		(5,950,031)	(8,080,218)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(5,950,031)	(8,080,218)

AIRTEL NETWORKS KENYA LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017	2016
Assets		KShs'000	KShs'000
Non-current assets			
Property, plant and equipment	17	16,795,285	20,279,383
Intangible assets	18	2,513,699	3,126,444
Prepaid operating lease rentals	19	48,180	66,236
Embedded derivative asset	20	4,459	5
		19,361,623	23,472,068
Current assets			
Inventories	22	3,722	200,739
Trade and other receivables	23	5,931,389	8,904,928
Income tax recoverable	16	285,391	279,535
Cash and cash equivalents	24	800,869	306,912
		7,021,371	9,692,114
Total assets		26,382,994	33,164,182
Equity and liabilities			
Ordinary share capital	25	2,625,000	2,625,000
Share premium – ordinary and preference shares	26	4,493,824	4,493,824
Redeemable preference shares	27	22,611,514	22,611,514
Accumulated losses		(65,203,622)	(59,253,591)
Total equity		(35,473,284)	(29,523,253)
Non-current liabilities			
Borrowings	29	8,522,396	7,359,796
Current liabilities			
Embedded derivative liability	20	8,059	4,459
Borrowings	30	1,257,971	1,385,062
Shareholder's loans	28	40,120,791	37,608,524
Trade and other payables	31	10,497,361	14,987,574
Provisions	32	1,449,700	1,342,020
Total current liabilities		53,333,882	55,327,638
Total equity and liabilities		26,382,994	33,164,182

The financial statements on pages 8 to 60 were approved by the Board of directors on 27/April/2018 and signed on its behalf by

Director
P D Sarma

Director
T Naikuni

AIRTEL NETWORKS KENYA LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Ordinary share capital KShs'000	Preference share capital KShs'000	Share premium – Ordinary shares KShs'000	Share premium – Redeemable preference shares KShs'000	Accumulated loss KShs'000	Total KShs'000
Year ended 31 December 2017						
Balance as at 1 January 2017	2,625,000	22,611,514	234,801	4,259,023	(59,253,591)	(29,523,253)
Total comprehensive loss for the year	-	-	-	-	(5,950,031)	(5,950,031)
Balance as at 31 December 2017	2,625,000	22,611,514	234,801	4,259,023	(65,203,622)	(35,473,284)
Year ended 31 December 2016						
Balance as at 1 January 2016	2,625,000	22,611,514	234,801	4,259,023	(51,173,372)	(21,443,034)
Total comprehensive loss for the year	-	-	-	-	(8,080,218)	(8,080,218)
Balance as at 31 December 2016	2,625,000	22,611,514	234,801	4,259,023	(59,253,591)	(29,523,253)

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

AIRTEL NETWORKS KENYA LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 KShs'000	2016 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash used in operations	35	(872,878)	(1,517,233)
Interest paid	13	(2,069,316)	(1,911,582)
Interest received	9	(75,145)	87,332
Tax paid	16	-	(13,060)
Net cash used in operating activities		(3,037,339)	(3,354,453)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,122,873)	(2,218,007)
Proceeds on disposal of property, plant and equipment		6,036	97,609
Network capacity cost adjustment		1,019,113	-
Net cash used in investing activities		(97,724)	(2,120,398)
CASH FLOWS FROM FINANCING ACTIVITIES			
Third party non-current borrowings	29-30	1,670,270	-
Additional proceeds from shareholder's loans	28	2,512,267	6,071,711
Repayment of third party short term loans	30	(278,701)	(598,210)
Proceeds from third party borrowing short-term		-	-
Net cash generated from/(used in) financing activities		3,903,836	(5,473,501)
NET INCREASE IN CASH AND CASH EQUIVALENTS		768,773	(1,440)
NET FOREIGN EXCHANGE DIFFERENCES		(212,733)	11,515
CASH AND CASH EQUIVALENTS AT START OF THE YEAR		(186,705)	(196,780)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24	369,335	(186,705)

1. GENERAL INFORMATION

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

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

The immediate holding company is Bharti Airtel International (Netherlands) B.V., a company incorporated in Netherlands. The step up parent company is Bharti Airtel Limited, a company incorporated in India.

2. GOING CONCERN

In 2017, the company incurred a net loss of Kshs 5.95 billon (2016: loss of Kshs 8.10 billion). At 31 December 2017, the company had accumulated losses amounting to Kshs 65.20 billion (31December 2016: Kshs 59.30 billion). The company is also in a net liability position of Kshs 35.47 billion (2016: Kshs 29.50 billion). The operations of the company continue to depend heavily on sources of financing from its direct and indirect parent companies.

These conditions may result in Company's inability to realise its assets and discharge its liabilities in the normal course of business, consequently it may not able to maintain its going concern status.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

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

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

b) Basis of preparation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of value-added tax (VAT), rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and when specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

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

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

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

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

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

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

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

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

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

c) Functional currency and translation of foreign currencies

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property, plant and equipment

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

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

Asset category	Useful life
Leasehold improvements	Remaining period of the lease or 20 years, whichever is shorter
Technical Assets (Network Equipment)	3 - 20 years
Computer equipment	3 years
Office furniture and equipment	2-5 years
Motor vehicles	3-5 years

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

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

e) Impairment of non-financial assets

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

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. To calculate value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Impairment losses, if any, are recognised in profit or loss as a component of depreciation and amortisation expense.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Intangible assets

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

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

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

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

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

i) Bandwidth

Payments for bandwidth capacities are classified as prepayments in service arrangements or under certain conditions as an acquisition of a right. In the latter case, it is accounted for as an intangible asset and the cost is amortised over the period of agreement. This does not relate to indefeasible right of use (IRU).

(ii) Mobile Phone Licenses

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

(iii) YU Brand & Customer Base

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

g) Accounting for leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Company as a lessee
A finance lease is a lease that transfers to the lessee substantially all of the risks and rewards of ownership. A lease that is not a finance lease is an operating lease. Operating lease payments are recognized as an operating expense in profit or loss on a straight-line basis over the lease term.

Company as a lessor
Leases in which the company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases and are recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Inventories

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

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

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

i) Financial instruments

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument. The company determines the classification of its financial assets and liabilities at initial recognition. All financial assets and liabilities are measured initially at fair value plus directly attributable transaction costs, except for financial assets and liabilities recorded at fair value through profit or loss.

Financial assets

Financial assets – initial recognition
Purchases or sales of financial assets that require delivery of assets within a time-frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are classified as held for trading. The company has not designated financial assets upon initial recognition at fair value through profit or loss. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method (EIR), less impairment, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in other income.

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on the ageing of the receivables balance and historical experience. Additionally, minor receivables are grouped into homogenous groups and assessed for impairment collectively. Individual trade receivables are written off when management deems them not to be collectible.

Financial assets – de-recognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or

- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

  (a) the company has transferred substantially all the risks and rewards of the asset, or
  (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial instruments (continued)

Impairment of financial assets
The company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of an asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the company first assesses whether impairment exists individually for financial assets that are individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income (recorded as other income in profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Financial liabilities

Financial liabilities – measurement
The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading. The company has not designated any financial liabilities upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are classified as held for trading. Financial liabilities at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in other income or finance cost.

Financial liabilities measured at amortised cost
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs.

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

Financial liabilities – de-recognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial instruments (continued)

Derivative financial instruments - Current versus non-current classification
Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Fair value measurement

The company measures financial instruments, such as derivatives, at fair value at each reporting date. Fair value related disclosures for financial instruments that are measured at fair value or for which fair values are disclosed, are summarised in note 5.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the company.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

j) Share capital

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

k) Cash and cash equivalents

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Employee benefits

Retirement benefit obligations and long term incentives

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

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the company and employees.

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

Other entitlements

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

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

m) Taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.
Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Taxes (continued)

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

Value Added Tax (VAT)

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

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

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

n) Provisions

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

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

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

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

The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

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

o) Borrowing Costs

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

p) Dividends

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Critical accounting estimates and judgements

Critical accounting estimates and assumptions

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

Judgements

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

Allowance for bad and doubtful debts (Note 23).

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

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

Deferred income tax assets (Note 21)

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

Income taxes (Note 16)

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

Revenue recognition and presentation

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

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

Estimates and assumptions

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

Property, plant and equipment

Directors make estimates in determining the depreciation rates for property, plant and equipment. The rates used are set out in the accounting policy for property, plant and equipment.

These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances. Refer to Note 17.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Critical accounting estimates and judgements (continued)

Estimates and assumptions (continued)

Intangible assets

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

Value in Use of non-financial assets

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

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

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

Contingent liabilities

As disclosed in note 34 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

Going concern

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

Asset retirement obligations (ARO)

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

Classification of leases

Management assesses whether the company effectively retains substantially all the risks and rewards incidental to ownership of a leased item and classifies it as operating leases. Lease rentals with respect to assets taken on 'Operating Lease' are charged to profit or loss on a straight-line basis over the lease term.

Leases which effectively transfer to the company substantially all the risks and rewards incidental to ownership of the leased item are classified as finance leases. These are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in profit or loss. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Leased assets are depreciated on straight-line basis over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated on straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

4.1 Amendments to IFRSs that are mandatorily effective for annual periods beginning on or after 1 January 2017

The following amendments to IFRSs became mandatorily effective in the current year. The amendments generally require full retrospective application (i.e. comparative amounts have to be restated), with some amendments requiring prospective application.

- Amendments to IAS 7 Disclosure Initiative;
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses; and

Amendments to IAS 7 Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The amendments apply prospectively. Entities are not required to present comparative information for earlier periods when they first apply the amendments.

Amendments to IAS 12 Recognition of Deferred Tax Assets or Unrealised Losses (effective for annual periods beginning on or after 1 January 2017)

The amendments clarify the following:

- Unrealised losses on a debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
- When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
- The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
- In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences. The amendments apply retrospectively.

4.2 New and revised IFRSs that are not mandatorily effective (but allow early application) for the year ended 31 December 2017

Below is a list of new and revised IFRSs that are not yet mandatorily effective (but allow early application) for the year ending 31 December 2017:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers and the related Clarifications;
- IFRS 16 Leases;
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions;
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IAS 40 Transfers of Investment Property;
- Annual Improvements to IFRS Standards 2014-2016 Cycle; and
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

4.2 New and revised IFRSs that are not mandatorily effective (but allow early application) for the year ended 31 December 2017 (continued)

IFRS 9 Financial Instruments (as revised in 2014) (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 contains specific transitional provisions for i) classification and measurement of financial assets; ii) impairment of financial assets; and iii) hedge accounting. Please see IFRS 9 for details.

The company plans to adopt the new standard on the required effective date. Overall, the company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The company expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment to determine the extent.

a) Classification and measurement

The Company does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the company expects that these will continue to be measured at amortised cost under IFRS 9. However, the Company will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Company expects a significant impact on its equity due to unsecured nature of its trade and other receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

c) Hedge accounting

The Company believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Company does not expect a significant impact as a result of applying IFRS 9.

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date:

- IAS 18 Revenue;
- IAS 11 Construction Contracts;
- IFRIC 13 Customer Loyalty Programmes;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC 31 Revenue-Barter Transactions Involving Advertising Services.

As suggested by the title of the new Revenue Standard, IFRS 15 will only cover revenue arising from contracts with customers.

Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 (or IFRS 9 if it is early adopted).

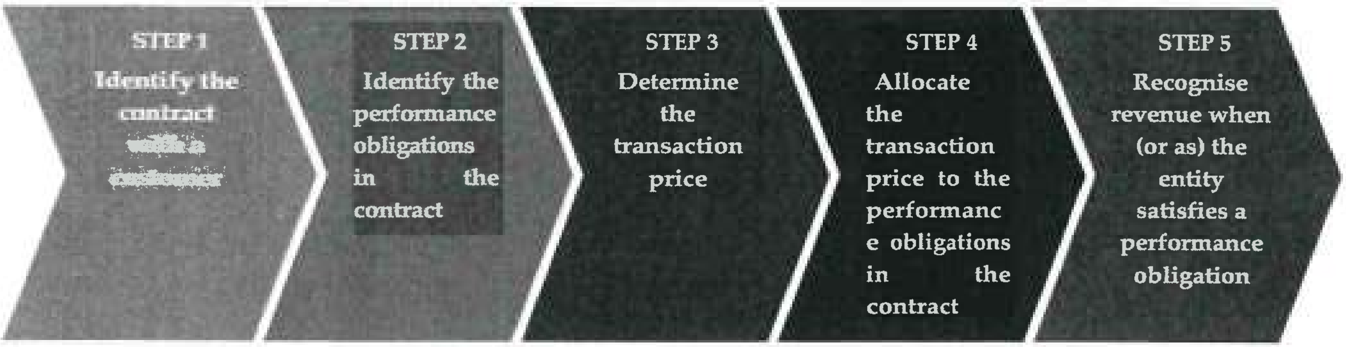
4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

4.2 New and revised IFRSs that are not mandatorily effective (but allow early application) for the year ended 31 December 2017 (continued)

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018) (continued)

As mentioned above, the new Revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The new Revenue Standard introduces a 5-step approach to revenue recognition and measurement:



Far more prescriptive guidance has been introduced by the new Revenue Standard:

IFRS 15, together with the clarifications thereto issued in April 2016, is effective for reporting periods beginning on or after 1 January 2018 with early application permitted.

The company plans to adopt the new standard on the required effective date. The Company is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

Identification of a lease
IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Control is considered to exist if the customer has:

a) the right to obtain substantially all of the economic benefits from the use of an identified asset; and
b) the right to direct the use of that asset.

The Standard provides detailed guidance to determine whether those conditions are met, including instances where the supplier has substantive substitution rights, and where the relevant decisions about how and for what purpose the asset is used are predetermined. In addition, IFRS 16 also provides guidance on the accounting for sale and leaseback transactions. Extensive disclosures are also required by the new Standard.

IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 with early application permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented as an adjustment to opening retained earnings (or other component of equity as appropriate).

The Company does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

4.2 New and revised IFRSs that are not mandatorily effective (but allow early application) for the year ended 31 December 2017 (continued)

Amendments to IFRS 2 Classification and Measurement of Share based Payment Transactions (effective for annual periods beginning on or after 1 January 2018)

The amendments clarify the following:

In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-base payments.

Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash),i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

(i) the original liability is derecognised;

(ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

(iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The adoption of these amendments has no effect on the company's financial statements.

Amendments to IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018)

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred.

The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The adoption of these changes will not affect the amounts and disclosures of the company's financial statements.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate 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. The finance department identifies and evaluates financial risks. The board provides principles for overall risk management, as well as defining policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, and investing excess liquidity. The company has the following financial instruments:

31 December 2017	Loans and receivables KShs'000	Fair value through profit or loss KShs'000	Financial liabilities at amortised cost KShs'000
Assets:			
Trade receivables	4,310,902	-	-
Other receivables	453,638		
Amounts receivable from related companies	1,700,301	-	-
Embedded derivative asset	-	4,459	-
Total Assets	6,464,841	4,459	-
Liabilities			
Embedded derivative liability	-	8,059	-
Non-current borrowings	-	-	8,522,396
Current borrowings	-	-	1,257,971
Shareholder's loans	-	-	40,120,791
Trade payables	-	-	2,907,726
Accrued expenses and other payables	-	-	5,018,932
Amounts due to related companies	-	-	1,550,793
Total liabilities	-	8,059	59,378,609
31 December 2016			
Assets			
Trade receivables	4,011,318	-	-
Other receivables	2,670,689		
Amounts receivable from related companies	2,255,689	-	-
Embedded derivative asset			
Total Assets	8,937,696	5	-
Liabilities			
Embedded derivative liability	-	4,459	-
Non-current borrowings	-	-	7,359,796
Current borrowings	-	-	1,385,062
Shareholder's loans	-	-	37,608,524
Trade payables	-	-	4,526,672
Accrued expenses and other payables	-	-	6,078,720
Amounts due to related companies	-	-	3,361,817
Total liabilities	-	4,459	60,320,591

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

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

i) Foreign exchange risk

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

The following table demonstrates the effect on the company's loss before tax and equity from a reasonable possible change in the exchange rate of the USD, with all other variables held constant:

USD	Increase /decrease in Forex Exchange rate	Effect of foreign Currency fluctuation on profit before tax	Effect of foreign Currency fluctuation one equity
2017	5%	1,746,417	284,977
2016	5%	1,086,061	825,557

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

	2017	2016
	KShs'000	KShs'000
Assets in foreign currencies		
Trade receivables	2,413,363	2,127,653
Bank balances in foreign currencies	9,428	85,673
	2,422,791	2,213,326
Liabilities in foreign currencies		
Trade and other payables	2,343,340	1,306,881
Shareholder's loan	40,120,791	37,608,524
Borrowings	1,257,971	1,385,062
	43,722,102	40,300,467
Net foreign currency liability	(41,299,311)	(38,087,141)

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

ii) Price risk

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

iii) Cash flow and fair value interest rate risk

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

The company's only variable interest bearing financial liabilities are its borrowings which are set at variable rates, and it is therefore exposed to cash flow interest rate risk. The company regularly monitors financing options available to ensure optimum interest rates are obtained. Usually the company relies on funding from shareholders, which is at a fixed interest rate.

At 31 December 2017, an increase/decrease of 100 basis points would have resulted in a decrease/increase in pre-tax profit of KShs 23,105,650 (2016: KShs 24,859,351) and KShs 15,366,947 (2016: KShs 17,401,546) in equity.

The table below analyses the company's interest rate risk exposure on its financial assets and liabilities. The assets and liabilities are included at carrying amounts and categorised by the earlier of contractual re-pricing or maturity dates.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

iii) Cash flow and fair value interest rate risk (continued)

31 December 2017	Effective interest rate %	3 months or less KShs '000	Between 3 months and 1 year KShs '000	Between 1 year and 5 years KShs '000	Noninterest bearing KShs '000	Total KShs '000
Financial assets						
Embedded derivative asset		-	-	-	4,459	4,459
Cash and bank balances		-	-	-	800,869	800,869
Amounts due from related companies		-	-	-	1,700,301	1,700,301
Trade & Other receivables		-	-	-	4,764,540	4,764,540
At 31 December 2017		-	-	-	7,270,169	7,270,169
Financial liabilities						
Embedded derivative liability					8,059	8,059
Finance Lease Obligation		171,716	515,148	6,509,708		7,196,571
SCB Loan I	3.06%	-	280,659	-	-	280,659
SCB Loan II & Citibank	2.97%	-	-	2,012,059	-	2,012,059
Bank overdraft	14.00%	431,534	-	-	-	431,534
Shareholder's loans	3.00%	-	40,120,791	-	-	40,120,791
Amounts due to related companies		-	-	-	1,550,793	1,550,793
Accrued expenses and other payables		-	-	-	5,018,932	5,018,932
Trade payables		-	-	-	2,907,726	2,907,726
At 31 December 2017		603,250	40,916,598	8,521,767	9,485,510	59,527,124
Interest sensitivity gap		(603,250)	(40,916,598)	(8,521,767)	(2,192,326)	(52,256,955)
31 December 2016						
Financial assets						
Embedded derivative asset		-	-	-	5	5
Cash and bank balances		-	-	-	306,912	306,912
Amounts due from related companies		-	-	-	2,255,689	2,255,689
Trade receivables		-	-	-	6,720,606	6,720,666
At 31 December 2016		-	-	-	9,283,212	9,283,212
Financial liabilities						
Embedded derivative liability					4,459	4,459
Finance Lease Obligation		150,617	462,227	6,907,544		7,520,288
SCB Loan I	2.05%	-	278,701	-	-	278,701
SCB Loan II	1.93%	-	-	403,871	-	403,871
Bank overdraft	16.8%	493,617	-	-	-	493,617
Shareholder's loans	3.00%	-	37,608,524	-	-	37,608,524
Amounts due to related companies		-	-	-	3,361,817	3,361,817
Accrued expenses and other payables		-	-	-	6,078,720	6,078,720
Trade payables		-	-	-	4,526,672	4,526,672
At 31 December 2016		644,234	38,349,452	7,311,415	13,971,668	60,276,699
Interest sensitivity gap		(644,234)	(38,349,452)	(7,311,415)	(4,688,456)	(50,993,457)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

iv) Credit risk

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

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

The amount that best represents the company's maximum exposure to credit risk at 31 December 2017 is made up of the following: Refer to note 23

	2017	2016
	KShs'000	KShs'000
Cash at bank and short term bank deposits	793,851	299,875
Trade receivables	4,310,902	4,011,318
Other receivables	453,638	2,670,689
Amounts receivable from related companies	1,700,301	2,255,689
	7,258,692	9,237,571

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

	2017	2016
	KShs'000	KShs'000
Past due but not impaired:		
- by up to 30 days	3,335,931	3,104,102
- by 31 to 60 days	243,104	226,210
- by 61 to 90 days	731,867	681,006
Total past due but not impaired	4,310,902	4,011,318
Past due and impaired (these are aged greater than 90 days)	(1,430,283)	(875,998)
Total Gross Trade receivables	2,880,619	3,135,321
Trade receivables individually determined to be impaired		
Carrying amount before provision for impairment loss	1,430,283	875,998
Provision for impairment	(1,430,283)	(875,998)
Net carrying amount	-	-
Carrying amount before provision for impairment loss	71,976	52,545
Provision for impairment	(71,976)	(52,545)
Net carrying amount	-	-

*Other receivables individually determined to be impaired are aged greater than 90 days.

Trade receivables, with the exception of interconnect receivables, past due by more than 90 days are considered to be impaired, and carried at their estimated recoverable amount. The estimated recoverable amount is subject to the contractual terms applied on a case by case basis.

The unimpaired trade receivable balance that is more than 90 days represents amounts due from interconnect partners. The amounts receivable from interconnect partners are offset against amounts payable to them, and the net amounts settled. As at 31 December 2017, the company was in a net payable position, amounting to KShs 544.8 million (2016: KShs 237.9 million).

Liquidity risk

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

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

	Less than 1 year KShs'000	Between 1 and 2 years KShs'000	Between 2 and 5 years KShs'000	Totals KShs'000
At 31 December 2017:				
Liabilities				
Embedded derivative liability	8,059	-	-	8,059
Third party borrowings	2,612,715	1,254,387	8,525,246	12,392,347
Shareholder's loans	40,120,791	-	-	40,120,791
Bank overdraft	431,534	-	-	431,534
Accrued expenses and other payables	5,018,932	-	-	5,018,932
Amounts due to related companies	1,550,793	-	-	1,550,793
Trade payables	2,907,726	-	-	2,907,726
Total financial liabilities (contractual maturity dates)	52,650,550	1,254,387	8,525,246	62,430,182
At 31 December 2016:				
Liabilities				
Embedded derivative liability	4,459	-	-	4,459
Third party borrowings	1,977,668	1,206,818	9,340,763	12,525,249
Shareholder's loans	37,605,524	-	-	37,605,524
Bank overdraft	493,617	-	-	493,617
Accrued expenses and other payables	6,078,720	-	-	6,078,720
Amounts due to related companies	3,361,817	-	-	3,361,817
Trade payables	4,526,672	-	-	4,526,672
Total financial liabilities (contractual maturity dates)	54,048,621	1,206,818	9,340,763	64,596,202

-

Fair values of financial assets and liabilities

Set out below are the carrying amounts and fair values of the financial instruments that are carried in the financial statements. The cost or carrying amount approximates the fair value.

	Carrying amount		Fair value	
	2017	2016	2017	2016
	KShs'000	KShs'000	KShs'000	KShs'000
Financial Assets				
Embedded derivative asset	4,459	5	4,459	5
Trade and other receivables	6,464,841	6,720,606	6,464,841	6,720,606
Cash and cash equivalents	800,869	306,912	800,869	306,912
Financial Liabilities	7,196,571	7,520,288	9,779,633	10,547,321
Finance Lease obligation				
Embedded derivative liability	8,059	4,959	8,059	4,959
Overdraft	431,534	493,617	431,534	493,617
Term Loan	2,292,717	682,572	2,350,035	699,637
Borrowings –Eco Bank	-	-	-	-
Shareholder's loans	40,120,791	37,605,524	40,120,791	37,605,524
Trade and other payables	9,477,452	10,605,392	9,477,452	10,605,392

Trade and other receivables are evaluated regularly to assess the likelihood of impairment. Based on this evaluation, allowances are taken to account for the expected losses of these receivables.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values of financial assets and liabilities (continued)

The fair values of bank and cash balances, trade and other payables and shareholder loans approximate their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the bank loans is different from their carrying amount.

The following table provides the fair value measurement hierarchy of the company's financial instruments:

	Fair value measurement			
	Quoted prices on active markets	Significant observable inputs	Significant unobservable inputs	
	(Level 1) KShs'000	(level 2) KShs'000	(Level 3) KShs'000	Total KShs'000
Assets at 31 December 2017				
Assets measured at fair value:				
Derivative financial assets				
Embedded derivative Asset	-	4,459	-	4,459
Liabilities as at 31 December 2017				
Liabilities measured at fair value:				
Embedded Financial liability	-	8,059	-	8,059
Liabilities for which fair values are disclosed		9,779,633	-	9,779,633
Interest bearing loans				
Term Loan	-	2,350,035	-	2,350,035
Assets at 31 December 2016				
Assets measured at fair value:				
Embedded derivative Asset	-	5	-	5
Liabilities as at 31 December 2016				
Liabilities measured at fair value:				
Embedded Financial liability	-	4,459	-	4,459
		10,547,321	-	10,547,321
Liabilities for which fair values are disclosed				
Interest bearing loans				
Term Loan	-	682,572	-	682,572

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values of financial assets and liabilities (continued)

The fair values of above financial instruments are estimated as at 31 December 2017 and 31 December 2016.

There have been no transfers between level 1 and level 2 during the years.

Description of valuation techniques used and key inputs to valuation of assets and liabilities.

Level 2	Valuation technique	Significant observable inputs	Range (weighted average) Interest rate
Term loan	DCF	Interest rate and repayment period of between 1-5 years.	8.10%
Embedded derivative asset	DCF	Forward foreign currency exchange rates Expected future pay-outs to vendors	-
Embedded derivative liability	DCF	Forward foreign currency exchange rates Expected future pay-outs to vendors	-

Capital management

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

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

No changes were made in the objectives, policies or processes during the year ended December 31, 2017 and December 31, 2016. The company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as loans and borrowings less cash and cash equivalents.

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

The gearing ratios at 31 December 2017 and 2016 were as follows.

	2017 KShs'000	2016 KShs'000
Loans and borrowings	49,901,158	46,453,382
Less : Cash and cash equivalents	(800,869)	(306,912)
Net Debt	49,100,289	46,046,470
Equity	(35,473,284)	(29,547,156)
Capital and net debt	84,573,573	75,693,626
Gearing ratio	Over 100%	Over 100%

6 SEGMENTAL INFORMATION

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

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

Telecommunications business (GSM):

- ✓ Voice services
- ✓ Data Services
- ✓ Other Value added services

Mobile commerce business (Airtel Money)

- ✓ Mobile money transfer
- ✓ Electronic settlement of bills and bulk disbursements
- ✓ Electronic airtime recharges from subscribers Airtel money account
- ✓ Mobile banking

6. SEGMENTAL INFORMATION (continued)

Segmental Performance

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	GSM 2017 KShs'000	Airtel Money 2017 KShs'000	Total 2017 KShs'000	GSM 2016 KShs'000	Airtel Money 2016 KShs'000	Total 2016 KShs'000
Revenue	16,573,903	109,904	16,683,807	16,895,101	160,005	17,055,106
Interest	-	-	-	-	86,831	86,831
Total Net Revenue	16,573,903	109,904	16,683,807	16,895,101	246,836	17,141,937
Staff expenses	1,220,294	25,058	1,245,352	1,682,154	63,635	1,745,789
IT expenses	382,132	205,040	587,172	474,192	66,593	540,785
Marketing expenses	629,711	-	629,711	923,100	33,498	956,598
Sales and distribution expenses	718,148	213,419	931,567	1,026,560	330,165	1,356,724
Other Costs	13,086,701	12,408	13,099,109	13,562,986	85,437	13,648,424
Total Costs	16,036,986	455,925	16,492,911	17,668,992	579,328	18,248,320
(Loss)/profit before taxation, depreciation and amortisation	536,916	(346,020)	190,896	(773,892)	(332,492)	(1,106,383)
Depreciation	(3,063,238)	(7,565)	(3,070,803)	(4,386,328)	(8,473)	(4,394,801)
Amortisation	(1,000,809)	-	(1,000,809)	(667,453)	-	(667,453)
Interest expense	(2,069,316)	-	(2,069,316)	(1,911,582)	-	(1,911,582)
(Loss)/profit before tax	(5,596,446)	(353,585)	(5,950,031)	(7,792,605)	(340,965)	(8,080,218)
Tax expense	-	-	-	-	-	-
(Loss)/profit after tax	(5,596,446)	(353,585)	(5,950,031)	(7,792,605)	(340,965)	(8,080,218)

6. SEGMENTAL INFORMATION (continued)

STATEMENT OF FINANCIAL POSITION

	GSM	Airtel Money	Intersegment Eliminations	Total	GSM	Airtel Money	Intersegment Eliminations	Total
	2017	2017	2017	2017	2016	2016	2016	2016
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Bank balance	720,795	80,074	-	800,869	303,029	3,883	-	306,912
Non-Current Assets	19,333,094	28,529	-	19,361,623	23,455,995	16,073	-	23,472,068
Other assets	6,143,450	77,052	-	6,220,502	9,297,389	87,813	-	9,331,850
Intersegment receivables from Airtel Money	2,534,909	-	(2,534,909)	-	2,063,346	-	(2,063,346)	-
Total Assets	28,732,248	185,655	(2,534,909)	26,382,994	35,119,759	107,769	(2,063,346)	33,1674,182
Creditors	(10,340,956)	(156,405)	-	(10,497,361)	(14,804,938)	(182,635)	-	(14,987,573)
Inter-company payables	-	-	-	-	-	-	-	-
Intersegment payable to GSM	-	(2,534,909)	2,534,909	-	-	(2,063,346)	2,063,346	-
Shareholder's loans	(40,120,791)	-	-	(40,120,791)	(37,608,524)	-	-	(37,608,524)
Loans from banks	(3,270,030)	-	-	(3,270,030)	(1,788,933)	-	-	(1,788,933)
Other liabilities	(7,962,014)	(6,082)	-	(7,968,096)	(8,282,461)	(19,942)	-	(8,282,461)
Retained earnings	62,691,881	2,511,741	-	65,203,622	57,095,436	2,158,155	-	59,253,591
Share capital and share premium	(29,730,338)	-	-	(29,730,338)	(29,730,338)	-	-	(29,730,338)
Total equity and liabilities	(28,732,248)	(185,655)	2,534,909	(26,382,994)	(35,110,759)	(107,769)	2,063,346	(33,164,182)
Other disclosures								
Capital expenditure	(482,487)	5,469	-	(477,019)	3,074,781	14,874	-	3,089,655

7 REVENUE

	2017 KShs'000	2016 KShs'000
Analysis of revenue by category:		
Voice revenues	7,501,075	7,818,165
Data revenues	3,550,347	4,456,951
Interconnect revenues	1,859,254	2,130,018
Roaming revenues	727,531	1,083,421
Site sharing revenue (leased site)	24,426	22,247
Other service revenues	2,006,364	565,367
Sale of goods (handsets and accessories)	772,599	534,281
Revenue earned from Mobile Virtual Network Operator	317,584	309,801
	16,759,180	16,920,251

8 COST OF SALES

	2017	2016
Cost of handsets and accessories	512,069	492,343
Cost of scratch cards	1,202,609	1,493,355
Cost of sim cards	55,279	109,133
Interconnect costs	3,069,254	3,431,450
Roaming charges	209,959	237,734
Other direct costs	307,931	176,989
	5,357,101	5,941,004

9 OTHER (COSTS)/INCOME

	2017	2016
Interest income from banks	(75,145)	87,332
IBM Derivative	-	28,689
Miscellaneous income	16,182	-
Profit on disposal of property, plant and equipment	1,534	26,555
Loss on sale of Towers	(17,944)*	-
Write back of provisions - creditors	-	44,056
Write back of provisions - debtors	-	35,054
	(75,373)	221,686

10 DISTRIBUTION COSTS

	2017	2016
Agent Commission	164,740	327,645
Dealer Commission	356,329	470,507
Distribution costs	107,689	195,676
Marketing costs	389,107	535,372
Selling costs	543,413	784,123
	1,561,278	2,313,323

*Under Other Income, KShs 17mn relates to an adjustment on gain from sale of towers done in 2015

11 ADMINISTRATIVE EXPENSES

	2017 KShs'000	2016 KShs'000
Employee benefits expense (Note 15)*	1,245,352	1,745,789
Travel costs	12,708	16,094
Professional fees	72,088	86,282
Auditors' remuneration	13,014	8,610
Provision for impairment on doubtful trade receivables	576,339	352,470
(Unused provisions for impairment on other receivables reversed) / Provision for impairment on other receivables	-	(5,957)
Provision for tax cases	-	141,604
Amortisation for mobile license fees	313,990	301,636
Foreign currency exchange losses	212,733	139,824
Provision for stock obsolescence	29,536	(4,551)
Amortisation of YU customer base	668,762	339,497
Amortisation of YU brand	-	8,264
Office administration and maintenance costs	35,171	42,502
Repairs and maintenance costs	46,368	42,071
Directors' remuneration	13,726	7,970
Insurance expenses	18,014	24,663
Other administrative costs	105,359	323,194
	3,363,160	3,570,194

12 OTHER EXPENSES

	2017	2016
Network operation and maintenance costs	4,179,586	4,014,741
Site lease costs	714,791	598,792
Leased lines	446,470	538,677
Regulatory costs	1,626,292	1,533,029
Depreciation on property, plant and equipment	3,070,803	4,394,801
Amortisation of prepaid operating lease rentals	18,056	18,056
Project echo costs	-	129
Customer experience costs	109,839	220,254
Other operating expenses	92,782	133,428
	10,258,619	11,451,907

13 FINANCE COSTS

	2017	2016
Interest expense	2,069,316	1,911,582
Upfront fees on bank loans	24,364	34,144
	2,093,680	1,945,727

*The company undertook a restructuring exercise in the year. The cost for this exercise was Kes 113Mn (2016:105Mn).

14 LOSS BEFORE TAXATION

The following items have been charged/(credited) in arriving at the loss before income tax:

	2017 KShs'000	2016 KShs'000
Depreciation on property, plant and equipment (Note 17)	3,070,803	4,394,801
Amortisation of intangible assets (Note 18)	982,753	649,397
Amortisation of prepaid lease rentals (Note 19)	18,056	18,056
Profit on disposal of property, plant and equipment	1,534	26,555
Reversal of provision for legal cases	-	59,799
Repairs and maintenance – property, plant and equipment	46,368	42,071
Foreign exchange losses	212,733	139,824
Receivables – provision for impairment losses (Note 23)	554,286	317,416
Other receivables- (unused provisions reversed) / provision for impairment losses (Note 23)	19,531	(5,957)
Interest income (Note 9)	(75,145)	87,332
Interest expense (Note 13)	2,069,316	1,911,582
Inventories expensed (Note 22)	1,769,957	2,094,831
Increase/(Decrease) in inventory provisions	9,106	(4,551)
Site lease costs (Note 12)	714,791	598,792
Employee benefits expense (Note 15)	1,245,352	1,745,789
Auditors' remuneration (Note 11)	13,014	8,610
Directors' remuneration (Note 11)	13,726	7,970

15 EMPLOYEE BENEFITS EXPENSE

The following items are included within employee benefits expense:		
Salaries and wages	769,552	1,200,964
Other staff related costs	443,786	494,502
Social security costs – defined contribution plans	32,014	50,323
	1,245,352	1,745,789

16 INCOME TAXATION

Statement of financial position		
As at 1 January	279,535	254,254
Under provision in prior year	(5,851)	12,221
Paid during the year	11,707	13,060
Tax recoverable	285,391	279,535
Statement of profit or loss and other comprehensive income		
Tax expense based on loss for the year adjusted for tax purposes	-	-
Deferred tax expense/(credit)	(762,463)	(3,214,118)
Deferred tax asset not recognised	762,463	3,214,118
Income tax expense	-	-

16 INCOME TAX EXPENSE (Continued)

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

	2017	2016
	KShs'000	KShs'000
Loss before income tax	(5,950,031)	(8,080,218)
Tax calculated at the statutory income tax rate of 30%	(1,785,009)	(2, 424,066))
Net tax effect of:		
Income not subject to tax	(186,257)	(208,120)
Under-provision of deferred tax in prior year	(2,127,096)	4,107,344
Expenses not deductible for tax purposes	1,212,976	884,134
Deferred income tax asset not recognised during the year	2,885,386	(2,359,292)
Income tax expense	-	-

17 PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2017	Leasehold improvements KShs'000	Land KShs'000	Technical assets KShs'000	Motor vehicles KShs'000	Office, IT & other equipment KShs'000	Furniture & fittings KShs'000	Capital work in progress** KShs'000	KShs'000
COST								
At January 1, 2017	670,619	-	39,577,210	33,105	7,469,222	746,047	5,573,059	54,069,262
Reclassification of opening balances from inventory	-	-	-	-	-	-	68,225	68,225
Reclassification of opening balances****	-	85,000	414,413	(26,020)	(473,317)	(76)	-	-
Reclassification of opening balance to accumulated depreciation	-	-	(339,725)	-	-	-	-	(339,725)
Additions	4,712	-	343,451	-	137,667	39,926	16,338	542,094
Disposals	-	-	(8,133)	-	(20)	(1,124)	-	(9,277)
Network capacity cost adjustment	-	-	(1,019,113)	-	-	-	-	(1,019,113)
At December 31, 2017	675,331	85000	38,968,103	7,085	7,133,552	784,773	5,657,622	53,311,466
DEPRECIATION								
At January 1, 2017	491,668	-	25,196,315	33,105	7,322,748	746,047	-	33,789,883
Charge for the year	39,541	-	2,894,981	-	406,779	13,710	-	3,355,011
Reclassifications	-	-	621,975	(26,020)	(595,955)	-	-	-
Reclassification of opening balance from cost	-	-	(339,729)	-	-	-	-	(339,729)
Disposals/sale	-	-	(3,632)	-	(20)	(1,124)	-	(4,776)
Network capacity cost adjustment	-	-	(284,208)	-	-	-	-	(284,208)
At December 31, 2017	531,209	-	28,085,702	7,085	7,133,552	758,633	-	36,516,181
NET CARRYING AMOUNT At December 31, 2017	144,122	85000	10,882,401	-	-	26,140	5,657,622	16,795,285

The carrying amount of technical assets held under finance leases at 31 December 2017 was KShs 7.2 billion.
**Capital work in progress represents assets under construction hence not yet put into use.
**** Reclassification represents reclassification of opening balances from inventory to fixed assets.

17 PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2016	Leasehold Improvements KShs'000	Technical assets KShs'000	Motor vehicles KShs'000	Office, IT & other equipment KShs'000	Furniture & fittings KShs'000	Capital work in progress** KShs'000	Total KShs'000
COST							
At January 1, 2016	649,767	38,074,020	33,105	7,092,917	697,771	5,797,584	52,111,439
Reclassification of opening balances****	-	9,781	-	(9,781)	-	-	-
Additions	-	-	-	-	-	3,089,656	3,089,656
Transfers from CWIP	20,852	2,787,806	-	386,086	48,276	(3,243,021)	-
Disposals	-	(1,060,672)	-	-	-	-	(1,060,672)
At December 31, 2016	670,619	39,577,210	33,105	7,469,222	746,047	5,573,059	54,069,263
DEPRECIATION							
At January 1, 2016	442,080	22,317,162	33,105	6,894,581	697,771	-	30,384,698
Charge for the year	49,588	3,837,012	-	459,878	48,323	-	4,394,801
Reclassifications	-	31,759	-	(31,711)	(48)	-	-
Adjustments***	-	102,445	-	-	(31,284)		71,158
Disposals	-	(989,618)	-	-	-	-	(989,618)
At December 31, 2016	491,668	25,196,315	33,105	7,322,748	746,047	-	33,789,881
NET CARRYING AMOUNT							
At December 31, 2016	178,951	14,380,897	-	146,474	- -	5,573,059	20,279,383

The carrying amount of technical assets held under finance leases at 31 December 2016 was KShs 7.5 billion.
**Capital work in progress represents assets under construction hence not yet put into use.
***Adjustments relate to tower company assets
**** Reclassification represents reclassification of opening balances from one asset class to another class.

18 INTANGIBLE ASSETS

2017	Prepaid mobile phone licence KShs'000	Acquisition of YU brand (Note 3 e iii) KShs'000	Acquisition of YU customer base KShs'000	Bandwidth	Total KShs'000
COST					
At 1 January 2017	3,288,657	17,042	1,357,987		4,663,686
Additions				370,008	370,008
At December 31, 2017	3,288,657	17,042	1,357,987	370,008	5,033,694
AMORTISATION					
At January 1, 2017	833,954	17,042	686,247		1,537,243
Charge for the year	301,636	-	668,761	12,355	982,752
*Reclassification	(2,979)	-	2,979		-
At December 31, 2017	1,132,611	17,042	1,357,988	12,355	2,519,995
Net carrying amounts	2,156,046	-	-	357,653	2,513,699
2016					
COST					
At 1 January and 31 December 2016	3,288,657	17,042	1,357,987		4,663,686
AMORTISATION					
At January 1, 2016	535,297	8,778	343,771		887,846
Charge for the year	301,636	8,264	339,497		649,397
*Reclassification	(2,979)	-	2,979		-
At December 31, 2016	833,954	17,042	686,247		1,537,242
Net carrying amounts	2,454,704	-	671,740		3,126,444

*Reclassification of YU customer base numbers from licenses
YU customer base fully amortised as of 31st Dec 2017.

19 PREPAID OPERATING LEASE RENTALS (LEASEHOLD PROPERTY)

	2017 KShs'000	2016 KShs'000
COST		
At beginning of year	361,117	361,117
AMORTISATION		
At beginning of year	294,881	276,825
Charge for the year	18,056	18,056
At end of year	312,937	294,881
Net carrying amounts	48,180	66,236

20 EMBEDDED DERIVATIVE

ASSET		
At start of the year	5	10,119
Credit/(charge) to profit or loss	4,454	(10,114)
At end of the year	4,459	5
LIABILITY		
At start of the year	4,459	43,262
Charge/(credit) to profit or loss	3,600	(38,803)
At end of year	8,059	4,459

The company entered into a long term purchase contract denominated in foreign currencies for balances payable to a supplier, IBM. The value of this contract changes in response to the changes in specified foreign currency. The embedded foreign currency derivatives have been carried at fair value through profit or loss.

21 DEFERRED INCOME TAXATION

Deferred income tax is calculated using the enacted tax rate of 30% (2016: 30%). The movement on the deferred income tax account is as follows

	2017	2016
	KShs'000	KShs'000
At start of year	17,156,973	19,521,682
Credit to profit or loss	2,846,493	1,742,635
Under provision in prior year	-	(4,107,344)
Unrecognised asset	(20,003,566)	(17,156,973)
At end of year	-	-

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

	1.1.2017	Credited to profit or loss	31.12.2017
	KShs'000	KShs'000	KShs'000
Year ended 31 December 2017			
Doubtful Debts	(928,543)	(573,716)	(1,502,259)
Inventory obsolescence	(59,261)	9,105	(50,156)
Accrued leave	(54,812)	17,319	(37,494)
Bonus	(130,992)	58,262	(72,730)
Provision for network removal (ARO)	(2,868)	(14,444)	(17,312)
Provision for legal cases	(331,613)	(40,107)	(371,720)
Provision for tax cases	(453,994)	-	(453,994)
IBM embedded derivative gain	4,454	3,605	8,059
Net unrealised exchange differences	129,183	(265,634)	(136,451)
ESOP Provision	-	(10,297)	(10,297)
Tax losses carried forward	(57,463,764)	(2,541,543)	(60,005,307)
Deferred income tax assets not recognised	59,292,210	3,357,451	62,649,661
Net deferred income tax assets	-	-	-

21 DEFERRED INCOME TAXATION (continued)

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

Year ended 31 December 2016	1.1.2016 KShs'000	Credited to profit or loss KShs'000	31.12.2016 KShs'000
Doubtful Debts	(617,084)	(311,459)	(928,543)
Inventory obsolescence	(63,812)	4,551	(59,261)
Accrued leave	(59,355)	4,543	(54,812)
Bonus	(114,297)	(16,695)	(130,992)
Provision for network removal (ARO)	(2,868)	-	(2,868)
Provision for legal cases	(232,342)	(99,271)	(331,613)
Provision for tax cases	(553,419)	99,426	(453,994)
IBM embedded derivative gain	33,143	(28,689)	4,454
Net unrealised exchange differences	(5,804,398)	(5,933,581)	123,183
Under Provision in prior years	-	-	-
Tax losses carried forward	(46,750,038)	(10,713,726)	(57,463,764)
Deferred income tax assets not recognised	54,164,471	5,127,739	59,292,210
Net deferred income tax assets	-	-	-

A deferred tax asset of KShs 19.9 billion (2016 – KShs 17.24 billion) has not been recognized in the financial statements as it is not probable that future taxable profits will be available against which the deferred tax asset can be utilized. The company's tax losses can be carried forward for ten years for offsetting.

22 INVENTORIES

	2017 KShs'000	2016 KShs'000
Finished goods (at cost)	53,877	259,999
Provision for stock obsolescence	(43,196)	(25,510)
Stock write-down	(6,959)	(33,750)
	3,722	200,739

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to KShs 1,769,957 (2016: KShs 2,094,831). Inventories include handsets and accessories. 2016 inventory balance included KShs 68m which has been reclassified to fixed assets in note 17.

23 TRADE AND OTHER RECEIVABLES

	2017 KShs'000	2016 KShs'000
Trade receivables	4,310,902	4,011,318
Less: Provision for impairment losses	(1,430,283)	(875,998)
Net trade receivables	2,880,619	3,135,321
Amount receivable from related companies (Note 36)	1,700,301	2,255,689
Prepayments	909,288	895,889
Other receivables	513,157	2,670,574
Less: Provision for impairment losses on other receivables	(71,976)	(52,545)
	5,931,389	8,904,928

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

The average credit period is 30 days. Interest is not charged on overdue accounts.

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

	2017 KShs'000	2016 KShs'000
At start of year	875,998	558,582
Additional provision in the year	556,908	352,470
Provisions reversed on write-off of bad debts aged over 3 years	(2,623)	(35,054)
At end of year	1,430,283	875,998

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

	2017	2016
At start of year	52,545	58,502
(Unused amounts reversed)/provision for the year	19,431	(5,957)
At end of year	71,976	52,545

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

24 CASH AND CASH EQUIVALENTS

	2017 KShs'000	2016 KShs'000
Cash at bank	793,851	299,875
Cash in hand	7,018	7,037
	800,869	306,912

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

	2017 KShs'000	2016 KShs'000
Cash and bank balances	800,869	306,912
Bank overdraft (note 30)	(431,534)	(493,617)
	369,335	(186,705)

25 ORDINARY SHARE CAPITAL

	Number of shares	Par value KShs	Ordinary shares KShs'000
Authorised, issued and fully paid-up share capital			
Balance at 31 December 2017 and 31 December 2016	2,625,000	1,000	2,625,000

26 SHARE PREMIUM

2017	Ordinary KShs'000	Redeemable preference shares KShs'000	Total KShs'000
At start and end of year	234,801	4,259,023	4,493,824
2016			
At start and end of year	234,801	4,259,023	4,493,824

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

27 REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Preference shares KShs'000	Share premium KShs'000	Total KShs'000
At 31 December 2016, and 31 December 2017	22,611,514	22,611,514	4,259,023	26,870,537

The par value for the redeemable preference shares is KShs 1,000.
The preference shares are classified as equity in line with IAS 32, Financial Instruments; Presentation.
The preference shares are denominated in Kenya Shillings and have no right to dividend.
There is no fixed redemption date for the preference shares; they will be redeemed at the discretion of the company.
There were no changes in share capital in 2017.

28 SHAREHOLDER'S LOANS

	2017 KShs'000	2016 KShs'000
At start of year	37,608,524	31,386,674
Proceeds from new shareholder's loans	2,512,267	6,071,711
Exchange differences on re-translation of loans	-	150,139
At end of year	40,120,791	37,608,524

These are loans from the immediate holding company, Bharti Airtel International (Netherlands) B.V. There are no defined repayment terms for the loans. The loans are unsecured and bear 3% interest.

	2017 KShs'000	2016 KShs'000
29 NON-CURRENT BORROWINGS		
Term loan	2,012,059	403,871
Tower Finance Lease	6,510,337	6,955,925
	8,522,396	7,359,796

The carrying amount of property, plant and machinery held under finance leases at 31 December 2017 was KShs 7.2 billion (2016: KShs 7.5billion).

Further details on the term loan are detailed below.

	2017 KShs'000	2016 KShs'000
(i) Term loan		
Opening balance	403,872	681,371
Long term unsecured DOC	(17,848)	-
Additions(Citibank N.A)**	1,906,694	-
Exchange loss on translation of borrowings	-	1,202
Transfer to current borrowings (Note 30)	(280,659)	(278,701)
	2,012,059	403,872

The Standard Chartered Bank Kenya Limited facility of USD 4.5 million and USD 4.9 million had an interest of 2.05% and 1.9% respectively. There are no collaterals held for these facilities. The loan is repayable in 2018.
**A new facility of USD 18.45mn was obtained from Citibank N.A in 2017.

(ii) Finance Lease

In 2015, the company leased towers from Kenya Towers Limited. The towers represent the technical capacity of the dedicated part of the towers on which company's equipment are located.

The company has a finance lease for network sites. Future minimum lease payments under the finance lease, together with the present value of the net minimum lease payments are as follows;

	Minimum lease payments KShs '000	Present value of minimum lease payments KShs '000
2017		
Within one year (reported with current liabilities)	1,205,351	686,862
After one year but in no more than 5 years	6,051,459	4,445,937
More than 5 years	3,290,511	2,063,771
Total minimum lease payments	9,779,633	7,196,571
Less amounts representing finance charges	(2,583,062)	-
Present value of minimum lease payments	7,196,571	7,196,571
Transfer to current borrowings	(1,254,387)	(686,862)
Total non-current lease payments	6,509,708	6,509,708
Exchange gain on translation of borrowings	(629)	(629)
Net non-current lease payments	6,510,337	6,510,337

29 NON-CURRENT BORROWINGS (continued)

The position as at 31 December 2016 was as follows:

	Minimum lease payments KShs '000	Present value of minimum lease payments KShs '000
Within one year (reported with current liabilities)	1,254,387	612,744
After one year but in no more than 5 years	6,293,047	3,965,842
More than 5 years	2,232,199	2,941,702
Total minimum lease payments	10,547,321	7,520,288
Less amounts representing finance charges	(3,027,033)	-
Present value of minimum lease payments	7,520,288	7,520,288
Transfer to current borrowings	(1,205,351)	(612,744)
Total non-current lease payments	6,907,544	6,907,544
Exchange gain on translation of borrowings	(48,381)	(48,381)
Net non-current lease payments	6,955,925	6,955,925

The carrying amount of Technical assets held under finance leases at 31 December 2017 was KShs 7.2 billion.
The escalation clause for the finance lease is based on Consumer Price Index; 75% of CPI. (2017:7.5%,2016:4.84%)

Movement in Finance Lease Obligations

	2017 KShs'000	2016 KShs'000
Opening balance	6,955,925	7,337,650
Additions	1,551,142	871,649
Accumulated amortisation	(1,309,868)	(640,630)
Transfer to current borrowings	(686,862)	(612,744)
	6,510,337	6,955,925

30 CURRENT BORROWINGS

	2017 KShs'000	2016 KShs'000
At start of the year	891,444	1,149,346
Transfer from Non-current Borrowings (Note 29)	280,659	278,701
Transfer from non-current Finance lease (Note 29)	686,862	612,744
Amortization	(612,744)	(551,136)
Foreign exchange on current portion of long term debt	(141,084)	-
Repayment	(278,700)	(598,210)
Closing Balance	826,437	891,444
Bank overdraft		
At start of the year	493,617	423,210
Repayments in the year	(62,083)	70,407
Repayment	-	-
Closing Balance	431,534	493,617
Total Current Borrowings	1,257,971	1,385,062
Current borrowings comprise:		
Standard Chartered Bank Loan (Note 29)	280,659	278,701
Foreign exchange on current portion of long term debt	(141,084)	-
Current Finance lease (Note 29)	686,862	612,744
	826,437	891,444

Current borrowings consist mainly of transfers from Non-current borrowings for balances repayable within 12 months of 31 December 2017.

The overdraft facility extended by Standard Chartered Bank Kenya Limited has a limit of KShs 450 Million (2016: KShs 450 Million) and bears 14% interest p.a. Interest accrues on the daily overdrawn balance and is payable monthly in arrears. As at 31st December 2017, the overdrawn balance was KShs 431.5 Million (KShs 493.6 Million as at 31st December 2016).

31 TRADE AND OTHER PAYABLES

	2017 KShs'000	2016 KShs'000
Trade payables	2,907,726	4,526,672
Amounts due to related parties (Note 36)	1,550,793	3,361,817
Accrued expenses and other payables	5,018,932	6,078,721
Deferred Airtime Revenue	936,873	961,480
Social security and others taxes	83,037	58,884
	10,497,361	14,987,574

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

32 PROVISIONS

	2017 KShs'000	2016 KShs'000
Provision for IT costs	16,047	19,508
Provision for VAS expenses	23,677	42,229
Provision for network expenses	118,764	220,756
Provision for call centre costs	26,538	34,532
Provision for marketing costs	120,869	44,095
Provision for staff costs	234,223	115,148
Provision for Asset retirement obligations	17,312	17,312
Provision for legal claims and regulatory costs	842,343	807,026
Provision for Sales and Distribution costs	1,292	1,296
Provision for Airtime Credit Services	45,534	15,988
Provision for professional fees	3,101	24,130
	1,449,700	1,342,020

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

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

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

33 CONTINGENT LIABILITIES

(i) Amortisation of the mobile licence

In 2002, there was a dispute with the Kenya Revenue Authority (KRA) as to whether mobile phone license amortisation expense amounting to KShs 2.5 billion is deductible for tax purposes. On January 23, 2007, the Court ruled in favour of Airtel Networks Kenya Limited. However, KRA subsequently appealed this ruling. The hearing and ruling was subsequently made in favour of Kenya Revenue Authority. The outcome did not have any impact on the tax payable to the company since it is loss making position, hence no provision was made in the financial statements.

33 CONTINGENT LIABILITIES (continued)

(ii) Other disputes with Kenya Revenue Authority (KRA)

There are various on-going disputes with KRA worth KShs 494 million following an audit conducted by the KRA for the years 2002 - 2005. As at 31 December 2017, it was not possible to estimate the outcome of these disputes as the independent opinions are awaited from the companys' lawyers.

Although there can be no absolute assurance, the directors believe that the final resolution of these disputes is not likely to have a material adverse effect on the company's financial statements.

The company has been advised by its legal advisers that it is possible, but not probable, that the liability will crystalize.

(iii) PAC/Tax/A-300/16/KE/004- Tax Appeal Tribunal No 158 of 2017.

The Company received notification from KRA requesting for Perfection entries in respect to the specified provisional entries for 2011 and 2012. Subsequently, the authorities have raised the demand in August 2017 of KShs 438 million. The matter is currently under discussion with KRA.

(iv) Civil Appeal No. Sup 3 of 2015- Nyutu Agrovet Limited Vs Airtel Networks Kenya Limited.

The dispute between Nyutu Agrovet Limited and then Celtel Limited arose from a Distributorship Agreement executed between the parties. The dispute was referred to Arbitration and determined in favor of Nyutu Agrovet Limited who was awarded KShs. 541million (the Award). Celtel successfully filed an Appeal in the High Court challenging the Award. The Award was set aside. Airtel subsequently commenced another arbitration claiming from Nyutu Agrovet Limited KShs 4 million, being the balance of the purchase price for goods collected.

Nyutu Agrovet Limited appealed to the Court of Appeal challenging the provisions of the Arbitration Act that bar an aggrieved party from appealing against a decision of the High Court on arbitral awards. The Court of Appeal held that Nyutu Agrovet Limited had no right to challenge the decision of the High Court which set aside the Award but granted Nyutu Agrovet Limited permission to appeal to the Supreme Court under Article 163(4) of the Constitution of Kenya, where the Supreme Court can hear appeals if they are of 'general public importance.' Airtel Networks Kenya Limited has moved to the Supreme Court and filed an application seeking a review of the Court of Appeal Ruling allowing Nyutu Agrovet Limited to appeal to the Supreme Court.

(v) HCC NO. 165 OF 2015- Viking Communications Ltd & 22 Others Vs Airtel Networks Kenya Limited

The Plaintiffs (former distributors) were seeking orders of injunction from court to restrain Airtel from applying a new REM structure communicated on 30th April 2015. The court declined to give the orders. These distributors have since been terminated. They were demanding Kshs 198 million and general damages. A favorable judgment was entered where Airtel was only required to pay one distributor Kshs 1 million. The parties agreed to record a consent on how to distribute funds that were being held jointly as security for costs. No party has indicated willingness to appeal the award.

(vi) HCCC NO.26 OF 2015- Mobile Phone Warehouse Limited Vs Airtel Networks Kenya Limited

The Claimant alleges that Airtel breached the distributorship contract by failing to deliver products and services as ordered by the plaintiff, billing him for undelivered goods, failing to remunerate him and recalling its bank guarantee. Amounts involved are Kshs 37million.

(vii) Other contingent liabilities

In the ordinary course of business, the company is a defendant or co-defendant in various litigations and claims. Although there can be no absolute assurance, the directors believe, based on information currently available, that the ultimate resolution of these legal proceedings is not likely to have a material adverse effect on the results of its operations, financial position or liquidity. These court cases may take a long period to be determined. The disputes mainly relate to termination of distribution agreements, employee related cases and lease disputes.

34 COMMITMENTS

	2017 KShs'000	2016 KShs'000
Capital commitments		
Authorised and contracted for:		
Due within 1 year	5,187,688	1,741,001

Operating lease – Lessee

The company has entered into lease agreements with Kenya Towers Limited and Safaricom Kenya Limited for lease of Base Transceiver Stations sites in various parts of Kenya. The leases are for an average term of 10 years with an annual average escalation of 5%. Future minimum lease payments under non-cancellable operating leases as at 31 December were as follows:

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	2017 KShs'000	2016 KShs'000
Not later than 1 year	1,950,642	1,671,471
Later than 1 year but not later than 5 years	6,456,867	6,685,883
Later than 5 years	13,101,367	13,126,251
	21,508,876	21,483,605

Operating Lease – Lessor (receivable)

The company has entered into agreements with various third parties for lease of excess office space on Parkside Towers, Mombasa Road. Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2017 KShs'000	2016 KShs'000
Not later than 1 year	32,524	20,364
Later than 1 year but not later than 5 years	37,651	29,285
	70,175	49,649

Further details of leases where the company has leased excess space to third parties were as follows:

Name of Tenant	Lease start date	Lease end date	Annual escalation
NSN	1-Nov-2012	1-Feb-2018	5% annually
Commercial Bank of Africa	1-Aug-2017	31-Jul-2023	5% annually
Barclays Bank of Kenya	1-Nov-2013	31-Jan-2019	5% annually

Further details of leases where the company has leased towers third parties were as follows:

	2017 KShs'000	2016 KShs'000
Not later than 1 year	32,524	37,968
Later than 1 year but not later than 5 years	230,211	189,840
Later than 5 years	-	-
	262,735	227,808

Name of Tenant	Lease start date	Lease end date	Annual escalation
Safaricom Limited	13-May-2013	30-April-2023	5% annually
Liquid Telcom	1-Apr-2013	31-Mar-2023	5% annually

35 NOTES TO THE STATEMENT OF CASH FLOWS

	2017	2016
	KShs'000	KShs'000
Loss before tax	(5,950,031)	(8,080,218)
Adjustments for:		
Depreciation on property, plant and equipment (Note 17)	3,070,803	4,394,801
Trade and other payables	(4,468,571)	(4,136,047)
Interest expense (Note 13)	2,069,316	1,911,582
Trade and other receivables	2,954,107	4,467,648
Amortisation of intangible assets (Note 18)	982,753	649,397
Amortisation for Finance Lease	(767,688)	(1,120,606)
Additional Provisions on trade and other receivables	556,909	346,513
Unrealised exchange loss (Note 11)	212,733	199,388
Inventories	197,015	(84,865)
Provisions for expenses	130,694	(101,908)
Provision Reversals – Debtors	19,431	(35,054)
Amortisation of prepaid operating lease rentals (Note 19)	18,056	18,056
Gain on disposal of property, plant and equipment	16,410	(26,555)
Provisions for inventories	(9,106)	(4,551)
Changes in Fair value of embedded Derivatives (Note 20)	(854)	(28,689)
Interest income (Note 9)	75,145	(87,332)
Reversal of impaired tax receivable	-	(12,221)
Provision for tax cases	-	141,604
Net cash generated used in operations	(892,878)	(1,517,233)

36 RELATED PARTY TRANSACTIONS

The company is controlled by Bharti Airtel International (Netherlands) BV. The ultimate parent of the company is Bharti Airtel Limited. There are other companies that are related to Airtel Networks Kenya Limited through common shareholding.

(i) Sale of goods and services	2017 KShs'000	2016 KShs'000
Bharti Airtel Limited	212,515	414,700
Airtel Ghana Limited	134,138	40,645
Airtel Congo (RDC) S.A	113,970	43,639
Airtel Uganda Limited	101,678	199,663
Airtel Tchad S.A	25,568	5,029
Airtel Congo S.A	19,124	15,713
Airtel Nigeria	76,296	81,133
Bharti Airtel UK	47,362	-
Airtel Rwanda Limited	70,667	134,983
Airtel Networks Zambia PLC	27,644	1,457
Airtel Niger	20,080	16,733
Airtel Tanzania Limited	16,444	313,030
Airtel Madagascar S.A	10,470	11,620
Airtel Malawi Limited	9,680	50,264
Airtel Seychelles Limited	8,923	872
Africa Towers NV	1,323	-
Bharti Airtel International (Netherlands) BV	1,080	-
Airtel Gabon S.A	118	4,021
Bharti Airtel Bangladesh	39	-
Airtel Burkina Faso	-	2,200
Airtel Sierra Leone	-	15,796
	897,119	1,351,497

Sales of services are negotiated with related parties on a cost-plus basis, allowing a margin of 10% (2016: 10%). Services sold to related entities include interconnection of voice calls, roaming, short message services and goods sold include phones and handsets.

36 RELATED PARTY TRANSACTIONS (Continued)

	2017 KShs'000	2016 KShs'000
(ii) Purchase of goods and services		
Bharti Airtel Limited	234,140	310,988
Network i2i Ltd	152,794	174,351
Airtel Uganda Limited	32,901	243,657
Nxtra Data Limited	23,013	-
Bharti Airtel UK Limited	11,719	-
Bharti Airtel Singapore Limited	10,860	-
Bharti Airtel Services Limited	7,892	-
Airtel Congo S.A	5,979	2,538
Airtel Ghana Ltd	5,127	3,617
Airtel Malawi Limited	4,620	1,757
Airtel Tchad S.A	2,820	617
Airtel Tanzania Limited	3,186	299,456
Airtel Madagascar S.A	813	332
Airtel Rwanda Limited	713	4,631
Airtel Networks Zambia PLC	510	6,399
Airtel Nigeria	293	24,588
Airtel Niger	182	558
Airtel Congo (RDC) S.A	166	7,838
Airtel Gabon S.A	29	5,282
Africa Towers NV	21	-
Airtel Burkina Faso	-	367
Airtel Seychelles Limited	11	183
Airtel Sierra Leone	-	183
	497,789	1,087,343

Goods and services are bought from related companies, being entities controlled by Bharti Airtel International (Netherlands) B.V., Bharti Airtel Limited and Bharti Enterprises Limited. The company procures various services from related companies including interconnection for voice calls, roaming, Sms and the sale of assets.

36 RELATED PARTY TRANSACTIONS (Continued)

(iii) **Related party relationships**

Name	**Relationship**
Airtel T Chad S.A	Fellow subsidiary
Airtel Congo S.A	Fellow subsidiary
Airtel Congo(RDC) S.A	Fellow subsidiary
Airtel Gabon S.A	Fellow subsidiary
Airtel Rwanda Limited	Fellow subsidiary
Airtel Madagascar S.A	Fellow subsidiary
Airtel Malawi Limited	Fellow subsidiary
Celtel Niger S.A	Fellow subsidiary
Airtel Networks Limited (Nigeria)	Fellow subsidiary
Airtel Tanzania Limited	Fellow subsidiary
Airtel Uganda Limited	Fellow subsidiary
Airtel Networks Zambia Plc	Fellow subsidiary
Airtel Seychelles Limited	Fellow subsidiary
Bharti Airtel Limited	Step up parent
Network I2I Limited	Step up parent
Nxtra Data Limited	Fellow subsidiary
Africa Towers NV	Fellow subsidiary
Airtel Burkina Faso*	Fellow subsidiary
Airtel Ghana**	Joint venture
Airtel Sierra Leone*	Fellow subsidiary
Bharti Airtel services Limited	Fellow subsidiary
Bharti Airtel UK	Fellow subsidiary
Jersey Airtel Limited	Fellow subsidiary
Bharti Airtel Singapore P. Limited	Fellow subsidiary

*Ceased to be related party in 2017. (for Airtel Burkina Faso and Airtel Sierra Leone)

** Relationship status changed from fellow subsidiary to joint venture of the group. (Ghana)

(iv) Key management compensation

	2017 KShs'000	2016 KShs'000
Employment benefits	274,185	381,918

Further details on key management compensation are as follows:

	2017	2016
Total Salaries and Allowances	190,444	276,259
Annual Performance Bonuses	23,424	68,363
Long Term Incentive (LTI)	26,103	9,880
Director's remuneration	13,726	7,970
Social Security – Pension	4,154	6,551
Medical Expenses	3,937	5,136
Termination Dues	12,397	15,729
	274,185	389,888

Annual performance bonus is awarded based on achievement of set earnings before interest, tax, depreciation and amortisation, EBITDA, whereas long term incentive is meant to align senior management performance with the vision of the company. As at 31 December 2017, the provision for long term incentive was KShs 26.1 million (2016: KShs 9.9 million).

36 RELATED PARTY TRANSACTIONS (Continued)

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

(a) Receivable from related parties

	2017 KShs'000	2016 KShs'000
Bharti Airtel Limited	311,845	371,609
Airtel Tanzania Limited	227,660	249,943
Airtel Networks Limited (Nigeria)	311,670	283,712
Airtel Rwanda Limited	211,154	151,147
Airtel Malawi Limited	146,458	146,067
Celtel Niger S.A	115,773	102,353
Airtel Congo S.A	49,315	32,259
Airtel Congo(RDC) S.A	68,617	198,939
Airtel Networks Zambia Plc	34,374	21,003
Airtel Gabon S.A	29,526	31,672
Airtel Uganda Limited	71,284	356,169
Airtel Madagascar S.A	50,932	69,262
Airtel Seychelles Ltd	8,943	54,210
Bharti Airtel International (Netherlands) B.V.	1,080	-
Bharti Airtel Bangladesh	39	-
Bharti Airtel UK Limited	47,362	-
Africa Towers NV	1,323	-
Airtel TChad S.A	12,945	40,855
Bharti Airtel Lanka (Pvt Limited)	1	1
Airtel Ghana Limited	-	146,486
	1,700,301	2,255,689

There are no provisions for bad and doubtful debts related to the above balances.

(b) Payable to related parties

	2017 KShs'000	2016 KShs'000
Airtel Tanzania Limited	895,008	1,192,119
Bharti Airtel Limited, India	243,322	1,707,345
Airtel Uganda Limited	131,703	128,932
Network i2i Ltd	184,522	270,823
Airtel Congo(RDC) S.A	26,669	14,231
Nxtra Data Limited	23,013	-
Bharti Airtel UK Limited	11,719	3,126
Bharti Airtel Singapore P. Limited	10,860	-
Airtel Networks Zambia Plc	5,165	7,572
Bharti Airtel Services Limited	6,494	-
Airtel Congo S.A	6,020	5,663
Airtel Networks Limited (Nigeria)	2,890	12,349
Airtel Rwanda Limited	1,363	4,631
Airtel Madagascar S.A	489	1,983
Celtel Niger S.A	280	2,180
Airtel Malawi Limited	216	2,119
Jersey Airtel Limited	725	-
Airtel (Seychelles) Limited	140	375
Airtel TChad S.A	85	2,745
Airtel Gabon S.A	55	27
Bharti Airtel (Lanka) Limited	23	25
Africa Towers NV	21	-
Airtel Bangladesh Ltd	11	-
Airtel Ghana Limited	-	5,570
	1,550,793	3,361,817

36 RELATED PARTY TRANSACTIONS (Continued)

	2017 KShs'000	2016 KShs'000
(vi) Shareholder's loans		
Payable to Bharti Airtel Africa BV	40,120,791	37,608,524
Interest expense incurred on shareholder's loans	301,267	282,650

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

37 OPERATING LICENCE

During the year ended 31 December 2014, The company acquired subscribers, brand name and license from Essar Telecommunication Limited. The company is operating under Essar license since January 2015, which is valid until 2025. The Company has requested the Communications Authority of Kenya to issue fresh documents incorporating new terms and conditions including roll out obligations bearing Airtel's name. In December 2017, the case was ruled in Airtel's favour.

38. EVENTS AFTER THE REPORTING DATE

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