AIRTEL NETWORKS KENYA LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2015

AIRTEL NETWORKS KENYA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

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DIRECTORS

Mr. Adil El Youssefi****
Mr. Jaideep Paul**
Mr. Titus Naikuni*
Mr. Christophe Soulet*** Resigned on 31 March 2016
Mr Christian De Faria*** Appointed on 14 March 2016

* Kenyan; ** Indian; ***French; **** Moroccan

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

COMPANY SECRETARY
Africa Registrars
P.O. Box 1243 - 00100
NAIROBI, KENYA

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

AUDITORS
Ernst & Young LLP
Kenya Re Towers, Upperhill
Off Ragati Road
P. O. Box 44286 - 00100
NAIROBI, KENYA

PRINCIPAL BANKERS
Commercial Bank of Africa Limited
Kenya Commercial Bank Limited
Standard Chartered Bank Kenya Limited
Barclays Bank of Kenya
Citibank N.A.
Equity Bank (Kenya) Limited

AIRTEL NETWORKS KENYA LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015

The directors submit their report together with the audited annual financial statements for the year ended 31 December 2015, 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 6.

3. DIVIDEND

   The directors do not recommend payment of a dividend in the year. (2014: Nil).

4. RESERVES

   The reserves for the company are set out on page 8.

5. DIRECTORS

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

6. AUDITORS

   The auditors, Ernst & Young LLP, having expressed their willingness, continue in office in accordance with section 159 (2) of the Kenya Companies Act.

By Order of the Board

24 June 2016

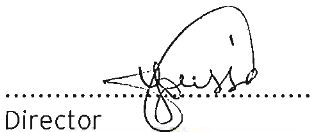
AFRICA REGISTRARS
SECRETARIES

AIRTEL NETWORKS KENYA LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

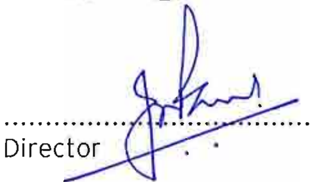
The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The directors are of the opinion that the company will remain a going concern for at least twelve months from the date of this statement. See Note 2 to the financial statements for details.



Director



Director

24 June 2016

Date

Building a better
working world

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

Report on the Financial Statements

We have audited the accompanying financial statements of Airtel Networks Kenya Limited, which comprise the statement of financial position as at 31 December 2015 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 6 to 62.

Directors' Responsibility for the Financial Statements

The directors of the company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Airtel Networks Kenya Limited as at 31 December 2015, 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.

Partners: G G Karuu, J K Cheboror, A S Gilani, C O Atinda, H C Wasike, G Gitahi, M M Kimoni,
C W Mbogo, A K Gichuhi, P O Kahi, L K Gathungu, A M Muthusi, J M Ngonga, F N M Kamau, N M Muhoya

Emphasis of matter

Without qualifying our opinion, we draw attention to the statement of directors' responsibilities and note 2 to the financial statements, which indicate that as at 31 December 2015 the company's liabilities exceeded its assets by KShs 21.4 billion (2014: KShs 28.6 billion). Note 2 also indicates that these conditions, along with other matters, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were considered necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and,

iii) the company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Avani Gilani, P/No. 787.

Ernst & Young LLP

Nairobi, Kenya

28 June 2016

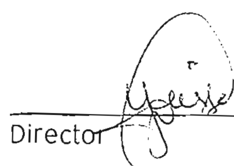
AIRTEL NETWORKS KENYA LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 KShs'000	2014 KShs'000
Revenue	7	17,732,767	15,282,244
Cost of sales	8	(6,132,410)	(5,052,375)
Gross profit		11,600,357	10,229,869
Other income	9	21,272,232	82,770
Total revenue		32,872,589	10,312,639
Distribution costs		(2,669,002)	(1,882,211)
Administrative expenses	10	(9,983,950)	(3,395,903)
Other expenses	11	(10,571,137)	(10,498,651)
Finance costs	12	(1,609,794)	(1,178,350)
Profit/(loss) before taxation	13	8,038,706	(6,642,476)
Income tax expense	15	(893,654)	(448,599)
Profit/(loss) for the year		7,145052	(7,091,075)
Other comprehensive income		-	-
Total comprehensive income for the year		7,145,052	(7,091,075)

AIRTEL NETWORKS KENYA LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Notes	2015 KShs'000	2014 KShs'000
Non-current assets			
Property, plant and equipment	16	21,726,741	13,225,813
Intangible assets	17	3,775,840	4,423,555
Prepaid operating lease rentals	18	84,292	102,348
Embedded derivative asset	19	10,119	131,795
		25,596,992	17,883,511
Current assets			
Inventories	21	111,322	111,228
Trade and other receivables	22	13,684,035	9,255,471
Income tax recoverable	15	254,254	245,293
Cash and cash equivalents	23	226,429	315,486
		14,276,040	9,927,478
Investment in Kenya Towers Limited	32	-	526,200
		14,276,040	10,453,678
Total Assets		39,873,032	28,337,189
Equity			
Ordinary share capital	24	2,625,000	2,625,000
Share premium – ordinary & preference shares	25	4,493,824	4,493,824
Redeemable preference shares	26	22,611,514	22,611,514
Accumulated losses		(51,173,373)	(58,318,425)
Total equity		(21,443,035)	(28,588,087)
Non-current liabilities			
Borrowings	28	8,019,021	1,982,533
Current liabilities			
Derivative Financial Liability	19	43,262	1,715
Borrowings	29	1,572,555	1,503,147
Shareholder's loans	27	31,386,674	36,741,600
Trade and other payables	30	18,850,628	14,005,786
Provisions	31	1,443,927	2,690,495
Total Liabilities		53,297,046	54,942,743
Total Liabilities and Equity		39,873,032	28,337,189

The financial statements were approved by the Board of directors on..24...June...........2016
and signed on its behalf by


Director

Director

AIRTEL NETWORKS KENYA LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

Year ended 31 December 2014	Ordinary share capital KShs'000	Preference share capital KShs'000	Share premium - Ordinary shares KShs'000	Share premium - Redeemable preference shares KShs'000	Accumulated losses KShs'000	Total KShs'000
At 1 January 2014	2,625,000	22,611,514	234,801	4,259,023	(51,227,350)	(21,497,012)
Total comprehensive loss for the year	-	-	-	-	(7,091,075)	(7,091,075)
At 31 December 2014	2,625,000	22,611,514	234,801	4,259,023	(58,318,425)	(28,588,087)
Year ended 31 December 2015						
At 1 January 2015	2,625,000	22,611,514	234,801	4,259,023	(58,318,425)	(28,588,087)
Total comprehensive income for the year	-	-	-	-	7,145,052	7,145,052
At 31 December 2015	2,625,000	22,611,514	234,801	4,259,023	(51,173,373)	(21,443,035)

Further details on the components of equity are in Note 24 - 26

AIRTEL NETWORKS KENYA LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 KShs'000	2014 KShs'000
OPERATING ACTIVITIES			
Cash (used in)/generated from in operating activities	36	(378,221)	7,059,442
Interest paid		(1,400,186)	(83,133)
Interest received		59,346	-
Taxes paid		(902,616)	-
Net cash (used in)/ generated from operating activities		(2,621,677)	6,976,309
INVESTING ACTIVITIES			
Purchase of property, plant & equipment		(4,382,640)	(6,586,894)
Purchase of intangible assets	17	-	(3,851,127)
Proceeds from sale of Investment (Kenya Tower)		18,515,466	-
Proceeds on disposal of property, plant & equipment		2,345,084	2,300
Net cash generated from /(used in) investing activities		16,477,910	(10,435,721)
FINANCING ACTIVITIES			
Proceeds from third party non-current borrowings	28	-	626,359
Repayment of third party non-current borrowings	28	(1,264,425)	(596,054)
Additional proceeds from shareholder's loans	27	4,370,698	3,781,457
Repayment of shareholder's loans non- current borrowings	27	(15,957,399)	(403,631)
Repayment of third party short term loan	29	(917,586)	-
Proceeds from third party borrowing short-term		905,079	-
Net cash (used in)/generated from financing activities		(12,863,633)	3,408,131
Net increase/ (decrease) in cash and cash equivalents		992,600	(51,281)
Net foreign exchange differences		(1,247,673)	(8,116)
Cash and cash equivalents at start of the year		58,293	117,690
Cash and cash equivalents at the end of the year	23	(196,780)	58,293

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 ultimate holding company is Bharti Airtel Limited, a company incorporated in India.

2. GOING CONCERN

In 2015, the company realized a net profit after income tax of KShs 7.145 billon (2014: loss of KShs 7.1 billion) for the year. At 31 December 2015 accumulated losses were KShs 51.1 billion (2014: KShs 58.3 billion). The company is in a net liability position of KShs 21.4 billion (2014: KShs 28.6 billion). The operations of the company continue to depend heavily on sources of financing from its direct and indirect parent companies.

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

a) Will generate cash inflows from operations of at least the amount projected in the management's annual operating plan. The generation of sufficient cash flows from operations is dependent on management achieving operational targets on subscriber numbers, churn rate and average revenue per user;
b) Will obtain funding from the third parties; and,
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 company has obtained a signed letter of comfort from the ultimate parent company Bharti Airtel International (BV).

These conditions give rise to a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and, therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that that the company will continue to receive the support of its holding company and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) 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 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 3(q).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) 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 by Airtel Networks Kenya Limited.

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 comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies 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.

c) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and 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 life. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

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 (as applicable whichever is less)
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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) 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, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

e) 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 the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Intangible assets (continued)

The amortisation expense on intangible assets with finite lives (10 years for License, 2 years for YU brand and 4 years 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 'depreciation and amortisation.

(iii) YU Brand & Customer Base

On 21 December 2014, the company acquired YU brand and customer base. YU brand and Customer base are 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.

f) 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. Note 35

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) 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.

h) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial instruments (continued)

Financial assets - Derecognition

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

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 the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors 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 finance 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. Loans 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial instruments (continued)

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 cost.

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 - Derecognition

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 derecognition 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial instruments (continued)

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

The company operates a defined contribution retirement benefit 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.

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

Deferred tax assets 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Taxes (continued)

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.

Value added tax

Expenses and assets are recognised net of the amount of value added tax, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are charged to equity in the year in which they are declared.

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 22).

The company reviews its trade receivables at each reporting date to assess whether an allowance for bad and doubtful debt 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 20)

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 level 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 15)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Critical accounting estimates and judgements (continued)

Revenue recognition and presentation

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 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 16.

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 armotization 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 which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite. Refer to Note 17.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Critical accounting estimates and judgements (continued)

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 31.

Classification of leases

Management assesses whether the company effectively retains substantially all the risks and rewards incidental to ownership of the 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, at 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. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards, interpretations and improvements

The company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Company, since the Company does not have a defined benefit plan.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Company has applied these improvements for the first time in these financial statements. They include:
IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. These amendments did not impact the Company's financial statements or accounting policies since it does not have share based payments.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This amendment did not have any impact on the Company's financial statements.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

Disclosures related to operating segments have been made in Note 6 to the financial statements.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards, interpretations and improvements (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying amount and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the Company since its property, plant and equipment and intangible assets are carried at cost.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Company as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the company has applied these amendments for the first time in these financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:
- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The company is not a joint arrangement, and thus this amendment is not relevant for the coompany.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The company does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the company has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the company.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards, interpretations and improvements (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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 in the future 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. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Company expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis. Loans as well as trade 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 loans and 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.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards, interpretations and improvements (continued)

Standards issued but not yet effective (continued)

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Company is an existing IFRS preparer, this standard would not apply.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Company performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Company is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards, interpretations and improvements (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively with early adoption permitted. In December 2015, the IASB postponed the effective date of these amendments indefinitely pending the outcome of its research project on the equity method of accounting. The amendments are not expected to have any impact on the Company.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards, interpretations and improvements (continued)

Standards issued but not yet effective (continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. These amendments are not expected to have any impact on the Company. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards, interpretations and improvements (continued)

Standards issued but not yet effective (continued)

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

IFRS 16 Leases

The IASB issued IFRS 16 Leases on 13 January 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.

- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.

- The new standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).

- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.

- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach.

IAS 7 Disclosure Initiative - Amendments to IAS 7The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards, interpretations and improvements (continued)

Standards issued but not yet effective (continued)

The new standard is effective for annual periods beginning on or after 1 January 2017. Early application is permitted. The company will make the necessary disclosures when it becomes effective.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.
The new standard is effective for annual periods beginning on or after 1 January 2017. Early application is permitted. This amendment is not expected to have an impact to the company since it is not expected to recognise deferred tax assets.

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:

2015:

	Loans and Receivables KShs'000	Fair value through profit or loss KShs'000	Financial liabilities at amortised cost KShs'000
Assets:			
Cash and cash equivalents	226,429	-	-
Trade receivables	3,639,529	-	-
Amounts receivable from related companies	5,694,482	-	-
Embedded derivative asset	-	10,119-	-
Total Assets	9,560,4408	10,119	-
Liabilities			
Embedded derivative liability	-	43,262	-
Non-current borrowings	-	-	8,019,021
Current borrowings	-	-	1,572,555
Shareholder's loans	-	-	31,386,674
Trade payables	-	-	4,871,406
Accrued expenses and other payables	-	-	13,644,208
Amounts due to related companies	-	-	1,778,941
Total liabilities	-	43,262	61,272,805

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

2014:

	Loans and Receivables KShs'000	Fair value through profit or loss - held for trading KShs'000	Financial liabilities at amortised cost KShs'000
Assets			
Cash and cash equivalents	315,486	-	-
Trade receivables	3,260,622	-	-
Amounts receivable from related companies	4,086,113	-	-
Embedded derivative asset	-	131,795	-
Total Assets	7,662,221	131,795	-
Embedded derivative liability	-	1,715	-
Non-current borrowings	-	-	1,982,533
Current borrowings	-	-	1,503,147
Shareholder's loans	-	-	36,741,600
Trade payables	-	-	4,638,348
Accrued expenses and other payables	-	-	6,303,099
Amounts due to related companies	-	-	1,645,071
	-	1,715	52,813,798

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 main transaction currency, 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 on Equity
2015	5%	1,410,469	1,072,152
2014	5%	1,602,479	1,121,735

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

	2015 KShs'000	2014 KShs'000
Assets in foreign currencies		
Trade receivables	2,763,185	5,370,038
Bank balances in foreign currencies	74,700	86,175
	2,837,885	5,456,213
Liabilities in foreign currencies		
Trade and other payables	1,697,249	822,547
Shareholder's loan	28,316,755	34,824,939
Borrowings	959,580	1,775,987
	30,973,584	37,423,473
Net foreign currency liability	(28,135,699)	(31,967,260)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

i) Foreign exchange risk (continued)

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 2015, an increase/decrease of 100 basis points would have resulted in a decrease/increase in pre-tax profit of KShs 32,284,872 (2014: KShs 33,491,000) and KShs 22,599,410 (2014: KShs 23,444,000) 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.

	Effective interest rate	3 months or less	Between 3 months and 1 year	Between 1 year and 5 years	Noninterest bearing	Total
2015	%	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Financial assets						
Embedded derivative asset		-	-	-	10,119	10,119
Cash and bank balances		-	-	-	226,429	224,773
Amounts due from related companies		-	-	-	5,694,482	5,694,482
Trade receivables		-	-	-	4,198,110	4,198,110
At 31 December 2015		-	-	-	10,1129,140	10,129,140
Financial liabilities						
Embedded derivative liability					43,262	43,262
Eco Bank Loan	14.5%	320,000	-	-	-	320,000
SCB Loan I	2.05%	-	153,259	306,517	-	459,776
SCB Loan II	1.93%	-	124,951	374,853	-	499,804
Bank overdraft	16.8%	421,553	-	-	-	421,553
Shareholder loans	3.00%	-	31,386,674	-	-	31,386,674
Amounts due to related companies		-	-	-	1,778,941	1,778,941
Accrued expenses and other payables		-	-	-	11,117,663	11,117,663
Trade payables		-	-	-	3,846,576	3,846,576
At 31 December 2015		741,553	31,664,884	681,370	16,786,442	49,874,249
Interest sensitivity gap		(741,553)	(31,664,884)	(681,370)	(6,657,302)	(39,745,111)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

	Effective interest rate	3 months or less	Between 3 months and 1 year	Between 1 year and 5 years	Non-interest bearing	Total
2014	%	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Financial assets						
Embedded derivative asset		-	-	-	131,795	131,795
Cash and bank balances		-	-	-	315,486	315,486
Amounts due from related companies		-	-	-	4,086,113	4,086,113
Trade receivables		-	-	-	4,364,959	4,364,959
At 31 December 2014		-	-	-	8,898,353	8,898,353
Financial liabilities						
Embedded derivative liability					1,715	1,715
Eco Bank Loan	14.5%	320,000	-	-	-	320,000
SCB Loan I	1.73%	-	135,782	407,347	-	543,129
SCB Loan II	1.71%	-	110,672	442,686	-	553,358
SCB Loan III	2.58%	-	679,500	1,132,500	-	1,812,000
Bank overdraft	16.8%	257,193	-	-	-	257,193
Shareholder loans	3.00%	-	36,741,600	-	-	36,741,600
Amounts due to related companies		-	-	-	1,645,071	1,645,071
Accrued expenses and other payables		-	-	-	6,303,099	6,303,099
Trade payables		-	-	-	4,638,348	4,638,348
At 31 December 2014		577,193	37,667,554	1,982,533	12,588,233	52,815,513
Interest sensitivity gap		(577,193)	(37,667,554)	(1,982,533)	(3,689,880)	(43,917,160)

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 2015 is made up of the following:

	2015 KShs'000	2014 KShs'000
Cash at bank and short term bank deposits	226,429	315,486
Trade receivables	4,198,110	4,364,959
Amounts receivable from related companies	5,694,482	4,086,113
	10,119,021	8,766,558

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):

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	2015 KShs'000	2014 KShs'000
Past due but not impaired:		
- by up to 30 days	2,461,327	2,125,930
- by 31 to 60 days	293,779	328,703
- by 61 to 90 days	884,423	805,989
Total past due but not impaired	3,639,529	3,260,622
Past due and impaired (these are aged greater than 90 days)	558,582	1,104,337
Total Gross Trade receivables	4,198,111	4,364,959
Trade receivables individually determined to be impaired		
Carrying amount before provision for impairment loss	558,582	1,104,337
Provision for impairment	(558,582)	(1,104,337)
Net carrying amount	-	-
Other receivables individually determined to be impaired*	-	-
Carrying amount before provision for impairment loss	58,502-	49,344
Provision for impairment	(58,502)	(49,344)
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 2015, the company was in a net payable position, amounting to KShs 309.08 million (2014: KShs 138.7 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 analyses the company's liabilities that will be settled on a net basis into relevant maturity categories based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Less than 1 year KShs'000	Between 1 and 2 years KShs'000	Between 2 and 5 years KShs'000
At 31 December 2015:			
Liabilities			
Embedded derivative liability	43,262	-	-
Third party borrowings	598,210	-	8,998,664
Shareholder loans	31,386,674	-	-
Bank overdraft	421,553	-	-
Accrued expenses and other payables	11,117,663	-	-
Amounts due to related companies	1,778,941	-	-
Trade payables	3,846,576	-	-
Total financial liabilities (contractual maturity dates)	49,192,879	-	8,998,664
At 31 December 2014:			
Liabilities			
Embedded derivative liability	1,715	-	-
Third party borrowings	1,245,954	854,371	1,171,257
Shareholder loans	36,741,600	-	-
Bank overdraft	257,193	-	-
Accrued expenses and other payables	6,303,099	-	-
Amounts due to related companies	1,645,071	-	-
Trade payables	4,638,348	-	-
Total financial liabilities (contractual maturity dates)	50,832,980	854,371	1,171,257

Fair values of financial assets and liabilities

Set out below is the carrying amounts and fair values of the financial instruments that are carried in the financial statements.

	Carrying amount		Fair value	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Financial Assets				
Embedded derivative asset	10,119	131,795	10,119	131,795
Trade and other receivables	9,966,117	7,346,735	9,966,117	7,346,735
Cash and cash equivalents	224,773	315,486	224,773	315,486
Financial Liabilities				
Embedded derivative liability	43,262	1,714	43,262	1,714
Overdraft	421,553	257,193	421,553	257,193
Term Loan	959,581	2,908,487	869,365	2,865,392
Borrowings -Eco Bank	320,000	320,000	320,000	320,000
Shareholder loans	31,386,674	36,741,600	31,386,674	36,741,600
Trade and other payables	14,964,240	12,586,518	14,964,240	12,586,518

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. :

Assets at 31 December 2015

	Fair value measurement			
	Quoted prices on active markets	Significant observable inputs	Significant unobservable inputs	
	(Level 1)	(level 2)	(Level 3)	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Assets measured at fair value:				
Derivative financial assets				
Embedded derivative Asset	-	10,119	-	10,119
Liabilities as at 31 December 2015				
Liabilities measured at fair value:				
Derivative financial liabilities				
Embedded derivative liability	-	43,262	-	43,262
Liabilities for which fair values are disclosed				
Interest bearing loans				
Term Loan	-	869,365	-	869,365
Assets at 31 December 2014				
Assets measured at fair value:				
Derivative financial assets				
Embedded derivative Asset	-	131,795	-	131,795
Liabilities as at 31 December 2015				
Liabilities measured at fair value:				
Embedded derivative liability	-	1,715	-	1,715
Liabilities for which fair values are disclosed: Interest bearing loans				
Term Loan	-	2,865,392	-	2,865,392

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 2014 and 31 December 2015.

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, 2015 and December 31, 2014. 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 2015 and 2014 were as follows.

	2015 KShs'000	2014 KShs'000
Loans and borrowings	40,978,250	40,227,280
Less : Cash and cash equivalents	226,429	315,486
Net Debt	40,751,821	39,911,794
Equity	(21,443,036)	(28,588,087)
Capital and net debt	19,758,331	11,323,707
Gearing ratio	211%	352%

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 2015 KShs'000	Airtel Money 2015 KShs'000	Total 2015 KShs'000	GSM 2014 KShs'000	Airtel Money 2014 KShs'000	Total 2014 KShs'000
Revenue	38,917,625	87,375	39,004,999	15,263,912	101,102	15,365,014
Staff expenses	1,867,189	81,555	1,948,744	1,321,704	131,635	1,453,339
IT expenses	89,965	74,149	164,115	251,999	52,654	304,653
Marketing Expenses	1,347,294	110,069	1,457,363	822,041	85,962	908,003
Sales and Distribution expenses	2,870,824	188,113	3,058,937	1,993,515	202,951	2,196,466
Other Costs	20,179,079	133,952	20,313,030	13,311,042	52,983	13,364,025
Total Costs	26,354,352	587,838	26,942,190	17,700,301	526,185	18,226,486
Profit/(Loss) before taxation, depreciation and amortisation	12,563,273	(500,463)	12,062,810	(2,436,389)	(425,083)	(2,861,472)
Depreciation	3,404,445	8,473	3,412,918	3,451,549	9,505	3,461,054
Amortisation	643,774	-	643,774	342,996	-	342,996
Interest earned from Trust account balances	-	(32,586)	(32,586)	-	(23,046)	(23,046)
Profit/(loss) before tax	8,515,054	(476,350)	8,038,704	(6,230,934)	(411,542)	(6,642,476)
Tax expense	(893,652)	-	(893,652)	(448,599)	-	(448,599)
Profit/(loss) after tax	7,621,401	(476,350)	7,145,052	(6,679,533)	(411,542)	(7,091,075)

6. Segmental Information (continued)

STATEMENT OF FINANCIAL POSITION

	GSM	Airtel Money	Intercompany eliminations	Total	GSM	Airtel Money	Intercompany eliminations	Total
	2015	2015	2015	2015	2014	2014	2014	2014
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Bank balance	213,068	13,361	-	226,429	308,213	7,273	-	315,486
Fixed assets	25,588,228	8,764	-	25,596,992	17,622,171	27,197	-	17,649,368
Other assets	14,020,269	29,343	-	14,049,612	10,371,935	400	-	10,372,335
Intercompany receivables from Airtel Money	1,542,430	-	(1,542,430)	-	905,010	-	(905,010)	-
Total Assets	41,363,995	51,469	(1,542,430)	39,873,034	29,207,329	34,870	(905,010)	28,337,189
Creditors	(15,988,402)	(326,183)	-	(16,314,585)	(14,523,853)	(527,356)	-	(15,051,209)
Inter-company payables	(236,511)	-	-	(236,511)	(1,645,071)	-	-	(1,645,071)
Intercompany payable to GSM	-	(1,542,430)	1,542,430	-	-	(905,010)	905,010	-
Shareholder loans	(31,386,674)	-	-	(31,386,674)	(36,741,600)	-	-	(36,741,600)
Loans from banks	(2,253,926)	-	-	(2,253,926)	(3,485,680)	-	-	(3,485,680)
Other liabilities	(11,124,371)	-	-	(11,124,371)	(1,715)	-	-	(1,715)
Retained earnings	49,356,228	1,817,144	-	51,173,372	56,920,928	1,397,496	-	58,318,424
Share capital	(29,730,338)	-	-	(29,730,338)	(29,730,338)	-	-	(29,730,338)
Total equity and liabilities	41,363,995	(51,469)	1,542,430	(39,873,034)	(29,207,329)	(34,870)	905,010	(28,337,189)

7 REVENUE

	2015 KShs'000	2014 KShs'000
Analysis of revenue by category:		
Voice revenues	9,500,417	7,946,400
Data revenues	3,788,020	2,501,304
Interconnect revenues	2,351,203	1,856,318
Roaming Revenues	1,243,178	1,251,359
Site sharing revenue (leased site)	-	962,434
Other service revenues	405,070	496,146
Sale of goods (handsets and accessories)	269,775	208,240
Revenue earned from Mobile Virtual Network Operator	175,104	60,043
	17,732,767	15,282,244

8 COST OF SALES

	2015 KShs'000	2014 KShs'000
Cost of handsets and accessories	253,404	221,451
Cost of scratch cards	1,594,614	1,286,712
Cost of sim cards	122,199	56,872
Interconnect costs	3,545,767	2,798,827
Roaming charges	356,179	470,719
Mobile Virtual Network Operator costs	55,337	23,572
Other direct costs	204,910	194,222
	6,132,410	5,052,375

9 OTHER INCOME

	2015 KShs'000	2014 KShs'000
Interest income from banks	1,822	1,853
Interest earned from balances receivable from Kenya Towers Limited	57,525	78,617
Profit on disposal of property, plant and equipment	2,243,320	2,300
Profit on sale of Kenya Towers Limited	17,989,266	-
Reversal of provisions	980,299	-
	21,272,232	82,770

10 ADMINISTRATIVE COSTS

	2015 KShs'000	2014 KShs'000
Employee costs (Note 14)	1,867,189	1,453,339
Travel costs	11,506	14,803
Professional fees	42,846	73,481
Auditors' remuneration	11,460	9,513
Provision for impairment on doubtful trade receivables	42,319	294,868
Provision for impairment on other debtors /(Unused amounts reversed)	9,158	(26,744)
Provision for tax cases	193,939	(975,333)
Amortisation for mobile license fees	292,897	335,367
Foreign currency exchange losses	6,807,602	1,989,120
Provision for stock obsolescence	16,963	20,032
Amortisation of YU customer base	349,472	7,373
Amortisation of YU brand	1,405	256
Office administration and maintenance costs	51,708	47,273
Repairs and maintenance costs	55,858	41,213
Directors' remuneration	14,400	7,301
Insurance expenses	38,632	37,913
Other administrative costs	176,596	66,128
	9,983,950	3,395,903

11 OPERATING EXPENSES

	2015 KShs'000	2014 KShs'000
Network operation and maintenance costs	2,285,802	1,925,523
Site lease costs	2,578,771	2,940,967
Leased lines	509,042	371,169
Regulatory costs	1,389,762	1,401,076
Depreciation on property, plant and equipment	3,394,861	3,442,998
Amortisation of prepaid operating lease rentals	18,056	18,056
Withholding tax on management fees	-	228
Project echo costs	2,134	249
Customer experience costs	269,379	189,029
Other operating expenses	123,330	209,356
	10,571,137	10,498,651

12 FINANCE COSTS

	2015 KShs'000	2014 KShs'000
Interest expense	1,400,186	1,072,626
IBM Derivative	163,223	69,085
Upfront fees on bank loans	46,385	36,639
	1,609,794	1,178,350

13 PROFIT/(LOSS) BEFORE TAX

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

	2015 KShs'000	2014 KShs'000
Depreciation on property, plant & equipment (Note 16)	3,394,861	3,442,998
Amortisation of intangible assets (Note 17)	643,774	342,996
Amortisation of prepaid lease rentals (Note 18)	18,056	18,056
Profit on disposal of property, plant and equipment	2,243,320	2,300
Reversal of provision	718,002	-
Repairs and maintenance - property, plant and equipment	254,185	158,947
Foreign exchange losses	6,807,602	1,989,120
Receivables - provision for impairment losses (Note 22)	42,319	294,868
Other receivables- (unused provisions reversed) / provision for impairment losses (Note 22)	9,158	(26,744)
Interest income (Note 9)	59,346	80,470
Interest expense (Note 12)	1,400,186	1,072,626
Inventories expensed (Note 21)	1,970,216	1,565,034
Increase in inventory provisions	16,963	20,032
Site lease costs (Note 11)	2,578,771	2,940,967
Employee benefits expense (Note 14)	1,867,189	1,453,339
Auditors' remuneration (Note 10)	11,460	9,513
Directors' remuneration (Note 10)	14,400	7,301

14 EMPLOYEE BENEFITS EXPENSE

The following items are included within employee benefits expense:

	2015 KShs'000	2014 KShs'000
Salaries and wages	1,354,955	1,030,609
Other staff related costs	452,591	365,718
Social security costs - defined contribution plan	59,643	57,012
	1,867,189	1,453,339

15 INCOME TAX

	2015 KShs'000	2014 KShs'000
STATEMENT OF FINANCIAL POSITION		
As at 1 January	245,293	239,030
Over provision in prior year	-	6,263
Paid during the year	8,961	-
Tax recoverable	254,254	245,293
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
Tax expense based on loss for the year adjusted for tax	893,654	-
Deferred tax expense/(credit)	(3,606,529)	(1,650,078)
(Under)/over provision of deferred tax in prior year		(1,426,952)
Expense of advance tax paid on initial consideration of Essar site share revenue on acquisition of YU.	-	291,191
Over-provision in prior years	-	(6,263)
Reversal of irrecoverable advance tax	-	163,671
Deferred tax asset not recognised	3,606,529	3,077,030
Income tax expense	893,654	448,599

15 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:

	2015 KShs'000	2014 KShs'000
Profit /(loss) before income tax	8,038,706	(6,642,475)
Tax calculated at the statutory income tax rate of 30%	2,411,612	(1,992,743)
Net tax effect of:		
Over-provision in prior year	-	(6,263)
Under-provision of deferred tax in prior year	-	(1,426,952)
Expenses not deductible for tax purposes	(5,124,486)	342,665
Expense of advance tax on initial consideration of Essar site share revenue	-	291,191
Reversal of irrecoverable advance tax	-	163,671
Deferred income tax asset not recognised during the year	3,606,529	3,077,030
Income tax expense	893,654	448,599

16 PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2015	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, 2015	649,767	30,414,902	33,105	7,198,771	743,220	1,361,080	40,400,845
Reclassification of opening balances****	-	45,522	-	(126)	(45,396)	-	-
Additions	-	7,665,060	-	35,718	-	4,451,373	12,152,151
Inter-unit transfers*	-	124,184	-	-	-	(4,909)	119,275
Disposals	-	(175,648)	-	(148,262)	(53)	(9,960)	(333,923)
At December 31, 2015	649,767	38,074,020	33,105	7,086,101	697,771	5,797,584	52,338,348
DEPRECIATION							
At January 1, 2015	406,120	19,381,565	32,995	6,676,968	677,384	-	27,175,032
Charge for the year	35,960	2,973,318	110	364,990	20,483	-	3,394,861
Inter-unit transfers	-	46,964	-	-	-	-	46,964
Reclassifications	-	(842)	-	885	(43)	-	-
Adjustments	-	233,725	-	(6,816)	-	-	226,909
Disposals	-	(83,844)	-	(148,262)	(53)	-	(232,159)
At December 31, 2015	442,080	22,550,887	33,105	6,887,765	697,771	-	30,611,607
NET CARRYING AMOUNT							
At December 31, 2015	207,687	15,523,134	-	198,336	-	5,797,584	21,726,741

The carrying amount of technical assets held under finance leases at 31 December 2015 was KShs 7.8 billion.
*Inter-unit transfers refer to transfer of assets during the sale of shares in Kenya Towers. The equipment at the warehouse is classified under CWIP.
**Capital work in progress represents assets under construction hence not yet put into use.
**** Reclassification represents reclassification of opening balances from one asset class to another class.

16 PROPERTY, PLANT AND EQUIPMENT (continued)

Year ended 31 December 2014	Leasehold improvements KShs'000	Technical assets KShs'000	Motor vehicles KShs'000	Office, IT& other equipment KShs'000	Furniture& fittings KShs'000	Payphones & kiosks KShs'000	Capital work in progress** KShs'000	TOTAL KShs'000
COST								
At January 1, 2014	641,828	26,645,965	46,520	6,675,316	730,948	19,621	106,171	34,866,369
Reclassification of opening balances****	-	(272,651)	-	36,811	-	-	205,586	(30,254)
Additions	-	-	-	28,569	-	-	6,558,325	6,586,894
Transfers from Work-In Progress	7,939	4,212,995	-	203,959	43,893	-	(4,468,786)	-
Inter-unit transfers*	-	76,744	-	-	-	-	-	76,744
Adjustments***	-	(248,151)	-	254,116	(24,860)	(19,621)	(1,040,216)	(1,078,732)
Disposals	-	-	(13,415)	-	(6,761)	-	-	(20,176)
At December 31, 2014	649,767	30,414,902	33,105	7,198,771	743,220	-	1,361,080	40,400,845
DEPRECIATION								
At January 1, 2014	418,568	16,839,705	46,070	5,640,585	717,058	339	-	23,662,325
Charge for the year	32,244	2,713,218	340	685,043	12,151	2	-	3,442,998
Inter-unit transfers	-	-	-	-	-	-	-	-
Reclassifications	(44,692)	(252,530)	-	342,287	(45,065)	-	-	-
Adjustments	-	81,172	-	9,053	-	(341)	-	89,884
Disposals	-	-	(13,415)	-	(6,760)	-	-	(20,175)
At December 31, 2014	406,120	19,381,565	32,995	6,676,968	677,384	-	-	27,175,032
NET CARRYING AMOUNT								
At December 31, 2014	243,647	11,033,337	110	521,803	65,836	-	1,361,080	13,225,813

*Inter-unit transfers relate to assets transferred from other Airtel entities.
**Capital work in progress represents assets under construction hence not yet put into use.
*** Adjustments related to assets exchanged between Airtel Networks Kenya and Kenya Towers.
**** Reclassification represents reclassification of opening balances from one asset class to another class.
There were no capitalised borrowing costs in the year and assets have been pledged as a security by the company for Standard Chartered Bank loan of KShs 1,812,000,000.

17 INTANGIBLE ASSETS

	Prepaid mobile phone licence KShs'000	Acquisition of YU brand KShs'000	Acquisition of YU customer base KShs'000	Total KShs'000
YEAR ENDED 31 DECEMBER 2015				
COST				
At January 1, 2015	7,358,331	17,042	1,357,987	8,733,360
Disposal	(4,069,674)	-	-	(4,069,674)
At December 31, 2015	3,288,657	17,042	1,357,987	4,663,686
AMORTISATION				
At January 1, 2015	4,302,176	256	7,373	4,309,805
Charge for the year	298,854	8,522	336,398	643,774
*Retirement	(4,065,733)	-	-	(4,065,733)
At December 31, 2015	535,297	8,778	343,771	887,846
Net carrying amounts	2,753,360	8,264	1,014,216	3,775,840
YEAR ENDED 31 DECEMBER 2014				
COST				
At January 1, 2014	4,882,233	-	-	4,882,233
Additions	2,476,098	17,042	1,357,987	3,851,127
At December 31, 2014	7,358,331	17,042	1,357,987	8,733,360
Amortisation				
At January 1, 2014	3,966,809	-	-	3,966,809
Charge for the year	335,367	256	7,373	342,996
At December 31, 2014	4,302,176	256	7,373	4,309,805
Net carrying amounts	3,056,155	16,786	1,350,614	4,423,555

* Retirement relates to the remaining useful life of the old Airtel operating license retired following the full acquisition of the YU Mobile license.

18 PREPAID OPERATING LEASE RENTALS (LEASEHOLD PROPERTY)

	2015 KShs'000	2014 KShs'000
COST		
At beginning of year	361,117	361,117
AMORTISATION		
At beginning of year	258,769	240,713
Charge for the year	18,056	18,056
At end of year	276,825	258,769
Net carrying amounts	84,292	102,348

19 EMBEDDED DERIVATIVE

	2015 KShs'000	2014 KShs'000
ASSET		
At start of the year	131,795	199,165
Debit to profit or loss	(121,676)	(67,370)
At end of the year	10,119	131,795
LIABILITY		
At start of the year	1,715	-
Debit to profit or loss	41,547	1,715
At end of year	43,262	1,715

The company entered into a long term purchase contract denominated in foreign currencies for balances payable to 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.

20 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted tax rate of 30% (2014: 30%). The movement on the deferred income tax account is as follows

	2015 KShs'000	2014 KShs'000
At start of year	15,915,153	12,838,122
Credit to profit or loss	3,606,529	1,650,078
Under provision in prior year	-	1,426,953
Unrecognised asset	(19,521,682)	(15,915,153)
At end of year	-	-

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

Year ended 31 December 2015	1.1.2015 KShs'000	Credited to profit or loss KShs'000	31.12.2015 KShs'000
Accelerated tax depreciation	(5,698,522)	(3,394,862)	(9,093,384)
Doubtful debts	(1,150,017)	536,597	(613,420)
Inventory obsolescence	(80,775)	16,963	(63,812)
Accrued leave	(56,099)	(3,256)	(59,355)
Bonus	(137,845)	23,548	(114,297)
Provision for network removal (ARO)	(2,266)	(602)	(2,868)
Provision for legal cases	(987,076)	754,734	(232,342)
Provision for tax cases	(699,583)	146,164	(553,419)
IBM embedded derivative gain	(133,652)	166,652	33,000
Net unrealised exchange differences	(1,536,002)	(4,579,557)	(6,115,559)
Deferred income on site rental	(117,053)	117,053	-
Tax losses carried forward	(42,451,620)	(5,805,196)	(48,256,816)
Deferred income tax assets not recognised	53,050,510	12,021,764	65,072,274
Net deferred income tax assets	-	-	-

20 DEFERRED INCOME TAX (continued)

Deferred income tax is calculated using the enacted tax rate of 30% (2014: 30%). The movement on the deferred income tax account is as follows:

Year ended 31 December 2014	1.1.2014 KShs'000	Credited to profit or loss KShs'000	31.12.2014 KShs'000
Accelerated tax depreciation	(6,362,376)	663,854	(5,698,522)
Doubtful Debts	(1,448,549)	298,532	(1,150,017)
Inventory obsolescence	(60,743)	(20,032)	(80,775)
Accrued leave	(49,073)	(7,026)	(56,099)
Bonus	(81,336)	(56,509)	(137,845)
Provision for network removal (ARO)	2,235	(4,501)	(2,266)
Provision for legal cases	(978,055)	(9,021)	(987,076)
Provision for tax cases	(1,855,354)	1,155,771	(699,583)
IBM embedded derivative gain	(199,165)	65,513	(133,652)
Net unrealised exchange differences	(360,298)	(1,175,704)	(1,536,002)
Deferred income on site rental	(1,079,486)	962,433	(117,053)
Tax losses carried forward	(35,078,049)	(7,373,571)	(42,451,620)
Deferred income tax assets not recognised	47,550,249	5,500,261	53,050,510
Net deferred income tax assets	-	-	-

A deferred tax asset of KShs 19.52 billion (2014 - KShs 15.91 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 has tax losses that are available for ten years for offsetting.

21 INVENTORIES

	2015 KShs'000	2014 KShs'000
Finished goods (at cost)	175,134	192,003
Provision for stock obsolescence	(9,955)	(10,853)
Stock write-down	(53,857)	(69,922)
	111,322	111,228

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to KShs 1,970,217,000 (2014: KShs 1,565,034,000). Inventories include handsets and accessories.

22 TRADE AND OTHER RECEIVABLES

	2015 KShs'000	2014 KShs'000
Trade receivables	4,198,110	4,364,959
Less: Provision for impairment losses	(558,582)	(1,104,337)
Net trade receivables	3,639,529	3,260,622
Amount receivable from related companies (Note 37)	5,694,482	4,086,113
Prepayments	809,640	1,701,932
Other receivables	3,598,886	256,148
Less: Provision for impairment losses on other receivables	(58,502)	(49,344)
	13,684,035	9,255,471

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:

	2015 KShs'000	2014 KShs'000
At start of year	1,104,337	1,372,461
Additional provision in the year	42,319	294,868
Provision reversed on write-off of bad debts aged over 3 years	(588,074)	(562,992)
At end of year	558,582	1,104,337

Movements on the provision for impairment of other receivables are as follows:		
At start of year	49,344	76,088
Provision for the year/(Unused amounts reversed)	9,158	(26,744)
At end of year	58,502	49,344

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

23 CASH AND CASH EQUIVALENTS

	2015 KShs'000	2014 KShs'000
Cash at bank	221,592	314,649
Cash in hand	4,837	837
	226,429	315,486

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

	2015 KShs'000	2014 KShs'000
Cash and bank balances	226,429	315,486
Bank overdraft (note 29)	(423,210)	(257,193)
	(196,780)	58,293

24 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 2015, and 31 December 2014	2,625,000	1,000	2,625,000

25 SHARE PREMIUM

	Ordinary shares	Redeemable preference shares	Total
2015	KShs'000	KShs'000	KShs'000
At start and end of year	234,801	4,259,023	4,493,824
2014			
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.

26 REDEEMABLE PREFERENCE SHARES

	Number of Preference shares	Preference shares KShs'000	Share premium KShs'000	Total KShs'000
At 31 December 2014, and 31 December 2015	22,611,514	22,611,514	4,259,023	26,870,537

The par value for the redeemable preference shares is KShs 1000.
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 2015.

27 SHAREHOLDER'S LOANS

	2015 KShs'000	2014 KShs'000
At start of year	36,741,600	30,840,447
Proceeds from new shareholder's loans	4,370,698	3,781,457
Accrued interest	905,079	1,129,608
Repayment	(15,957,399)	(403,631)
Exchange differences on re-translation of loans	5,326,696	1,393,719
At end of year	31,386,674	36,741,600

This is a loan from Bharti Airtel International Netherlands B.V. There are no defined repayment terms for the loans. The loans are unsecured and bear 3% interest.

28 NON-CURRENT BORROWINGS

	2015	2014
	KShs'000	KShs'000
Term loan	681,371	1,982,533
Tower finance lease	7,337,650	-
	8,019,021	1,982,533

The carrying value of property, plant and machinery held under finance leases at 31 December 2015 was KShs 7.8 billion.

Further details on the term loan are detailed below.

(i) Term loan

	2015	2014
Opening balance	1,982,533	2,327,184
Additions during the year	-	626,359
Repayment of term loan	(1,264,425)	(596,054)
Amortisation of financing costs	(129)	(17,114)
Exchange (loss)/gain on translation of borrowings	233,234	91,009
Transfer to current borrowings	(269,842)	(494,454)
Accrued interest	-	71,851
Accrued interest paid in the year.	-	(26,248)
	681,371	1,982,533

The Eco Bank loan had an interest rate of 14.5% p.a while the standard chartered facility of KShs 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.

(ii) Finance Lease

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 payments KShs '000	Present Value of payments KShs '000
After one year but in no more than 5 years	5,974,686	3,577,896
More than 5 years	4,381,436	3,759,754
Total minimum lease payments	11,551,060	7,888,786
Less: amounts representing finance charges	(3,662,274)	-
Present value of minimum lease payments	7,888,786	7,888,786
Transfer to current borrowings	(1,194,937)	(551,136)
Total non-current lease payments	7,337,650	7,337,650

The carrying value of property, plant and machinery held under finance leases at 31 December 2015 was KShs 7.8 billion.

There are no escalation clauses for the finance lease.

29 CURRENT BORROWINGS

	2015 KShs'000	2014 KShs'000
At start of the year	1,245,954	751,500
Transfer from non-current borrowings	269,842	494,454
Transfer from non-current finance lease	551,136	-
Repayment	(917,586)	-
Closing Balance	1,149,346	1,245,954
Bank overdraft		
At start of the year	257,193	292,869
Borrowings in the year	166,017	-
Repayment	-	(35,676)
Closing Balance	423,210	257,193
Total Current Borrowings	1,572,555	1,503,147
Current borrowings comprise:		
Eco Bank loan	320,000	320,000
Standard Chartered Bank Loan	278,210	925,954
Current finance lease	551,136	-
	1,149,346	1,245,954

Current borrowings consist of a short term loan that was received from Eco Bank Kenya Limited in November 2009 and transfers from Non-current borrowings for balances repayable within 12 months of 31 December 2015.

The agreed interest rate on the short term loan received from Eco Bank Kenya Limited is 14.5% per annum with a revolving tenor of 120 days. Interest is payable in arrears calculated on the basis of a 365-day year, or 366-day year in case of leap year. This is guaranteed by receipts from customers. The overdraft facility extended by Standard Chartered Bank has a limit of KShs 450 Million and bears 20% interest p.a. Interest accrues on the daily overdrawn balance and is payable monthly in arrears. As at 31st December 2015, the overdrawn balance was KShs 421 Million (KShs 257 Million as at 31st December 2014).
The carrying amounts of current borrowings approximate their fair value.

30 TRADE AND OTHER PAYABLES

	2015 KShs'000	2014 KShs'000
Trade payables	4,871,406	4,638,348
Amounts due to related parties (Note 37)	1,778,941	1,645,071
Accrued expenses and other payables	11,116,996	6,303,099
Deferred airtime revenue	1,130,295	1,366,758
Social security and others taxes	(47,010)	52,510
	18,850,628	14,005,786

The carrying amounts of the above payables and accrued expenses is 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.

31 PROVISIONS

	2015 KShs'000	2014 KShs'000
Provision for IT costs	117,241	897,712
Provision for VAS expenses	17,523	20,910
Provision for network expenses	158,362	36,942
Provision for call centre costs	92,914	86,992
Provision for loan arrangement fees	-	269
Provision for marketing costs	1,392	29,312
Provision for staff costs	207,966	211,872
Provision for asset retirement obligations	17,312	4,177
Provision for legal claims and regulatory costs	788,024	1,352,805
Provision for sales and distribution costs	1,296	9,003
Provision for airtime credit services	18,264	25,081
Provision for professional fees	23,633	15,420
	1,443,927	2,690,495

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.

32 SALE OF SHARES IN KENYA TOWERS LIMITED

During the year ended 2015, the company sold its investment in Kenya Tower Limited for a consideration of KShs. 18.5 billion to Eaton Kenya Limited. Accordingly, the gain from the sale of the investment amounting to KShs 17.9 billion has been recognised in profit or loss.

33 LEASE OF TOWERS

During the year, the company leased towers from Kenya Towers Limited. The towers represent the technical capacities of the dedicated part of the towers on which company's equipment are located. At 31 December 2015, the carrying amount of assets under the finance lease was KShs 7.8 billion.

34 CONTINGENT LIABILITIES

(i) Amortisation of the mobile licence

There is 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. The dispute with KRA is under appeal for determination. On January 23, 2007, the Court ruled in favour of Airtel Networks Kenya Limited. However, KRA subsequently appealed this ruling. The hearing and ruling is awaited at the Court of Appeal though a date has not yet been fixed. The directors are of the opinion that the outcome of the appeal will be in favour of the company hence no provision has been made for the liability that may arise from this dispute.

(iii) Other disputes with KRA

There are various on-going disputes with KRA worth KShs 201 million following an audit conducted by the KRA for the years 2002 - 2005. As at 31 December 2014, it was not possible to estimate the outcome of these disputes.
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 crystalise.

(iv) 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 and lease disputes. Detailed information regarding the above cases has not been disclosed as this may prejudice the position of the company in the disputes with other parties.

35 COMMITMENTS

	2015 KShs'000	2014 KShs'000
Capital commitments		
Authorised and contracted for:		
Due within 1 year	1,898,478	3,610,979

Operating lease - Lessee

The company has entered into a leasing agreement with Kenya Towers Limited and Safaricom Kenya Limited for lease of Base Transceiver Stations sites in various parts of Kenya. The lease is 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 are as follows:

	2015 KShs'000	2014 KShs'000
Not later than 1 year	1,738,687	2,718,000
Later than 1 year but not later than 5 years	6,685,883	10,872,000
Later than 5 years	14,797,722	9,135,000
	23,222,292	22,725,000

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:

	2015 KShs'000	2014 KShs'000
Not later than 1 year	20,364	19,394
Later than 1 year but not later than 5 years	49,649	47,285
Later than 5 years	-	-
	70,013	66,679

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

Name of Tenant	Lease start date	Lease end date	Annual escalation
NSN	1-Nov-12	1-Feb-18	5% annually
Commercial Bank of Africa	1-Aug-11	31-Jul-17	5% annually
Barclays Bank of Kenya	1-Nov-13	31-Jan-19	5% annually

36 CASH (USED IN) / GENERATED FROM OPERATIONS

	2015 KShs'000	2014 KShs'000
Profit/(loss) before tax	8,038,706	(6,642,476)
Adjustments for:		
Interest income (Note 9)	(59,346)	(80,470)
Interest expense (Note 12)	1,400,186	1,072,626
Gain on disposal of property, plant and equipment and sale of Kenya Tower Limited (Note 9)	(20,232,586)	(2,300)
Depreciation on property, plant and equipment (Note 16)	3,394,862	3,442,998
Amortisation of intangible assets (Note 17)	643,774	342,996
Amortisation of prepaid operating lease rentals (Note 18)	18,056	18,056
Changes in Fair value of embedded Derivatives	163,223	69085
Unrealised exchange loss	6,807,602	1,989,120
Additional Provisions on trade and other receivables	51,477	268,124
Provisions for inventories	16,963	20,032
Reversal of impaired tax receivable	-	191,113
Depreciation adjustment/ inter unit	277,813	-
Changes in working capital		
Trade and other receivables	(3,891,967)	3,425,153
Inventories	(16,869)	(3,454)
Provisions for expenses	(588,390)	(1,056,178)
Trade and other payables	3,598,275	4,008,446
Cash generated (used in) / generated from operations	(378,221)	7,059,442

37 RELATED PARTY TRANSACTIONS

The company is controlled by Bharti Airtel Kenya 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	2015 KShs'000	2014 KShs'000
Bharti Airtel Limited	243,941	131,287
Airtel Burkina Faso	1,294	619
Airtel Chad	2,958	1,031
Airtel Congo B	9,243	1,251
Airtel DRC	25,670	17,163
Airtel Gabon	2,365	1,983
Airtel Ghana	23,909	3,216
Airtel Madagascar	6,835	2,224
Airtel Malawi	29,567	7,480
Airtel Nigeria	47,725	22,713
Airtel Niger	9,843	923
Airtel Rwanda	79,402	3,982
Airtel Seychelles	513	315
Airtel Sierra Leone	9,292	2,270
Airtel Tanzania	184,135	206,688
Airtel Uganda	117,449	135,721
Airtel Zambia	857	11,089
Bharti Airtel Lanka (Pvt Limited)	-	40
	794,998	549,995

Sales of services are negotiated with related parties on a cost-plus basis, allowing a margin of 10% (2014: 10%).

Services sold to intercompany entities include interconnection of voice calls, roaming, short message services and sale of phones and handsets.

37 RELATED PARTY TRANSACTIONS (continued)

(ii) Purchase of goods and services

	2015 KShs'000	2014 KShs'000
Bharti Airtel Limited	247,997	626,667
Airtel Burkina Faso	293	1,291
Airtel Chad	492	597
Airtel Congo Brazzaville	2,024	1,079
Airtel DRC	6,250	10,678
Airtel Gabon	4,212	2,792
Airtel Ghana	2,884	5,281
Kenya Tower Company	-	2,753,676
Airtel Madagascar	265	3,505
Airtel Malawi	1,401	3,782
Airtel Nigeria	19,608	9,240
Airtel Niger	445	1,696
Airtel Rwanda	3,693	8,131
Airtel Seychelles	146	2,105
Airtel Sierra Leone	146	605
Airtel Tanzania	238,801	76,665
Airtel Uganda	194,304	58,130
Airtel Zambia	5,103	9,639
Bharti Airtel Lanka (Pvt Limited)	-	189
Network i2i	139,036	117,972
Jersey	-	2
	867,100	3,693,722

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 intercompany including interconnection for voice calls, roaming, Sms and sale of assets.

(iii) Key management compensation

	2015 KShs'000	2014 KShs'000
Employment benefits	364,638	328,144

Further details on key management compensation are as follows:

	2015	2014
Total Salaries and Allowances	294,848	290,281
Annual Performance Bonuses	37,566	24,043
Medical Expenses	3,328	4,000
Social Security - Pension	6,831	8,251
Long Term Incentive (LTI)	-	1,569
Termination Dues	22,065	-
	364,638	328,144

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 Dec 2015, the provision for long term incentive was KShs 21.2 million (2014: KShs 7 million).

37 RELATED PARTY TRANSACTIONS (continued)

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

(a) Receivable from related parties

	2015 KShs'000	2014 KShs'000
Airtel Burkina Faso	25,043	23,749
Airtel Chad	37,792	34,834
Airtel Congo B	32,936	23,693
Airtel DRC	239,576	213,906
Airtel Gabon	29,722	27,357
Airtel Ghana	44,810	20,901
Airtel Madagascar	39,475	32,640
Airtel Malawi	157,347	127,780
Airtel Niger	96,458	86,615
Airtel Nigeria	269,096	221,371
Airtel Rwanda	140,241	60,839
Airtel Sierra Leone	73,945	64,653
Airtel Tanzania	631,060	446,925
Airtel Uganda	294,000	411,449
Airtel Zambia	10,777	11,634
Bharti Airtel Africa BV	3,147,846	1,916,660
Kenya Towers Limited	-	135,374
Airtel Seychelles	53,338	52,825
Bharti Airtel Limited	371,019	127,078
Bharti Airtel Lanka (Pvt Limited)	1	23
Bharti Airtel International Netherlands B.V. (BAIN)	-	45,101
Bharti UK	-	706
	5,694,482	4,086,113

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

(b) Payable to related parties

	2015 KShs'000	2014 KShs'000
Airtel Burkina Faso	2,143	1,850
Airtel Chad	2,595	3,087
Airtel Congo B	3,125	5,149
Airtel DRC	66,788	60,538
Airtel Gabon	289	4,501
Airtel Ghana	4,825	1,941
Airtel Madagascar	1,651	1,386
Airtel Malawi	26,363	24,962
Airtel Niger	1,622	2,067
Airtel Nigeria	29,782	49,390
Airtel Rwanda	5,297	1,604
Airtel Sierra Leone	1,365	1,219
Airtel Tanzania	892,663	653,861
Airtel Uganda	259,413	453,717
Airtel Zambia	1,173	6,276
Bharti Airtel Limited, India	380,032	132,035
Bharti Airtel Sri Lanka Limited	25	76
Airtel Seychelles	192	338
Network i2i	96,472	235,508
Warid Uganda	-	-
Bharti UK	3,126	5,566
	1,778,941	1,645,071

37 RELATED PARTY TRANSACTIONS (continued)

	2015 KShs'000	2014 KShs'000
(v) Shareholder's loans		
Payable to Bharti Airtel Africa BV	31,386,674	36,741,660
Interest expense incurred on shareholder's loans	905,079	1,129,608

Terms and conditions of the loan are detailed in Note 27.

38 OPERATING LICENCE

During the year ended 31December 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. Airtel has requested the authority to issue fresh document incorporating new terms and conditions including roll out obligations bearing Airtel's name however the issue is pending to be resolved.

39. 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.