KENYA TOWERS LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS FOR YEAR ENDED

31 DECEMBER 2014

Table of contents

	Page
Company information	1
Report of the directors	2
Statement of directors' responsibilities	3
Report of the independent auditors	4 - 5
Financial statements:	
Statement of profit or loss and other comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10 - 32

KENYA TOWERS LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014

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

AUDITOR
Ernst & Young
Kenya Re Towers, Upper hill
Off Ragati Road
P. O. Box 44286 - 00100
NAIROBI, KENYA

PRINCIPAL BANKERS
Standard Chartered Bank of Kenya Limited
Standard Chartered Chiromo
48 Westlands Road
P.O Box-30003,00100 GPO
Nairobi, Kenya

KENYA TOWERS LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2014

The directors submit their report together with the audited financial statements for the year ended 31 December 2014, which disclose the state of affairs of the company.

1. PRINCIPAL ACTIVITIES

   The principal activities of the company are the establishment, operation and maintenance, management and leasing of wireless communication towers in Kenya.

2. RESULTS

   The results for the period are set out in page 6.

3. DIVIDEND

   The directors do not recommend the payment of dividends in the period (2013:Nil)

4. RESERVES

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

5. DIRECTORS

   The directors who held office during the period and to the date of this report are as follows;

   Ms Tina Uneken**
   Prakash Ranjalkar*
   Shivan Bhargava* - Resigned 1 May 2014

   * Indian; ** Dutch;

6. AUDITOR

   Ernst & Young have expressed their willingness to continue in office in accordance with section 159 (2) of the Kenyan Companies Act.

By Order of the Board

NAIROBI

......................2015

SECRETARY

KENYA TOWERS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2014

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 designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstance. 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 that may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

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

Director

Director 26/06/15

26th June 2015
Date

EY

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REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF
KENYA TOWERS LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Kenya Towers Limited, which comprise the statement of financial position as at 31 December 2014, 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 32.

Directors' Responsibility for the Financial Statements

The company's directors 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 of material misstatement, whether due to fraud or error.

Auditors' 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 of 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 Kenya Towers Limited as at 31 December 2014, 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicate that the company had a loss for the year of Kshs 70.9 million and as at 31 December 2014, its current liabilities exceeded current assets by Kshs 2.9 billion. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about 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 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 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 Peter Anchinga, P/No 1426

Nairobi, Kenya

28 June 2015

KENYA TOWERS LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 Kshs'000	2013 Kshs'000 Restated*
Revenue	6	3,074,484	1,994,906
Cost of sales	7	(1,443,639)	(830,410)
Gross profit		1,630,845	1,164,496
Other income	8	4,082	5,165
Administrative expenses	9	(402,158)	(135,405)
Other operating expenses	10	(1,118,593)	(784,312)
Finance costs	11	(185,012)	(104,170)
(Loss)/Profit before taxation	12	(70,836)	145,774
Income tax expense	14	(80)	-
(Loss)/Profit for the year		(70,916)	145,774
Other comprehensive income		-	-
Total comprehensive income for the year		(70,916)	145,774

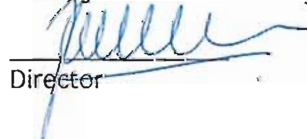
* Certain figures shown here do not correspond to the 2013 financial statements and reflect adjustments made as detailed in note 28.

KENYA TOWERS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

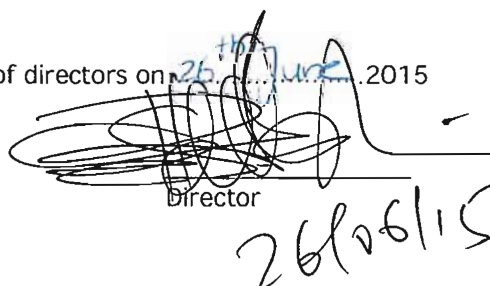
	Notes	2014 Kshs'000	2013 Kshs'000 Restated*
Non-current assets			
Property, plant and equipment	15	4,311,239	5,219,885
Intangible assets	16	12,455	13,461
Other non-current assets	17	8,443	8,623
Deferred tax asset	29	-	-
		4,332,137	5,241,969
Current assets			
Trade receivables	18	142,746	60,459
Other receivables and prepayments	19	94,830	101,240
Due from related parties	25 (iii)	45,352	23,301
Cash and cash equivalents	20	945	94,954
		283,873	279,954
Total assets		4,616,010	5,521,923
Equity			
Ordinary share capital	21	526,300	100
Retained earnings		61,801	132,716
Total equity		588,101	132,816
Non current liabilities			
Provisions	22	870,162	903,728
Current liabilities			
Shareholder loans	23	2,228,940	517,800
Due to related parties	25(v)	465,707	3,528,521
Trade and other payables	24	463,020	439,058
Tax payable	14(b)	80	-
		3,157,747	4,485,379
Total equity and liabilities		4,616,010	5,521,923

* Certain figures shown here do not correspond to the 2013 financial statements and reflect adjustments made as detailed in note 28.

The financial statements were approved by the Board of directors on 26th June 2015 and signed on its behalf by



Director



Director

26/06/15

KENYA TOWERS LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Ordinary share capital Kshs'000	Profit/(loss) Kshs'000	Total Kshs'000
Year ended 31 December 2013				
At the start of the year		100	(13,057)	(12,958)
Prior Year Adjustments	28	-	14,042	14,042
Restated balance		-	985	2,084
Profit for the year		-	131,732	131,732
As at 31 December 2013 - Restated		100	132,717	132,817
Year ended 31 December 2014				
As at January 2014		100	132,717	132,817
Increase In share capital	21	526,200	-	526,200
Loss for the year		-	(70,916)	(70,916)
As at 31 December 2014		526,300	61,801	588,101

KENYA TOWERS LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 KShs'000	2013 KShs'000 Restated*
OPERATING ACTIVITIES			
Cash generated from operations	26	(2,152,387)	5,575,181
INVESTING ACTIVITIES			
Purchase of property & equipment	15	(246,929)	(6,023,438)
Proceeds from sale of property & equipment		67,967	25,240
Net Cash used in investing activities		(178,962)	(5,998,198)
FINANCING ACTIVITIES			
Proceeds from issue of share capital	21	526,200	-
Proceeds from shareholder loans	23	1,711,140	517,800
Net Cash generated from investing activities		2,237,340	517,800
Net (decrease)/increase in cash and cash equivalents		(94,009)	94,783
Cash and cash equivalents at the beginning of the year		94,954	171
Cash and cash equivalents at the end of the year	20	945	94,954

1. GENERAL INFORMATION

Kenya Towers 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.

2. GOING CONCERN

The company realised a loss of KShs 70.9 million during the year ended 31 December 2014 (2013: profit of KShs 145.8 million) and, as of that date current liabilities exceeded its current assets by KShs 2.9 billion (2013: KShs 4.2 billion). These conditions indicate the existence of a material uncertainty that 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 parent company Bharti Airtel International (Netherlands) B.V. has indicated its intention to continue providing the necessary financial support that may be required to enable the company meet its financial obligations as and when they fall due

In view of this, the directors consider it appropriate to prepare the financial statements on a going concern basis.

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 during the period, unless otherwise stated.

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). 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), rounded to the nearest thousand.

Statement of compliance
The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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(o).

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.

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 and loss.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of 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) 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.

Revenue is recognised as follows:

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received/receivable, excluding discounts, rebates, and VAT, service tax or duty. 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 tower space and/or energy.
Service revenues are recognised as the services are rendered and are stated net of discounts, waivers and taxes.

ii) Sales revenue
Sales of goods 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) Interest income
For all financial instruments measured at amortized 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 'finance income' in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the company recognizes such parts as separate components of assets with specific useful lives and provides depreciation over their useful lives. 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.

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:

Network equipment	3- 20 years
Computer equipment	3 years
Office furniture and equipment	2-5 years

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

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 date.

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.

At initial recognition, the 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 any accumulated amortisation and accumulated impairment losses, if any.

Amortization 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 amortization period and the amortization method for an intangible asset (except goodwill) 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates.

i) Licenses

Acquired licenses are initially recognised at cost. Subsequently, License and spectrum entry fees are measured at cost less accumulated amortization and accumulated impairment loss, if any. Amortization 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 amortization. Estimated useful life of the intangible asset is as follows:

Operating License	15 years

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Impairment of non-financial assets

The company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the company's CGUs to which the individual assets are allocated.

Impairment losses are only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had previously been recognised.

g) Accounting for leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for 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.

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 recognised initially at fair value plus directly attributable transaction costs, except for financial assets and liabilities classified as fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) 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. The company has not designated any financial assets upon initial recognition at fair value through profit or loss. 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 unless they are designated as effective hedging instruments. 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 cost.

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.

Financial assets - Derecognition

The company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expires or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset.

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 unless they are designated as effective hedging instruments. 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 finance income or finance cost.

Financial liabilities measured at amortised cost

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

Amortized 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 amortization 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 the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Financial instruments (continued)

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 realize the assets and settle the liabilities simultaneously.

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).

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for log positions and ask price for short positions), without deduction of any transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transaction
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

i) Share capital

Ordinary shares and qualifying preference shares 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.

j) 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 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.

k) 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 and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) 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 rates enacted or substantively enacted at the reporting date.

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

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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

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

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

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

m) Value Added Tax

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

i) 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

ii) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the income statement 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 are provided at the present value of expected costs to settle the obligation using discounted cash flows and are recognised as part of the cost of that particular asset. 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 the income statement 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.

o) Critical accounting estimates and judgements

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

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, and the disclosure of contingent liabilities, at the end of the reporting period. 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.

Judgments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Critical accounting estimates and judgements (continued)

Allowance for bad and doubtful debts

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

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 together with future tax planning strategies.

Critical assumptions have been made by the directors in determining the recoverability of the deferred income tax asset.

Income taxes

Significant judgment 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.

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:

q) Critical accounting estimates and judgements

Property and equipment

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

Impairment 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 to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset.

4. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2013 which do not have an impact on the annual financial statements of the company:

The nature and the impact of each new standards and amendments are listed below:

- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 1 Clarification of the requirement for comparative information (Amendment)
- IAS 19 Employee Benefits (Revised 2011)
- Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt applicable standards when they become effective.

- IFRS 9 Financial Instruments
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
- IFRIC Interpretation 21 Levies (IFRIC 21)
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks: Market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the company does not hedge any risks.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors and the company has the following financial instruments:

2014:

	Loans and receivables Kshs' 000	Fair value through profit or loss - held for trading Kshs' 000	Financial liabilities at amortised cost Kshs' 000
Trade and other receivables	282,928	-	-
Cash and cash equivalents	945	-	-
Shareholder loans	-	-	2,228,940
Trade and other payables	-	-	928,807
	283,873	-	3,157,747

2013:

	Loans and Receivables Kshs' 000	Fair value through profit or loss - held for trading Kshs' 000	Financial liabilities at amortised cost Kshs' 000
Trade and other receivables	185,001	-	-
Cash and cash equivalents	94,954	-	-
Shareholder loans	-	-	517,800
Trade and other payables	-	-	3,967,579
	279,955	-	4,485,379

Market risk

Market risk is the risk that changes in market prices such as interest rate and foreign exchange rates will affect 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 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 ongoing basis to cater for its operational requirements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

i) Foreign exchange risk (continued)

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

Assets in foreign currency	2014 Kshs' 000	2013 Kshs' 000
Cash and bank balances	355	93,690
Amounts due from related parties	45,352	23,301
Trade Receivables	38,907	30,468
	84,614	147,459
Liabilities in foreign currency		
Trade and other payables	12,667	52,441
Amounts due to related parties	298,127	130,033
Shareholder loans	2,228,940	517,800
	2,539,734	700,274
Net foreign currency liability	2,455,130	552,815

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the main transaction currency, with all other variables held constant:

	Increase/decrease in foreign exchange rate	Effect of foreign currency fluctuation on profit/loss KShs'000'
USD		
2014	5%	26,505
2013	4%	19,800

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 during the year.

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 charges in interest rates will affect future profitability on 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 deposits are denominated.

The company does not hold any financial instruments subject to cash flow and fair value interest rate risk.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 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
2014	%	KShs	KShs	KShs	KShs	KShs
Financial assets						
Cash and bank balances		-	-	-	945	945
Amounts due from group companies		-	-	-	45,352	45,352
Trade and other receivables		-	-	-	237,576	237,576
Total at 31 December 2014		-	-	-	283,873	283,873

	Effective interest rate	3 months or less	Between 3 months and 1 year	Between 1 year and 5 years	Noninterest bearing	Total
2014	%	KShs	KShs	KShs	KShs	KShs
Financial liabilities						
Shareholder loans	3.00%	-	2,228,940	-	-	2,228,940
Amounts due to group companies	3.00%	-	180,042	-	285,665	465,707
Trade and other payables	-	-	-	-	463,100	463,100
Total at 31 December 2014		-	2,408,982	-	748,765	3,157,747
Interest sensitivity gap		-	(2,408,982)	-	(464,892)	(2,873,874)

	Effective interest rate	3 months or less	Between 3 months and 1 year	Between 1 year and 5 years	Noninterest bearing	Total
2013	%	KShs	KShs	KShs	KShs	KShs
Financial assets						
Cash and bank balances		-	-	-	94,954	94,954
Amounts due from group companies		-	-	-	23,301	23,301
Trade and other receivables		-	-	-	161,699	161,699
Total at 31 December 2013		-	-	-	279,955	279,954

	Effective interest rate	3 months or less	Between 3 months and 1 year	Between 1 year and 5 years	Noninterest bearing	Total
2013	%	KShs	KShs	KShs	KShs	KShs
Financial liabilities						
Shareholder loans	3.00%	-	517,800	-	-	517,800
Amounts due to group companies	3.00%	-	3,439,964	-	88,557	3,528,521
Trade and other payables		-	-	-	439,058	439,058
Total at 31 December 2013		-	3,957,764	-	585,431	4,485,379
Interest sensitivity gap		-	(3,957,764)	-	(305,475)	(4,205,423)

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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, and deposits with banks, as well as trade and other receivable. 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 2014 is made up of the following:

	2014	2013
	Kshs' 000	Kshs' 000
Cash at bank and short term bank deposits	945	94,954
Trade receivables	142,746	60,459
Amounts receivable from related parties	45,352	23,301
	189,043	178,714

None of the above assets are either past due or impaired.

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 flow.

The table below analyses the company's financial assets and liabilities that will be settled on a net basis into relevant maturity groupings 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	Between 1 and 2 years	Between 2 and 5 years
	KShs'000	KShs'000	KShs'000
At 31 December 2014:			
Liabilities			
Due to related parties	465,707	-	-
Shareholder loans	2,228,940	-	-
Trade payables	84,942	-	-
Deferred revenues	281	-	-
Accrued expenses	377,797	-	-
Other taxes payable	80	-	-
Trade and other payables	3,157,747	-	-
Total financial liabilities (contractual maturity dates)	3,157,747	-	-
Assets			
Cash and bank balances	945	-	-
Due from related parties	45,352	-	
Trade and other receivables	237,576	-	-
Total financial assets (expected maturity dates)	283,873	-	-
Net financial liability	2,873,874	-	-

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	Less than 1 year KShs'000	Between 1 and 2 years KShs'000	Between 2 and 5 years KShs'000
At 31 December 2013:			
Liabilities			
Due to related parties	3,528,521	-	-
Shareholder loans	517,800	-	-
Trade payables	84,102	-	-
Deferred revenues	62,509	-	-
Accrued expenses	292,447	-	-
Other taxes payable	-	-	-
Trade and other payables	4,485,379	-	-
Total financial liabilities (contractual maturity dates)	4,485,379	-	-
Assets			
Cash and bank balances	94,954	-	-
Due from related parties	23,301	-	-
Trade and other receivables	161,700	-	-
Total financial assets (expected maturity dates)	279,955	-	-
Net financial liability	4,205,423	-	-

Liquidity risk (continued)

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.

	2014		2013	
	Carrying amount KShs'000	Fair Value KShs'000	Carrying amount KShs'000	Fair Value KShs'000
Financial Assets				
Trade and other receivables	237,576	237,576	161,699	161,699
Cash and cash equivalents	945	945	94,953	94,953
Financial Liabilities				
Trade and other payables	3,157,747	3,157,747	4,485,379	4,485,379

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. As at 31 December 2014, the carrying amounts of such receivables, net of allowances, approximates their fair value.

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern by maintaining positive total equity.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity plus total borrowings.

The gearing ratio at 31 December 2014 was as follows.

	2014 Kshs' 000	2013 Kshs' 000 Restated
Total borrowings	2,228,940	517,800
Equity	588,101	132,817
	1,640,839	384,983
Gearing ratio	279%	290%

Fair value estimation
The company does not hold any financial instruments that are measured at fair value.

6 REVENUE	2014 KShs'000	2013 KShs'000 Restated*
Revenue from Airtel	2,725,354	1,571,492
Revenue from Third Parties	349,130	423,414
	3,074,484	1,994,906

7 COST OF SALES

	2014	2013
Network Rent	195,058	102,285
Warehouse Rent	13,414	9,983
Network Electricity	414,183	197,656
Network Diesel	206,938	138,378
Managed Service- Passive	155,878	214,712
Network Security	144,491	87,503
Network Repairs	135,410	33,237
Other cost of sale	178,267	46,656
	1,443,639	830,410

8 OTHER INCOME

	2014	2013
Foreign Gain	70	-
Miscellaneous Income	500	257
Profit on Sale of Fixed Assets	3,512	4,908
	4,082	5,165

9 ADMINISTRATIVE EXPENSES

	2014 KShs'000	2013 KShs'000
Employee costs (Note 13)	79,632	48,499
Licence fee	19,112	11,024
Auditors remuneration	930	820
Legal and professional charges	297,315	74,129
Other administrative costs	5,169	934
	402,158	135,405

10 OTHER OPERATING EXPENSES

	2014	2013
Depreciation of property and equipment	1,117,587	783,309
Amortisation of intangible assets	1,006	1,003
	1,118,593	784,312

11 FINANCE COSTS

	2014	2013
Interest Expense	143,428	96,779
Exchange Gains	14,284	(2,737)
Exchange Losses	27,060	10,057
Bank charges	240	71
	185,012	104,170

12 PROFIT/(LOSS) BEFORE TAX

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

	2014	2013
Depreciation and amortisation (Note 15 and 16)	1,118,587	784,312
Employee benefits expense (Note 13)	79,632	48,499
Auditor's remuneration	930	820

13 EMPLOYEE BENEFITS EXPENSE

	2014	2013
Salaries and wages	55,287	33,233
Other staff related costs	20,143	13,607
Social security	4,202	1,659
	79,632	48,499

14 TAXATION

a) Income tax expense
Tax expense based on profit for the year as adjusted for tax purposes.

	2014	2013
Current income tax	80	-
Deferred tax	14,884	43,855
(Under) / Over provision in prior year	(45,045)	(88,901)
Deferred income tax asset not recognised during the year	30,161	45,045
Tax expense	80	-

14 TAXATION (continued)

b) Income tax expense (continued)

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

	2014 KShs'000	2013 KShs'000
Profit/(Loss) before taxation	(70,836)	145,774
Tax calculated at the statutory income tax rate of 30% (2013 – 30%)	(21,251)	43,732
Tax effect of:		
- Expenses not deductible for tax purposes	36,214	1,596
- Income not subject to tax		(1,473)
- (Under) / Over provision in prior year	(45,045)	(88,901)
- Deferred income tax asset not recognised during the year	30,161	45,045
Income tax expense	80	-

c) Income tax recognized in the statement of financial statements

	2014	2013
Balance brought forward	-	-
Charge for the year	80	-
Payments during the year	-	-
Tax payable	80	-

15 PROPERTY AND EQUIPMENT

Year ended 31 December 2014	Technical assets KShs'000	Office, IT & other equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
COST				
At January 1, 2014	5,694,810	641	307,762	6,003,213
Additions	11,244	39	235,646	246,929
Transfers from CWIP	307,094	-	(307,094)	-
Disposals	-	-	(65,934)	(65,934)
At December 31, 2014	6,013,148	680	170,380	6,184,208
DEPRECIATION				
At January 1, 2014	783,166	161	-	783,327
Charge for the year	1,117,345	242	-	1,117,587
ARO Adjustment	(27,945)	-	-	(27,945)
At December 31, 2014	1,872,566	403	-	1,872,969
NET CARRYING AMOUNT				
At December 31, 2014	4,140,582	277	170,380	4,311,239

15 PROPERTY AND EQUIPMENT

Year ended 31 December 2013	Technical assets KShs'000	Office, IT & other equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
COST				
At January 1, 2013	-	105	-	105
Additions	5,438,086	535	584,817	6,023,438
Transfers from CWIP	256,724	-	(256,724)	-
Disposals	-	-	(20,331)	(20,331)
At December 31, 2013	5,694,810	640	307,762	6,003,212
DEPRECIATION				
At January 1, 2013	-	18	-	18
Charge for the year	783,166	143	-	783,309
At December 31, 2013	783,166	161	-	783,327
NET CARRYING AMOUNT				
At December 31, 2013	4,911,644	479	307,762	5,219,885

16 INTANGIBLE ASSET

	2014 KShs'000	2013 KShs'000
Cost		
At beginning and end of year	15,000	15,000
Additions	-	-
At the end of the year	15,000	15,000
Amortisation		
At beginning of year	1,539	536
Charge for the year	1,006	1,003
At end of year	2,545	1,539
Net carrying amount	12,455	13,461

The directors estimate that the carrying amount of the prepaid operating licence approximates its recoverable amount.

17 OTHER NON-CURRENT ASSETS

	2014 KShs'000	2013 KShs'000
Security Deposits	8,443	8,623

18 TRADE RECEIVABLES

	2014 KShs'000	2013 KShs'000
Trade receivables	142,746	60,459
Less: Provision for impairment losses	-	-
Net Trade Receivables	142,746	60,459

19 OTHER RECEIVABLES AND PREPAYMENTS

	2014 KShs'000	2013 KShs'000
Prepaid Expense	94,255	101,240
Employee Receivables	75	-
Advance to suppliers	500	-
	94,830	101,240

20 CASH AND CASH EQUIVALENTS

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

	2014 KShs'000	2013 KShs'000
Cash and bank balances	945	94,954

21 ORDINARY SHARE CAPITAL

	Number of shares	Par value KShs	Ordinary shares KShs'000
Balance at 31 December 2013	100	1000	100
Additions	526,200	1000	526,200
Balance at 31 December 2014	526,300	1,000	526,300

The total authorised number of ordinary shares is 526,300 with a par value of KShs 1,000 per share. All issued shares are fully paid. During the year loan of Kshs 526 million payable to Airtel Networks Kenya Limited was converted to 526,200 ordinary shares of Kshs 1,000 par value.

22 PROVISIONS

	2014 KShs'000	2013 KShs'000
Asset Retirement Obligation	780,532	800,188
Lease Equalisation Reserve	89,630	103,540
	870,162	903,728

23 SHAREHOLDER LOANS

	2014	2013
At start of year	517,800	
Proceeds from new shareholders' loans	1,711,140	517,800
At end of year	2,228,940	517,800

This is loan from Africa Towers NV; parent company. There are no defined repayment terms for the shareholder loans. The loans are unsecured and bear interest at the rate of 3% p.a

24 TRADE AND OTHER PAYABLES

	2014 KShs'000	2013 KShs'000
Trade payables	84,942	84,102
Accrued expenses and other payables	377,797	292,447
Deferred site sharing income	281	62,509
	463,020	439,058

The carrying amounts of the above payables and accrued expenses approximate to their fair value due to their short term nature. The payables are not interest bearing

25 RELATED PARTY TRANSACTIONS

The Company is owned by Airtel Networks Kenya, based in Kenya. The ultimate parent company is Bharti Airtel Netherland B.V. There are other companies in the group related to it through common shareholding

		2014 KShs'000	2013 KShs'000 Restated*
i)	Sale of Goods and Services		
	Airtel Networks Kenya Limited	2,725,354	1,571,492
	Airtel Tanzania Limited	-	23,301
	Airtel Burkina Faso	45,352	-
	Zambian Towers Limited	22,021	-
	Africa Towers Services Limited	-	763
		2,792,727	1,595,556
ii)	Purchase of Goods and Services		
	Airtel Networks Kenya Limited	425,388	5,541,011
	Africa Towers NV	-	8,522
	Africa Towers Services Limited	126,081	72,980
		551,469	5,622,513
iii)	Amounts due from related parties		
	Airtel Burkina Faso	45,332	
	Airtel Tanzania Limited	-	23,301
		45,332	23,301
iv)	Key Management Compensation		
	Short term employee benefits	9,470	4,250
v)	Amounts due to related parties		
	Airtel Networks Kenya Limited	180,042	3,439,964
	Africa Towers NV	90,395	16,341
	Africa Towers Services Limited	195,270	72,217
		465,707	3,528,522
vi)	Loans from related parties (Note 23)	2,228,940	517,800

26 PROFIT/(LOSS) BEFORE TAXATION

	2014 Kshs' 000	2013 Kshs' 000
(Loss)/Profit before income tax	(70,836)	145,774
Adjustments for:		
Depreciation (Note 15)	1,089,642	783,309
Amortisation (Note 16)	1,006	1,003
Changes in results of operating activities		
Gain on disposal of assets	(3,512)	(4,908)
Loss on asset write offs	1,478	
Trade and other receivables	(75,695)	(169,827)
Due from related parties	(22,051)	(23,301)
Due to related parties	(3,062,814	3,500,345
Trade and other payables	(9,605)	1,342,786
	(2,081,552)	5,429,407
Cash (utilised in)/ generated from operations	(2,152,387)	5,575,181

27 COMMITMENTS

Capital commitments

	2014	2013
Authorised and contracted for	181,467	118,523

Operating Lease commitments

	2014	2013
company as a lease		
Not later than 1 year	198,400	9,816
Later than 1 year but not later than 5 years	265,199	142,499
Later than 5 years	261,972	39,145
	725,571	191,460

28 PRIOR YEARS ADJUSTMENTS

Lease Equalisation Reserve (LER)

The company has entered into various lease agreements that contain fixed escalation clauses implying that the lease receipts increase over the lease period. In accounting for such arrangements, the company has been reflecting varying amounts over the term of the lease in its records, based on the rent received/receivable, depending on the time and percentage of escalation. This policy contravenes the requirements of IAS 17, Leases, which requires lease income from operating leases to be recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Therefore, trade receivables and revenue for the year ended 31 December 2013 were understated by KShs 14 million. The financial statements for the year ended 31 December 2013 have been restated to correct this error. The effect of the restatement in those financial statements is summarized below. There is no effect on the balances at 1 January 2013.

	2014 Kshs' 000	2013 Kshs' 000
Impact on statement of financial position		
Increase in trade receivables	-	14,042
Impact on statement of comprehensive income		
Increase in revenue	-	14,042

29. DEFFERED TAX

	2014	2013
At start of year	-	-
Credit to profit or loss;		
Temporary differences on property, plant and equipment	33,805	106,741
Other temporary differences	(18,921)	(151,786)
Under/(over) provision in prior year	(45,045)	-
Deferred tax asset not recognised	30,161	45,045
	-	-

A deferred tax asset of KShs 30.16 (2013: 45.045) million has not been recognised in the financial statements as it not probable that future profits will be available against which the deferred tax asset can be utilized.

30 EVENTS AFTER THE REPOTING DATE

Airtel Networks Kenya Limited the majority shareholder (99.98%) plans to sell its majority stake in Kenya Towers Ltd to Eaton Towers toward the end of June 2015. This is subject to fulfilment of certain conditions set out in the sale agreement

31 CURRENCY

These financial statements are presented in Kenya shillings thousands (KShs '000) presented in Kenya shillings thousands (KShs '000).