**WE ARE ALIVE, INCLUSIVE, AND RESPECTFUL**

# 2016 ANNUAL REPORT AND FINANCIAL STATEMENTS

airtel

THE **SMARTPHONE** NETWORK

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**FINANCIAL STATEMENTS :**

# WHO WE ARE

We are Airtel, and rank amongst the top 3 telecom service providers in the world in terms of subscriber numbers. We are spread across 17 countries in Africa and Asia with over 360 million subscribers; over 80 million subscribers are in Africa. Airtel invested an initial 10.7 billion dollars in the business, which is the single largest investment in Africa in recent years.

# MISSION

At Airtel, we provide globally admired technologies and services to give Zambia an easy and dependable way to connect to the world. We bring everything internet to everyone, everywhere.

# VISION

Connected people are inspired people. In connecting Zambia's people to each other, we are empowering them to create opportunities, dream big and live well.

# HIGHLIGHTS

## JANUARY

Airtel Customer Service staff donated building materials to Kanwanduba Community School for the completion of a classroom block in Mumbwa district. The materials included roofing sheets, cement, windows, and door frames. In picture, Customer Service Complaints Handling Executive Harriet Chitembo (left in black Tshirt) supervises the team as they offload building material.

## FEBRUARY

Marketing Director, Mr. Sekou Barry (3rd from left) hands over a Cheque of K68, 750 to the Ncwala Organising Committee Chairperson Mr. Brighton Ngoma during the symbolic handover held at the Airtel Head Offices.


## MARCH

A participant at the Airtel Trace Music Stars Singing competition where Airtel injected K3.5m in the organization of the event.

## APRIL

Airtel staff donated blood to the Zambia National Blood Transfusion Service as part of 'Changing Lives' Corporate Social Responsibility program. Here, Interconnect Manager, Mwiilu Sianagowa 'happily' giving some blood at the Airtel Head Offices.


## MAY

Airtel in partnership with Zambia Information Communication Technology Authority donated 55 phones worth K14, 000 to Zambia's largest referral hospital the University Teaching Hospital (UTH) to ease with the communication across the wards In picture, the then UTH MD. Dr. Ben Chirwa receives a sample of the phones from Airtel's Legal and Regulatory Director Mrs. Susan Mulikita.

## JUNE

Members of staff from Airtel's Southern Zone donated 60 double sitter desks valued at K40, 000 to Hamajaata Community School in Chief Sinadambwe area in Siavonga District. The Area Sales Manager for Southern Province Mr. Edwin Mwampatisha (in brown jacket) hands over one of the desks to the school head teacher, Mr. Acklay Hanyimba while CSR Executive, Mwila Kabaso (left) looks on.

## JULY

Lusaka North Zonal Business Manager, Mr. Francis Simfukwe (left) and Legal and Regulatory Director Mrs. Susan Mulikita (right) hand over an assortment of educational materials to LOVE Community School in Lusaka's John Howard Compound.

## AUGUST

The Chawama Cheshire Old People's Home was visited by the Airtel Managing Director, Mr. Peter Correia who mingled and shared a meal with over 20 men and women who are domiciled at the home and are looked after by Catholic Sisters. Airtel also donated food stuffs and other goods such as cleaning materials and mosquito nets worth K12, 000. In the picture, Airtel MD, Peter Correia greets one of the aged, and looking on is Chairperson of the Fundraising Committee Mr. Joseph Ngoma.

## SEPTEMBER

Airtel handed over a refurbished 1 x 8 classroom block valued at K332, 000 kwacha to Siasiakabole School in Choma that caters for over 800 pupils.

## OCTOBER

Medical personnel conducting Breast Cancer screening for female staff as a way of commemorating Breast Cancer Awareness Month

## NOVEMBER

The Airtel Marketing Department together with other private institutions joined together to paint Woodlands 'A' Primary school in commemoration of Nelson Mandela Day.

## DECEMBER

Airtel partnered with the Zambia National Broadcasting Corporation (ZNBC) to give toys, colouring books, and snacks to over 400 children at the University Teaching Hospital (UTH) pediatric wing. In the picture is Airtel MD Peter Correia (2nd from right) together with his counterpart from ZNBC, Mr. Malolela Lusambo the acting DG and UTH acting MD, Dr. Laston Chikoya prepare to give the children some gifts.

# Ms. Monica Musonda

BOARD CHAIRPERSON

# Corporate lawyer turned entrepreneur, Ms. Monica Musonda is CEO & Founder of Java Foods, a Zambian based food processing Company.

Ms. Musonda is a dual qualified English solicitor and Zambian advocate with over 15 years post qualification experience. She has held senior positions in private practice with Clifford Chance & Edward Nathan as well as worked as in house Corporate Counsel at International Finance Corporation and for Dangote Group. Her experience working with Aliko Dangote, one of Africa's most successful entrepreneurs gave her the impetus to start Java Foods.

She currently serves as non-executive director on the Boards of Zambia Sugar Plc, Dangote Industries Zambia Limited and sits on the Global Advisory Board for Scaling Up Nutrition Business Network. She was appointed by the UN Secretary General to be a member of the Lead Group of the Scaling Up Nutrition Movement. She is a 2013 Young Global Leader (World Economic Forum) and Archbishop Desmond Tutu Leadership Fellow.

Forbes Magazine and Africa Investor named her as one of the leading Young Power Women in Business in Africa in 2013 and 2014 respectively. Ms. Musonda sincerely believes that in order to develop our continent, we all must participate and build capacity and so in her spare time, she speaks to the Zambian youth on entrepreneurship and business development.

She holds a LL.B from the University of Zambia and an LL.M from the University of London.

# Mr. Jito Kayumba

BOARD MEMBER

Mr. Jito Kayumba is a partner at Kukula Capital, Zambia's pioneering Private Equity and Venture Capital Fund. He has led investments in numerous Zambian SMEs and actively participates in their strategy and development.

As an ardent promoter of innovative financing for Africa's transformation, Mr. Kayumba is often called upon by the United Nations Economic Commission (UNECA) to participate in the formulation of Investment and Finance policy and to speak at high-level global fora such as the African Development Forum alongside African Heads of State and Ministers of Finance.

Mr. Kayumba has also been recognized for his work in energy policy and the promotion of streamlined investment in energy ventures in Zambia driven by Independent Power Producers.

He is a certified Investment Advisor by the Securities and Exchange Commission and holds a degree in Political Science with specialization in Public Policy and Corporate Governance from Concordia University in Montreal, Canada.

# Mr. Peter Correia

BOARD MEMBER

## Mr Peter Correia is an Electronic Engineer who joined Airtel in March 2015 as the Managing Director for Airtel Networks Zambia Plc, having served in various operations in South Africa, Zimbabwe, Botswana, Mozambique and Tanzania.

His career in the telecommunications industry spans over 25 years and he brings this wealth of knowledge and experience to Airtel. Prior to joining Airtel, he was the Group Director Operations for the Liquid Group as well as the Managing Director for Liquid Operations South Africa.

Peter started his career as an Electronic Engineer with Siemens Ltd in South Africa and has since held various senior management positions across Africa which includes Vodacom Tanzania, Mcel Mozambique, Econet Wireless International, Vodacom South Africa and MASCOM in Botswana.

His first move into Africa came as a result of being appointed as General Manager Network Services with Econet Wireless in Zimbabwe. While at Econet, he was also appointed as Project Director for Mascom in Botswana to spearhead the license acquisition and establishment of the operation there. He has also worked as Group Chief Technical Officer for the Econet Wireless International Group.

In February 2001, he moved to Mozambique Cellular as Chief Executive Officer until July 2005. He was then offered an opportunity at Vodacom Tanzania, where he spent 6 years as the Chief Operating Officer and Executive Director.

Peter has amassed a wealth of knowledge from the various opportunities he has worked at and has brought these with him to Airtel.

# Mr. Christian De Faria

BOARD MEMBER

## Mr. Christian De Faria is a French national with over 30 years of industry experience across multiple geographies, diverse sectors and organizations such as MTN, Telekom Malaysia, Disc Vision, Deutsche Telecom and Grundig.

Mr. De Faria is currently chair of Bharti Airtel International (Netherlands) B.V. with effect fom 1 January 2017. Christian is responsible directly for all matters relating to Legal, Regulatory, Internal Assurance, Corporate Communications and Shareholders.

Mr. De Faria joined Airtel Africa in September, 2013 as the CEO- Africa Operations. His key focus was to increase the Revenue Market Share, enhance network and IT capabilities, ramp up 3G data and Airtel Money as future growth engines. In addition, strengthening the customer experience by institutionalizing best in class processes as well as strengthening the 'Airtel' brand in Africa.

Before joining Airtel, Christian was associated with MTN for 7 years where he held senior leadership positions. These included Executive Vice President, responsible for operations for the West and Central Africa Region and later as the Senior Vice President. Just before he joined Airtel he was the Group Commercial Officer at MTN for 2 years.

He is a Chartered Accountant and holds a Bachelor's Degree in Finance and Administration from the University of Toulouse in France.

# Mr. Jaideep Paul

BOARD MEMBER

Mr. Jaideep Paul joined Airtel Nigeria as Chief Financial Officer in September 2010 prior to which he served as CFO for Fairtrade LLC in Muscat, Sultanate of Oman and Bharti Retail Ltd (a franchisee of Walmart).

Mr. Paul is a strategic planner with expertise in designing and implementing internal control systems / procedures as well as developing strategies. He brings to the Board his proven ability to achieve financial discipline and enhance the overall efficiency of the organization. Mr. Paul is a keen analyst with exceptional negotiation and relationship management skills and abilities in liaising with Banks, Financial Institutions and other external agencies.
He is currently serving as Chief Financial Offer for the Airtel Group.

He holds a B. Comm Honours Degree from the University of Calcutta and has been a member of the Chartered Institute of Accountants of India since 1988.


# STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors is the primary stakeholder in influencing corporate governance in a company. The key function of the Board is to be the strategic partner and sounding board for management. The Board is deeply engaged in providing information, frank guidance and constructive feedback to management based on a clear understanding of the short and long term business plan thus promoting corporate governance. Being a listed Company the Board has also taken into consideration the provisions of the LuSE Corporate Governance Code for listed and quoted companies as a guide to obtain a baseline indication of the core governance standards and practices. They have further ensured that the Board manual/ charter encompasses the provisions of the LuSE Corporate Governance Code.
The Board of Directors comprising of 5 Directors held the following meetings:

## BOARD MEETING ATTENDANCE FOR 2016

| | Name of Director | Date of Appointment | 6 June 2016 | 3 August 2016 | 2 November 2016 | 6 December 2016 | 21 February 2017 |
|---|---|---|---|---|---|---|---|
| 1. | Ms. Monica Musonda | 23 March 2016 | √ | √ | √ | √ | √ |
| 2. | Mr. Jito Kayumba | 23 March 2016 | √ | √ | √ | √ | √ |
| 3. | Mr. Peter Correia | 1 March 2015 | √ | √ | √ | √ | √ |
| 4. | Mr. Christian De Faria | 23 March 2016 | √ | √ | Alternate director in attendance | √ | √ |
| 5. | Mr. Farhad Khan | 3 March 2015 | √ | Apologies rendered | Resigned 9 September 2016 | - | - |
| 6. | Mr. Jaideep Paul | 2 November 2016 | Not Director at the time | Not Director at the time | Appointed 2 November 2016 | Apologies rendered | √ |

## BOARD AUDIT COMMITTEE MEETINGS

The Audit Committee reviewed significant issues that arose in the audits conducted during the year with the view of assessing the adequacy of corrective actions committed by management. Further, the committee assessed the effectiveness of the company's internal controls through review and consideration of reports provided by management, internal auditors and the independent auditors. The audit committee also examined the annual financial statements, prior to their approval by the board.

| | Name of Director | 6 June 2016 | 3 August 2016 | 2 November 2016 | 21 February 2017 |
|---|---|---|---|---|---|
| 1. | Mr. Jito Kayumba | √ | √ | √ | √ |
| 2. | Mr. Christian De Faria | √ | √ | Alternate director in attendance | √ |

# AIRTEL PRODUCTS & SERVICES

# ZIKOMO KWA MILLION

In mid-December 2016, Airtel Networks Zambia Plc launched the Zikomo Kwa Million promotion across Lusaka City led by Airtel's Ambassador Macky 2, who alongside members of staff, activators and agents, announced the arrival of our 'Thank You Campaign'. The launch which was in form of a parade and was also replicated on the Copperbelt was highly effective in creating excitement and engagement with the customers.

Zikomo Kwa Million is a recharge-based promotion, where customers simply top up to earn entry points into the Zikomo "Thank You" Draws. The Draws are done weekly, with various prizes won and the overall winner of K1, 000, 000 expected to be announced at the end of the promotion. .

To date, Airtel has given out many prizes and listened to many heartwarming customer testimonials which have been showcased on our radio shows, in the print media and all social media platforms.

By saying 'Zikomo' Airtel has made it possible for customers to purchase school requirements, farming inputs and meet other financial obligations. The most recent, winner of the February monthly prize, a Mr Christopher Mumba was able to invest in an incubator for his parents' poultry farm.

Zikomo has indeed changed people's lives and delivered on the objective to give back to our customers for their continued support and loyalty.

# SO CHE

So Che meaning 'Just like that' is now a household name in Zambia. It led the composite bundle market in 2015 and currently has a penetration north of 60% on Airtel Zambia's customer base.

So Che has remained very popular in the Zambian market as it addresses core concerns unearthed in the research phase of its development: Firstly, that customers want to avoid bill shock and secondly that they want to be able to ration their resources. This makes a pre-paid bundled product like So Che the perfect choice.
Currently, the product is accessible through USSD as well as a physical recharge voucher, giving options of All-network or Airtel minute packs with daily, weekly or monthly alternatives or the So Che Night Data  Pack.

The biggest win for So Che has been meeting and exceeding customer expected value with approximately 60% penetration in the Revenue Earning Customers segment.

# ENTERPRISE SOLUTIONS

Airtel Networks Zambia PLC is committed to delivering world class service that is reliable and customized for both mobile and ISP connectivity. We have the necessary experience, expertise and exposure to offer tailor-made cost-effective solutions.

For Enterprise Data connectivity Solutions, our enterprise solutions capabilities start with our recently commissioned national Multiprotocol Label Switching (MPLS) network that has been carefully laid out with points of presence in 12 strategic towns covering the provincial capitals of the country. Leveraging on this infrastructure, Airtel is able to provide the companies with L2 MPLS VPN service both locally and international too.

With a 24hr /7 days Network Operations Centre (NOC), Airtel is committing to achieving the service availability guarantee uptime of 99%. All service delivery will be managed and governed through the adoption of a Service Level Agreement (SLA) which will provide the required governance and escalation for quality service and performance.

Through our Key Account Managers and Corporate Service Executives, our Mobile and Fixed Voice solutions respond to specific enterprise requirements and are delivered through a Sales and Service delivery. These services include Mobile voice and data with a smart phone, fixed voice solutions via an E1 channel and a preferential tariff structure through a Closed User Group (CUG) setup.

# EXECUTIVE COMMITTEE

**Back Row: (from left to right)**
Muyunda Munyinda – Enterprise Business Director;
Dinesh Thampi – Sales and Distribution Director;
Peter Correia – Managing Director;
Sanjeev Shrivastava – Supply Chain Director
and Humphrey Chola – Customer Experience Director

**Front Row: (from left to right)**
Christopher Chileshe – Airtel Money Director;
Mukesh Singla – Finance Director;
Susan M. Mulikita – Legal and Regulatory Director;
Bwembya B Chikonde – Human Resource Director;
Sekou Barry – Marketing Director
and Swithurn Mwenifumbo – Networks Director

# Letter to the Shareholders

Dear Shareholders,

I am delighted to report on the annual results for Airtel Networks Zambia Plc (Airtel) for the financial year 2016. 2016 was a challenging year particularly for the telecommunications industry. However, despite operating in an increasingly tough environment marked by fierce competition, inflationary pressure and exchange fluctuations, overall performance of your company remained strong. This excellent performance reflects the dedication and unquestionable commitment of a talented team of employees led by a strong and experienced management team as well as support from the various stakeholders who believed in us. I thank them all for their valued contribution.

I remain very excited about the long term prospects for the industry as well as the continued growth of the business, as appetite for data, amongst other things, continues to grow rapidly and smartphone adoption accelerates.

## Competition

This past year was a very competitive business year as we faced many challenges and intense contest from our competitors particularly from the new entrants in the data space - Afrimax Broadband Zambia Limited, trading as Vodafone Zambia and CEC Liquid Telecoms.

In order to enhance its competitive edge, Airtel invested heavily in enhancing the utilization of telecommunication resources and refined delivery of services through network optimization.

## Compliance with Regulation

### Know Your Customer (KYC) Regulations

On 28th June 2011, Government issued The Information and Communications Technologies (Registration of Electronic Communications Apparatus Regulation) Statutory Instrument No. 65, which made it mandatory for Network Operators (as defined therein) to capture identity details of all persons who own, purchase or are assigned a Subscriber Identity Module (SIM) card.

Airtel commenced the registration exercise on 31st August 2012 and successfully completed the same on 31st December 2016.

It is with great pride that I inform you that Airtel currently has a customer base of 4,919,496 customers with a 100% KYC success rate. We wish to thank the customers and all other stakeholders for the patience and tolerance during the entire KYC registration exercise. We will continue to register the new entrants on to the network in accordance with the provisions of the law.

## Lusaka Stock Exchange Listing Rules

In accordance with the Lusaka Stock Exchange (“LuSE”) Listing Rules of 1999, listed companies must have 25% of each class of equity securities held by the public however Airtel currently has a public shareholding of 3.64%.

Pursuant to a Board resolution which was effective 9th January 2017, 4,084,810 shares held by Bharti Airtel Zambia Holdings BV (BAZH), the majority shareholder, were converted to de-materialized shares, bringing the total number of shares held by BAZH on the LuSE Central Securities Depository (CSD) to 22,256,000. This adds to the 3,744,000 shares currently held by the public to form a total of 26,000,000 shares held in respective CSD accounts, reflecting the 25% shareholding required by law. As a result the number of shares held by BAHZ in share certificate form is 75,000,000 shares.

The shares held in the LuSE CSD will subsequently be traded at a time to be advised [subject to BAZH prior consultation] in order to comply fully with the LuSE Listing Rules.

## Financial Overview

The yardstick of measure for any company’s success is undoubtedly profitability. It is pleasing to report that Airtel’s revenue grew by 10.1% from K1,924m in 2015 to K2,118 million in the twelve month period ended 31st December 2016. Airtel maintained its market leadership position with respect to Revenue Market Share. Gross profits have also increased from K1, 548 million in 2015 to K1, 858 million in 2016.

The business continues to improve it’s margins due to strong cost optimization measures such as a reduction in operating expenses as well as the group led war on waste initiative that is aimed at improving operations without necessarily compromising on the quality of services offered to the customers.

## Working with the Community

Airtel continued to play a leading role in Corporate Social Responsibility (CSR) in Zambia with over K1.3m having been spent on CSR in 2016.

The main sectors that were impacted were education and health. 33 schools benefited from various donations and construction of classroom blocks. Further Airtel partnered with the British Council in Zambia, Samsung Electronics, Huawei and the Ministry of Education, thus helping bridge the digital gap through the donation of computers and providing internet connectivity for pupils.

In partnership with the Zambia Information Communication Technology Authority (ZICTA), the company made a contribution of 67 fixed line phones to the University Teaching Hospital (UTH) and the Lusaka Health District Office to make communication easier within the wards and between clinics around Lusaka.

## Corporate Governance

The Company continued to comply with the highest levels of corporate governance and this has been complemented by a code of conduct that has been rolled out to all employees and partners as well as the Board. The Board which comprises 5 Directors, held the required 4 meetings scheduled for each quarter. The Audit committee equally had the same number of meetings.

In conclusion I would like to extend my heartfelt gratitude to you our esteemed shareholders for the confidence and support rendered to the company in the previous year and I sincerely hope it will continue throughout the next year.

## Looking Forward

The path that lies ahead will test the company’s stamina as it will involve radical changes. Technology is evolving and we have to use the changing technology in innovative ways in order to build our platform and guarantee the future of the company. Airtel is committed to providing telecommunications to its customers in Zambia and is determined to fulfil our mission as we look to the future.

As we embark on the process of providing globally admired technology and services, we are sure that we can count on the shareholders, customers and all the members of staff of Airtel to believe in us, with passion, dedication and professionalism all of which will be essential as we pursue our mission.

Monica Musonda
**CHAIRPERSON**

# Managing Director's Report

For the year 2016, Airtel Zambia PLC managed to produce a strong underlying performance, despite a very economically challenging year.

The Zambian economy faced tough economic conditions that were influenced by the drop in copper prices on the international scene, as well as the continued power outages that crippled many a business, especially the Small and Medium Enterprises. Inflation dropped to 7.5% at the close of December, 2016. This was a milestone considering that at its height, the inflation rate had reached an all-time high of 21.10% at the end of 2015.

Liquidity in the market was tight. Interest rates increased by 12%, resulting in financial pressure to many, thereby affecting their disposable income. Macro-economic factors such as the increased cost of transport, electricity, food & fuel have negatively impacted consumer spend overall including customer's ability to purchase airtime.

In spite of all these challenges, the Kwacha appreciated in 2016 and was range bound between K9.8 to K10 to the United States Dollar, for 9 months of the year.

During the year, the Zambia Information and Communications Technology Authority (ZICTA) announced 31 December 2016, as the deadline for the registration of mobile phone subscribers (KYC) with their preferred service providers as part of the SIM card registration exercise.

The telecommunication sector also felt the effects of the challenging economy, especially the last half of the year. Growth stifled, resulting in lower than expected revenues, but through cost reduction initiatives, the Company managed to reduce its operational expenditure and improve its EBITDA.

Customer numbers continued to grow and ended the year at 4.9m, despite having to disconnect 286,000 customers at the end of December for not being KYC compliant.
We strengthened our KYC process during 2016, thereby ensuring our base is 100% compliant.

Demand for our products continued to grow especially our popular bundled product, So Che as well as our data bundles.

## Competition

In 2016, competition increased in the market. We saw aggressive disruptive strategies deployed by existing competitors who have a potential to drive customer market share and revenues downwards. In the data space, we also saw new competitors, Afrimax branded as Vodafone and CEC Liquid, enter the market. All players continue to drive smartphone penetration through strategic partnerships with device vendors through enabling creative bundling of devices, voice & data services.

## Financial Overview

Revenues grew by 10.1% from K1,924mn in 2015 to K2,118mn in the year under review. Data remained the key growth driver, having grown by 73.2% from K294mn in 2015 to K510mn in 2016.

The company recorded a Gross Profit increase of 20% from K1,548mn in 2015 to K1, 858mn in 2016. This was largely driven by the 10.1% growth in revenue as noted above Total cost of sales reduced by 30.8%

Operating Profit declined from K792.1mn in 2015 to K325.3mn in 2016

Profit after tax for the year increased from K203mn in 2015 to K229mn in 2016, a growth of 12.8%.

## Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an integral part of our business, with the aim to changing people's lives for the better. As such, we continue to raise the bar in the Country by operating in a socially responsible manner to help those vulnerable in the communities. We do this by supporting various activities in four key areas: Health, Education, Youth Entrepreneurship and the Environment. The key focus areas are also part of Zambia's 2030 vision which 'reflects the collective understanding, aspirations and determination of the Zambian people to be a prosperous middle-income nation.'

A total K1.317mn was spent on CSR activities in the last financial year with emphasis on the Education and Health sectors.

A total of 33 schools benefited from the educational support, ranging from donation of books, pencils, desks, renovations to classrooms and construction of new classrooms in the rural areas. Through various partnerships and the Ministry of Education, Airtel is helping bridge the digital gap. This is achieved through the donation of computers and providing internet connectivity for pupils to schools with the view to helping them realize their full potential and thereby contribute to national development. With this intervention, the pupils are able to access and utilize online educational resources.

In our bid to provide telecommunication services and products to all our consumers, Airtel has also provided support to the health sector. In collaboration with the Zambia Information Communication Technology Authority (ZICTA), the company handed over 67 fixed line phones to the country's largest referral hospital the University Teaching Hospital (UTH) and to the Lusaka Health District Office to make communication easier within the wards and between clinics around Lusaka.

In supporting the entrepreneurship sector, Airtel is involved in the Jubilee Women's Highway Markets project which is a program meant to assist women become self-reliant by creating and setting up of 'mini' economic hubs for the sale of agricultural produce and other items along the line of rail.

Airtel's tenacious CSR program with its various strategic partners has resulted in Airtel being recognized and awarded by various stakeholders with the following awards:

- Best Corporate Social Responsibility (CSR) Company of the Year – Awarded by the Zambia Medical Association (ZMA),
- Best Corporate Social Responsibility (CSR) - Education Project' – Awarded by the Zambia Society for Public Service Administration,
- Best Corporate Social Responsibility (CSR) - Partnership in the community – Awarded by the Zambia Society for Public Service Administration,
- Best Social Media Campaign (2nd Place) – Awarded by the Zambia Public Relations Association, and
- Best Corporate Social Responsibility Policy – Awarded by the Zambia Federation of Employers.

## Changes to the Board

There were a few changes to the Board since the last Annual General Meeting, with Mr. Farhad Khan resigning on 9th September 2016 and the vacancy being filled by Mr. Jaideep Paul who was appointed on 2nd November 2016. As approved at the last Annual General Meeting, Ms. Monica Musonda was appointed Chairperson of the Board of Directors for Airtel following the resignation of Mr. George Sokota. Mr. Jito Kayumba was also appointed as a Board Director replacing Mr. Dipak Patel who had also resigned.

## Corporate Governance

The Company continues to comply with the highest levels of corporate governance requirements. In this regard, the Board of Directors held four (04) meetings in the year ending 31st December 2016, and the Annual General Meeting was held at the end of March, 2016. The audit committee of the board also held four meetings in the year under review, at which they appraised the company's performance with respect to financial and procedural compliance.

## Changes to Senior Management

In the period under review, there were some changes to the senior management team's composition following resignations from the Chief Commercial Officer Mr. Mustafa Kapasi, the Networks Director, Mr. Abhishek Budhawani and the Finance Director, Mr. Philippe Prodhomme. Mr. Swithurn Mwenifumbo has since taken over as Networks Director and Mr. Mukesh Singla is the new Finance Director. The IT Director Mr. Bavo E Mzee was seconded to Group and was replaced with Mr. Sanjoy Ghosh.

## 2017 Outlook

We will continue to ensure that we remain customer focused and understanding our customer needs. As the pioneers of bundled products in the country, we will continue to innovate, lead and inspire those around us. We will ensure we offer affordable products and services with the highest quality.

The company will continue to make substantial investments in the network, by deploying an expansive LTE network and enhance its capacity and efficiency, in a bid to improve the overall customer experience.

As we continue on our journey of being a responsible and good corporate citizen, Airtel will continue to create partnerships with partners and Government to ensure sector development and support those under-privileged in society in order to improve and 'Change' their lives.

Airtel steps into 2017 with a strategy to remain resolute in fulfilling its commitment to its customers, shareholders and communities. Our plan to be Zambia's mobile service provider of choice is very clear and will remain consistent in 2017 and in the foreseeable future. Despite economic challenges, we are determined to continue growing the business and shareholder value.

**Total Revenue increased**

# 10.1%

to K2,117.6 million

**Data Revenue increased**

# 73.2%

to K510.8 million

**Profit Before Tax (PBT) increased**

# 61.3%

to K403.8 million

**Profit After Tax (PAT) increased**

# 12.9%

to K229.3 million

**Subscribers increased**

# 6.5%

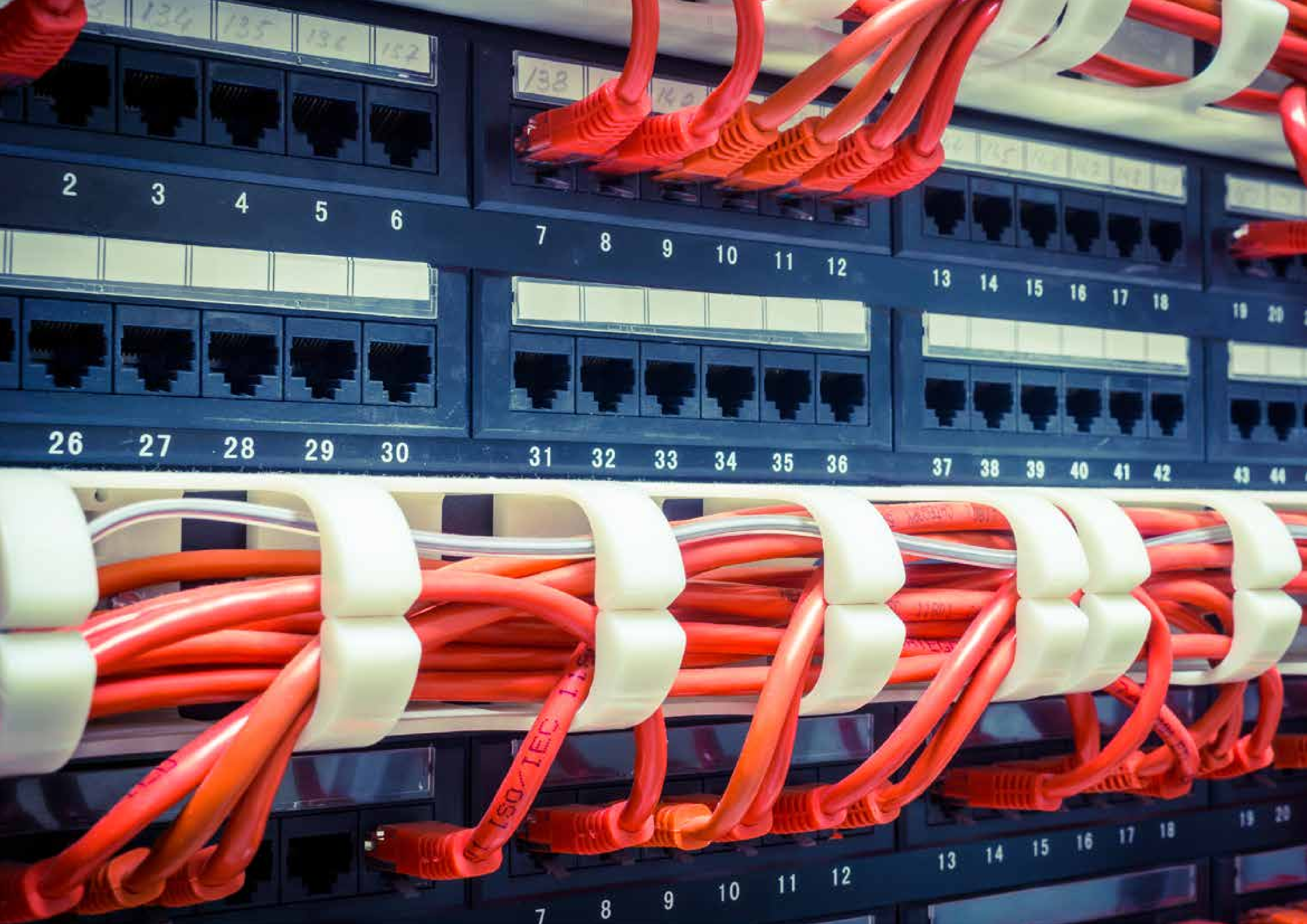
to 4.9 million

**Operating costs increased**

# 7.9%*

to K1,535.4 million

* Comparative excludes one off Other incomes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# DIRECTORS' REPORT for the year ended 31 December 2016

The directors submit their annual report together with the audited financial statements and the auditors' report for the year ended 31 December 2016, which disclose the state of affairs of the company.

## 1. Principal activities

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

## 2. Share capital

The company has an authorised, issued and fully paid share capital of K1.040 million divided into 104 million ordinary shares of 1 Ngwee each.

## 3. Results for the year

The profit for the year of K229.280 million (2015: K203.021 million) has been added to retained earnings. The directors have recommended payment of a dividend of K416 million (2015: K104 million). Dividend Per Share is K4

## 4. Directors

The following directors who held office during the period and to the date of this report: The directors submit their annual report together with the audited financial statements and the auditors' report for the year ended 31 December 2016, which disclose the state of affairs of the company.

| Name | Role | |
|---|---|---|
| George Sokota (Non-ED) | Chairman | Resigned 30 March 2016 |
| Monica K. Musonda (Non-ED) | Chairperson | Appointed 23 March 2016 |
| Peter Correia (ED) | Managing Director | Appointed 1 March 2015 |
| Dipak Patel (Non-ED) | Board Member | Resigned 1 March 2016 |
| Farhad Noor Mohamed Khan (ED) | Board Member | Resigned 9 September 2016 |
| Christophe Claude Gabriel Soulet (ED) | Board Member | Resigned 30 March 2016 |
| Christian De Faria (ED) | Board Member | Appointed 23 March 2016 |
| Jito Kayumba (Non-ED) | Board Member | Appointed 23 March 2016 |
| Jaideep Paul (ED) | Board Member | Appointed 2 November 2016 |

## 5. Number of employees and remuneration

The total remuneration of employees during the year amounted to K136.623 million (2015: K143.860 million).

| Months | Number of Employees 2016 | Number of Employees 2015 |
|---|---|---|
| January | 296 | 303 |
| February | 293 | 306 |
| March | 253 | 302 |
| April | 251 | 301 |
| May | 247 | 299 |
| June | 247 | 290 |
| July | 248 | 289 |
| August | 244 | 284 |
| September | 243 | 282 |
| October | 243 | 303 |
| November | 244 | 300 |
| December | 243 | 288 |

## 6. Health and safety

The company has policies and procedures to safeguard the occupational health, safety, and welfare of its employees.

## 7. Gifts and donations

During the year the company made donations of K1.317 million (2015: K2.226 million). The donations are mostly towards corporate social responsibility.

## 8. Roaming

Roaming revenue is earned from foreign telephone operators when their subscribers utilise the Airtel Networks Zambia plc network. The company accrued roaming revenue amounting to K42.827 million (2015: K52.656 million) during the year.

## 9. Property and equipment

The company purchased property and equipment amounting to K283.814 million (2015: K1,328.250 million) which includes finance Lease Assets of K18.777 million (2015: 793.445million). The Company disposed off property and equipment at a cost of K Nil (2015: K0.165 million).

## 10. Disposal of investment in subsidiary

In 2015 the company "Airtel" disposed its interest in the subsidiary Zambian Towers Limited ("the Company") to I.H.S and the sale was completed on 31 August 2015. As per the terms of share sale agreement, site perfection process required that all the legal, commercial and financial obligations related to sites that were transferred would have been fully discharged by Airtel before takeover by I.H.S. K45.573 million remains unsettled by I.H.S for 113 sites (2015: K129.614 million for 290 sites), being 25% of the value of the sites that were not perfected at that time. 177 sites have been perfected during the year and handed over to I.H.S for which they have already paid.

## 11. Auditors

Wherein Messrs Deloitte & Touche, Chartered Accountants, have confirmed their willingness and eligibility under the provision of the Zambia Companies Act, 1994 to be as statutory auditors of the Company. Deloitte & Touche, Chartered Accountants, who are hereby appointed as Statutory Auditor of the Company in place of retiring statutory Auditor Messrs Ernst & Young, Chartered Accountants, to hold the office until the conclusion of next Annual General Meeting. As required by the provisions of the Zambia Companies Act, 1994, their appointment should be ratified by members each year at the AGM. Accordingly, requisite resolution forms part of the notice convening the AGM.

## 12. Statement on corporate governance

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

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

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

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

By order of the Board,

Sandra Malupande
**COMPANY SECRETARY**
Lusaka

3rd March 2017

# STATEMENT OF DIRECTORS' RESPONSIBILITY
for the year ended 31 December 2016

**Directors' responsibilities in respect of the preparation of financial statements**

The Zambian Companies Act requires the directors to prepare financial statements for each financial year that present fairly the state of the financial affairs of the company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Zambia Companies Act of 1994. The directors are of the opinion that the financial statements present fairly the state of the financial affairs of the company and of its profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Approval of the financial statements

The financial statements of the Company as indicated above were approved by the directors on 21st February, 2017 and are signed on its behalf by:

Monica Musonda
Chairperson

Peter Correia
Managing Director

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AIRTEL NETWORKS ZAMBIA PLC

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Airtel Networks Zambia Plc set out on pages 41 to 72 which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Zambia.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the Independent Regulatory Board of Auditors Code of Professional Conduct for Registered Auditors ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## Key Audit Matters

### Accuracy of revenue due to complex billing system

The accuracy of revenue amounts recorded is an inherent industry risk. This is because telecoms billing systems are complex and process large volumes of data with a combination of different products sold and price changes in the year, through a number of different systems.

Because of the materiality of the revenue figures and impact they have on the overall financial statements we consider this section as a Key Audit Matter.

## How a KAM was addressed in the audit

We evaluated the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over the:

- Capture and recording of revenue transactions;
- Authorisation of rate changes and the input of this information to the billing systems; and
- Calculation of amounts billed to customers.

We also tested a sample of customer bills and checked these to cash received from customers. Our testing included customer bills for consumers, corporate and wholesale customers.

### Refer to the related disclosures

The Company's disclosures about this matter are included in Note 6, which specifically explains the revenue lines. The recognition criteria and other related matters are disclosed under summary of significant accounting policies item "c Revenue recognition".

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### Provisions and contingent liabilities

There are a number of actual legal, regulatory and tax cases against the company. There is a high level of judgment required in estimating the level of provisioning required.

Basis of preparation (Critical accounting judgments and key sources of estimation uncertainty), note 21 on Provisions and note 23 on Contingent liabilities.

In responding to this area of focus, our procedures included the following:

- Testing key controls surrounding litigation, regulatory and tax procedures in the registers;
- Reading external legal opinions obtained by management;
- Meeting with local management and reading of subsequent correspondence;
- Discussing open matters with the litigation, regulatory, general counsel and tax teams;
- Assessing and challenging management's conclusions through understanding precedents set in similar cases; and
- Circularising where appropriate of relevant third party legal representatives and direct discussion with them regarding certain material cases.

### Refer to the related disclosures

The Company's disclosures about this matter are included in Note 23, which specifically explains the uncertainties which gives rise to the classification of this matter as a contingency liability.

### Accuracy of Capital Work In Progress Provisioning

By policy all assets of the entity come through Capital Work In Progress and the amount for Capital Work In Progress is material and therefore obsolescence of the Capital Work In Progress is likely if not appropriately treated based on the group policy which requires provisions to be calculated and the related depreciation charged on the related provisionally capitalised Capital Work In Progress. The risk is that the amount to be provided for may be misstated and therefore this makes the matter a Key Audit Issue.

To address the matter raised, we performed the following procedures:

- Examined the accuracy of the CWIP aging by selecting a sample which was tested against the current CWIP
- b. We examined the accuracy of previous provisional capitalised amounts and how the reversal of Capital Work In Progress provision is justified considering whether the additions of network equipment from Capital Work In Progress to FA relates to assets actually put to use during quarter or backdated capitalization?
- We examined the CWIP utilization needs to stores issue notes/requisitions to ensure that these have been actually physically utilized during the quarter;
- We determined whether all the additions to fixed assets have related CAPEX forms
- Inquired and examined how many sites had been added during the year using the site master.
- Determined whether the dates of capitalization are based on the technical certificate for ready to use.
- Determined what the business case justifying sudden movement of Capital Work In Progress not put to use for a long time was.
- Why these items lying for so long were not put to use earlier and what prevented the Company from getting these sites operational.
- Lastly, we examined overall reasonableness of the Capital Work In Progress movement.

### Refer to the related disclosures

The Capital Work In Progress amount has been recognised under note 16 and appropriate disclosures made under accounting policy “f Property and Equipment”

### Misstated tax liability and expense

Due to the group tax entries that originate from the holding company and are booked in the ledgers, there is a risk that the liabilities could be misstated and thereby misstating the financial statements. Because of the materiality of some of these balances and impact they have on the overall financial statements we consider this section as a Key Audit Matter.

Our audit procedures included, among others:

- Review of the tax computation supporting the general ledger balances recorded and ensuring that the Income tax Act of Zambia has been complied with.
- Engaging our internal tax expert for their expert review and obtain findings which are communicated to the management.
- Ensuring that all tax figures in the ledgers are supported with workings and are in accordance with IAS 12 and Income tax Act

## Information Other than the Financial Statements and Auditor's Report Thereon

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

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

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

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Directors' Responsibilities for the Financial Statements

The directors of Airtel Networks Zambia Plc are responsible for the preparation and fair presentation of the financial statements of Airtel Networks Zambia Plc in accordance with IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing Airtel Networks Zambia Plc's ability to continue as a going concern, disclosing, as applicable, matters related to including whether the use of the going concern basis of accounting is appropriate. The use of the going concern and using the going concern basis of accounting is appropriate unless the directors either intend to liquidate Airtel Networks Zambia Plc or to cease operations, or has no realistic alternative but to do so.

The directors are also responsible for overseeing Airtel Networks Zambia Plc's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Airtel Networks Zambia Plc's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Airtel Networks Zambia Plc to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of Airtel Networks Zambia Plc regarding, among other matters, the planned scope and timing of the audit and significant audit

## Auditor's Responsibilities for the Audit of the Financial Statements (continued)

findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

## Report on Other Legal and Regulatory Requirements

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

a)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;

b)in our opinion proper books of accounts, other records and registers have been kept by the company, so far as appears from our examination of those books and registers; and

c)the company's statement of financial position and profit and loss account are in agreement with the books of account.

Ernst & Young
Chartered Accountants

The engagement partner on the audit resulting in this independent auditor's report is:

Henry C Nondo
**Practicing Certificate Number: AUD/F000136**

3 March 2017
Lusaka

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## for the year ended 31 December 2016

| Particulars | Note | 2016 K'000 | 2015 K'000 |
|---|---|---|---|
| Revenue | 6 | **2,117,639** | 1,923,667 |
| Cost of sales | | **(259,195)** | (374,943) |
| | | | |
| **Gross profit** | | **1,858,444** | 1,548,724 |
| | | | |
| Other operating income | 8 | **2,229** | 665,811 |
| Distribution costs | | **(812,863)** | (755,279) |
| Administrative expenses | | **(722,506)** | (667,131) |
| | | | |
| **Operating profit** | | **325,304** | 792,125 |
| | | | |
| Finance cost | 9 | **78,543** | (541,724) |
| | | | |
| **Profit before tax** | 10 | **403,847** | 250,401 |
| | | | |
| Income tax expense | 12 | **(174,567)** | (47,380) |
| | | | |
| **Profit for the year** | | **229,280** | 203,021 |
| | | | |
| Other comprehensive income | | **-** | - |
| | | | |
| **Total comprehensive income** | | **229,280** | 203,021 |
| | | | |
| Earnings per share attributable to the shareholders of the company (expressed in Kwacha per share)- Basic and diluted | 13 | **2.20** | 1.95 |

The notes on pages 47 to 74 form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2016

| Particulars | Note | 2016 K'000 | 2015 K'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property and equipment | 16 | **1,912,232** | 2, 077, 343 |
| Intangible assets | 17 | **4,564** | 5, 025 |
| Total Non-current assets | | **1,916,796** | 2, 082, 368 |
| **Current assets** | | | |
| Inventories | 18 | **34,574** | 35, 606 |
| Trade and other receivables | 19 | **427,036** | 436,682 |
| Cash and cash equivalents | 20 | **146,057** | 37, 115 |
| Income Tax Receivable | 12 | **-** | 78, 738 |
| Total Current assets | | **607,667** | 588,141 |
| Total assets | | **2,524,463** | 2, 670, 509 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 14 | **1, 040** | 1, 040 |
| Share premium | 14 | **24, 962** | 24, 962 |
| Retained earnings | | **457,729** | 332,449 |
| Total equity | | **483,731** | 358,451 |
| **Non current liabilities** | | | |
| Obligation under finance lease | 24 | **774,256** | 903,132 |
| Deferred tax liability | 15 | **134,375** | 132,004 |
| Total Non-current liabilities | | **908,631** | 1,035,136 |
| **Current liabilities** | | | |
| Bank overdraft | 20/22 | **1,061** | 149,893 |
| Trade and other payables | 21 | **947,412** | 1,066,305 |
| Obligation under finance lease | 24 | **62,354** | 60,724 |
| Income tax payable | 12 | **121,274** | - |
| Total Current liabilities | | **1,132,101** | 1,276,922 |
| Total liabilities | | **2,040,732** | 2,312,058 |
| Total equity and liabilities | | **2,524,463** | 2, 670,509 |

The financial statements on pages 43 to 74 were approved for issue by the board of directors on 21st February 2017 and signed on its behalf by:

Monica Musonda
**Chairperson**

Peter Correia
**Managing Director**

The notes on pages 47 to 74 form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

## for the year ended 31 December 2016

| Particulars | Share Capital K'000 | Share Premium K'000 | Retained Earnings K'000 | Equity Total K'000 |
|---|---|---|---|---|
| At 1 January 2015 | 1, 040 | 24, 962 | 285,428 | 311,430 |
| Final dividends for 2014 | - | - | (156,000) | (156,000) |
| Total comprehensive income for the year 2015 | - | - | 203,021 | 203,021 |
| | | | | |
| **At 31 December 2015** | **1,040** | **24, 962** | **332,449** | **358,451** |
| | | | | |
| At 1 January 2016 | 1, 040 | 24, 962 | 332,449 | 358,451 |
| Final dividends for 2015 | - | - | (104,000) | (104,000) |
| Total comprehensive income for the year | - | - | 229,280 | 229,280 |
| | | | | |
| **At 31 December 2016** | **1, 040** | **24, 962** | **457,729** | **483,731** |

The notes on pages 47 to 74 form part of these financial statements.

# STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

| Particulars | Note | 2016 K '000 | 2015 K '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 25 | **813,316** | 1,651,744 |
| Interest received | 8 | **1,497** | 34,015 |
| Interest paid | 9 | **(18,205)** | (24,773) |
| Income tax paid | 12 | **(867)** | (79,728) |
| | | | |
| **Net cash generated from operating activities** | | **795,741** | **1,581,258** |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of investment in subsidiary | 8 | **-** | 628,971 |
| Purchase of property and equipment | 16 | **(283,814)** | (1,328,250) |
| Purchase of intangible assets | 17 | **-** | - |
| **Net cash flows used in investing activities** | | **(283,814)** | **(699,279)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Borrowings repaid | | **-** | (721,573) |
| Interest paid on finance lease | 9 | **(94,653)** | (35,551) |
| Repayment of finance lease | | **(51,040)** | (14,521) |
| Dividends paid | 27 | **(108,459)** | (277,540) |
| | | | |
| **Net cash flows used in financing activities** | | **(254,152)** | **(1049,185)** |
| | | | |
| **Movement in cash and cash equivalents** | | | |
| Net increase/(decrease) in cash and cash equivalents | | **257,775** | (167,205) |
| Cash and cash equivalents at beginning of Period | | **(112,778)** | 54,428 |
| | | | |
| **Cash and cash equivalents at end of period** | **20** | **144,997** | **(112,778)** |

The notes on pages 47 to 74 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

## 1. General information

Airtel Networks Zambia Plc is incorporated in Zambia under the Zambia Companies Act as a public limited company, and is domiciled in Zambia. The Company is listed on the Lusaka Stock Exchange and was incorporated in 1998 as Celtel Zambia Plc. In March 2013, there was a change of name and the address of its registered office is:

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

## 2. Summary of significant accounting policies

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

### (a) 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 Zambia Kwacha (K), rounded to the nearest thousands.

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.

### (b) New standards and interpretations

A number of new standards, amendments to standards and interpretations are mandatory for the year ended 31 December 2016, and have been adopted by the Company where relevant to the Company's operations.

### New standards and interpretations effective in 2016

Many standards or amendments became effective for the first time in the current financial year. These include an amendment to IFRS 10,IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception-Amendments to IFRS 10,IFRS 12 and IAS 28 , IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11, IFRS 14 Regulatory Deferral Accounts, IAS 1 Disclosure Initiative – Amendments to IAS 1, IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38, IAS 16 and IAS 41 Agriculture: Bearer Plants -Amendments to IAS 16 and IAS 41, IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27.

The nature and the impact of the standards and amendments that are applicable to the financial statements of the Company are described below:

### IAS 1 Disclosure Initiative – Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2016.

Key requirements

The amendments clarify:

- The materiality requirements in IAS 1 that specific line items in the statement(s) of profit or loss and Other Comprehensive Income 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

## IAS 1 Disclosure Initiative – Amendments to IAS 1 (continued)

- That the share of Other Comprehensive Income 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
- 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 Other Comprehensive Income.

These amendments are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement. Although these amendments clarify existing requirements of IAS 1, the clarifications may facilitate enhanced disclosure effectiveness.
The amendment is expected to enhance the disclosure requirements but did not impact on the recognition and measurement of the financial statements.

## IFRS 9 Financial Instruments

Effective for annual periods beginning on or after 1 January 2018.

Classification and measurement of financial assets
All financial assets are measured at fair value on initial recognition, adjusted for transaction costs, if the instrument is not accounted for at fair value through profit or loss (FVTPL). Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.

Classification and measurement of financial liabilities
For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in Other Comprehensive Income. The remainder of the change in fair value is presented in profit or loss, unless presentation in other comprehensive income of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment
The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 and lease receivables under IAS 17 Leases.

In determining the appropriate period to measure ELCs, entities are generally required to assess based on either 12-months or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For some trade receivables, a simplified approach may be applied whereby the lifetime expected credit losses are always recognised.

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The Company will be monitoring the discussions of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG) as it assesses the impact closer to the adoption date.

## IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) in IFRS and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of gains or losses of some non-financial assets including disposals of property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licences, warranties, rights of return, principal-versus agent considerations, options for additional goods or services and breakage.

## Clarifications to IFRS 15

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition.

The amendments:

- Clarify when a promised good or service is distinct within the context of the contract
- Clarify how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators
- Clarify when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time
- Clarify the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract
- Add two practical expedients to the transition requirements of IFRS 15 for:
    a. completed contracts under the full retrospective transition approach; and
    b. contract modifications at transition

The amendments have an effective date of 1 January 2018, which is the effective date of IFRS 15. Entities are required to apply these amendments retrospectively. The amendments are intended to clarify the requirements in IFRS 15, not to change the standard.

Entities can choose to apply the standard using either a full retrospective approach with some limited relief provided, or a modified retrospective approach. Early application is permitted and must be disclosed.

The Company is still assessing the impact of this standard on the Company's financial statements and has constituted a team to assess its readiness. It is currently expected that the impact will mostly be on disclosure requirements which are likely to be more extensive. The Company will adopt this standard at the effective date.

**IFRS 16 Leases**

The scope of IFRS 16 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.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17.

Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15.

The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted. Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities. Lessor accounting will result in little change compared to today's lessor accounting. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17. Given the significant accounting implications, lessees will have to carefully consider the contracts they enter into to identify any that are, or contain, leases. This evaluation will also be important for lessors to determine which contracts (or portions of contracts) are subject to the new revenue recognition standard.

The impact of this amendment will be assessed closer to year of adoption. The standard is effective 1 January 2019.

**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 explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

The amendments are intended to remove existing divergence in practice in recognising deferred tax assets for unrealised losses. The standard is effective for annual periods beginning on or after 1 January 2017.The impact will be assessed in 2017.

**IAS 7 Disclosure Initiative – Amendments to IAS 7**

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted.

The amendments are intended to provide information to help investors better understand changes in an entity's debt. The standard will not have significant impact on the Company as the Company does not have debt instruments measured at fair value. The amendment is effective for annual periods beginning on or after 1 January 2017.

**IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration**

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.
Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation

### IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (continued)

prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i). The beginning of the reporting period in which the entity first applies the interpretation or
(ii). The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. The impact is still being assessed close to adoption date. The amendment is effective for annual periods beginning on or after 1 January 2018.

### 2012-2014 Cycle (issued in September 2014)

In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, summaries of which are provided below. The changes are effective 1 January 2016.

### IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations Changes in methods of disposal

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.The amendment must be applied prospectively. The amendment had no significant impact on the financial statements of the Company as the Company does not have non-current assets held for sale.

### IAS 19 Employee Benefits Discount rate: regional market issue

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. The amendment must be applied prospectively. This amendment had no impact as the Company is already applying a discount rate based on the currency in which the obligation is denominated which is Zambia.

### 2014-2016 Cycle (issued in December 2016)

**Deletion of short-term exemptions for first-time adopters**
Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018.

### IAS 28 Investments in Associates and Joint Ventures Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarifies that: An entity that is a venture capital organisation, or other qualifying entity, may elect, an initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method,elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associates or joint ventures interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

### IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of the disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017 and must be applied retrospectively. The amendment will not have an impact on the Company as it does not have interest in other entities.

### (c) Revenue recognition

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

Revenue is measured at the fair value of the consideration received or receivable for the sale/provision of goods and services in the ordinary course of the company's activities. Revenue is shown net of value-added tax (VAT), excise duties, discount and rebates.

Service revenues include amounts invoiced for usage charges, fixed monthly subscription charges and very small aperture terminal ('VSAT')/internet usage charges, bandwidth services,roaming charges, activation fees, processing 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 and data messaging services.

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. Processing fees on recharge coupons is being recognised over the estimated customer relationship period or coupon validity period, whichever is lower.

Service revenues from the internet and VSAT business comprise revenues from registration, installation and provision of internet and VSAT services. Registration fee and installation charges are deferred and amortised over the period of agreement with customer. Service revenue is recognised from the date of satisfactory installation of equipment and software at the customer site and provisioning of internet and VSAT services.

Monthly subscription fees are recognised on a cash cap method and Value Added Services are recognised net of taxes and other statutory obligations.

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

Deferred revenue includes amount received in advance from customers which would be recognised over the periods when the related services are expected to be rendered.

Equipment sales consist primarily of revenues from sale of telecommunication equipment and related accessories to customers. Revenue from equipment sales transactions are recognised when the significant risks and rewards of ownership are transferred to the buyer and when no significant uncertainty exists regarding realisation of consideration.

### (d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### (e) Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated at the foreign exchange rate ruling at that date. Exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the closing date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss and other comprehensive income within finance income or cost'.

### (f) Property and equipment

All categories of property and equipment are initially recorded at cost. GSM switching equipment is subsequently shown at market value, based on valuations by external independent valuer, less subsequent accumulated depreciation and impairment loss. All other property and equipment is subsequently measured at historical cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Impairment losses on property, plant and equipment are recognized in profit or loss during the period. Reversals of impairment losses are recognized in profit or loss during the period. In addition, impairment losses on revalued assets are recognized in other comprehensive income during the period. In addition, reversals of impairment losses on revalued assets are recognized in other comprehensive income during the year.

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

The carrying amount of property, plant and equipment that is disposed off is de-recognized when the criteria for sale of goods in IAS 18 is met.

When significant parts of property and equipment are required to be replaced in intervals, the Group recognizes such parts as separate components of assets with specific useful lives and provides depreciation over their useful lives. The carrying amount of the replaced part is de-recognised. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

| Categories | Years |
|---|---|
| Buildings | 20 |
| Network equipment | 3 – 20 |
| Computer equipment | 3 |
| Office furniture and equipment | 2 – 5 |
| Vehicles | 3 – 5 |
| Customer Premises equipment | 5 – 6 |

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.

### (g) Asset retirement obligation

Asset retirement obligations (ARO) are provided for those operating lease arrangements where the Group 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 time value of money and the risks specified to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the 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.

### (h) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

## 2.. Summary of significant accounting policies (continued)

### (h) Leases (continued)

For lessors lease income from operating leases is recognised 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.

Leases of property, plant and equipment where the Company has substantially retained all risks and rewards of ownership are classified as finance leases. Finance leases are capitalised by the lessee at the lease's commencement at the lower of fair value of the leased property and present value of minimum lease payments. The Lessor recognises assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease.

For a finance lease contingent rents is charged as expense or income in the periods in which they are incurred.

### (i) Inventories

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

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

### (j) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

### (k) Cash and cash equivalents

Cash and cash equivalent includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts measured at amortised costs.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as` a component of cash and cash equivalents for the purpose of the statement of cash flows.

### (l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method;

When calculating the effective interest rate, the entity estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest rate.

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.

### (m) Financial instruments

#### Non-derivative financial assets

The Company initially recognises loans and receivables on the date that they are originated. All other assets are recognized initially on the trade date at which the Company becomes a part to the contractual provisions of the instrument at fair value.

#### De-recognition of financial assets

The Company de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has only non-derivative financial assets.

#### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables, amounts due from related parties and cash and cash equivalents.

#### Impairment of financial asset

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Non – derivative financial liabilities

The Company initially recognises financial liabilities on the trade date at which the Company becomes a party to the contractual provisions of the instrument.
The Company de-recognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Non-derivative financial liabilities comprise amounts due to related parties, trade and other payables and borrowings.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

## (n) Share capital

Issued ordinary 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.

## (o) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## (p) Employee benefits

1. Retirement benefit obligations

The company operates a defined contribution scheme for all its employees.  The company and all its employees also contribute to the National Pension Scheme Fund, which is a defined contribution scheme.  A defined contribution plan is a retirement benefit plan under which the company pays fixed contributions into a separate 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 contributions to the defined contribution schemes are recognised in profit or loss in the year in which they fall.

2. Other entitlements

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

## (q) Income tax

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

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

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

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

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

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

Taxes that arise from the distribution of dividends are recognised at the earlier of accrual or payments of the dividends.

## (r) Intangible assets

The Company's intangible asset comprise of licences. Licences are recognised as an asset when it is probable that future economic benefits from the asset will flow to the entity and the cost of the licence can be Wreliably measured.

### (r) Intangible assets (continued)

Licences are initially measured at cost and subsequently amortised on a straight-line basis over their useful lives. Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation periods are reviewed annually and adjusted prospectively as required. Gains or losses arising from derecognition of licences 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. Intangible assets include Licences and are amortised over a 15 year period.

### (s) Dividends

Dividends payable to the company's shareholders are charged to equity in the period in which they are declared. Any dividend related tax is recognised in other comprehensive income or equity.

## 3. Critical accounting estimates and judgements

Estimates 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.

### (i) Critical accounting estimates and assumptions

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

#### Receivables

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables. Factors taken into consideration in making such judgements include historical trends and the number of days a debt is past its due date for payment. The carrying amount of impaired receivables is set out in Note 21.

### (ii) Taxes

#### 1. Current Income Tax

Current Income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date

#### 2. Deferred Tax

Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date

#### Determination of residual values and useful lives

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

### (iii) Critical judgements in applying the entity's accounting policies

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

- The classification of financial assets and leases.
- Revenue recognition allocation to different components.
- Determining whether assets are impaired, or not.

## 4. Financial risk management objectives and policies

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

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

### Market risk

#### (i). Foreign exchange risk

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

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

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

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

At 31 December 2016, if the Kwacha had weakened/ strengthened by 5% against the US dollar with all other variables held constant, post tax profit for the period would have been K3.081 million (2015: K6.803 million) lower/ higher, mainly as a result of US dollar denominated trade receivables, payables and borrowings. There would be no impact on equity.

Exposure to currency risk

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

| Particulars | 2016<br>K'000 | 2015<br>K'000 |
|---|---|---|
| | | |
| Cash and cash equivalents | **54,071** | (67,081) |
| Trade receivables | **81,980** | 75,507 |
| Trade payables | **(197,674)** | (144,480) |
| | | |
| | **(61,623)** | (136,054) |
| | | |
| The following US Dollar exchange rates applied during the period: | | |
| | **2016** | 2015 |
| | **K'000** | K'000 |
| Average rate | **10.305** | 8.643 |
| Closing rate | **9.925** | 10.999 |

(ii). Price risk

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

(iii) Cash flow and fair value interest rate risk

The company's interest bearing financial liability was the overdraft of K 1.061 million (2015: K 149.893 million) and the borrowing of K nil at year end (2015: K nil) which was at fixed rates for an agreed period (subject to the significant change in the market condition) and on which it was therefore not exposed to cash flow interest rate risk. The company regularly monitors financing options available to ensure optimum interest rates are obtained.

(iv) Credit risk

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

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

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

## 4. Financial risk management objectives and policies (continued)

### (iv) Credit risk (continued)

The amount that best represents the company's maximum exposure to credit risk at 31 December 2016 is made up as follows:

| Particulars | **2016 K'000** | 2015 K'000 |
|---|---|---|
| | | |
| Cash and cash equivalents (Note 20) | **146,057** | 37,115 |
| Trade receivables (Note 19) | **133,614** | 178,191 |
| Receivables from related companies (Note 26) | **126,981** | 115,447 |
| Other receivables (Note 19) | **80,507** | 45,152 |
| | | |
| **Total** | **487,159** | 375,905 |

**Impairment losses**

The aging of trade receivables at the reporting date was:

| Particulars | **2016 K'000** | **2016 K'000** | 2015 K'000 | 2015 K'000 |
|---|---|---|---|---|
| | **Gross amount** | **Impaired** | Gross amount | Impaired |
| | | | | |
| 30 days | 62,252 | - | 77,137 | - |
| 60 days | 36,494 | - | 47,443 | - |
| 90 days and above | 142,505 | 107,637 | 157,803 | 104,192 |
| | | | | |
| **Total** | 241,251 | 107,637 | 282,383 | 104,192 |

Collateral is held for some of the above assets namely distributors with bank guarantees of K17.87 million and K0.861 million post-paid deposits as at 31 December 2016 (2015: K33.6 million bank guarantees and K0.861 million post-paid deposits respectively). All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

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

| Particulars | **2016<br>K'000** | 2015<br>K'000 |
|---|---|---|
| | | |
| Past due but not impaired: | | |
| - by up to 30 days | **18,934** | 47,449 |
| - by 31 to 90 days | **29,206** | 72,674 |
| - by 91 days and over | **29,158** | 62,591 |
| | | |
| Total past due but not impaired | **77,298** | 182,714 |
| | | |
| Receivables individually determined to be impaired: | | |
| Carrying amount before provision for impairment loss | **241,251** | 282,383 |
| Provision for impairment loss (note 19) | **(107,637)** | (104,192) |
| | | |
| Net carrying amount | **133,614** | 178,191 |

## 4. Financial risk management objectives and policies (continued)

Liquidity risk

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

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

| Particulars | Note | Less than 1 year K'000 | Between 1 and 2 years K'000 | Between 2 and 5 years K'000 | Over 5 Years K'000 |
|---|---|---|---|---|---|
| **At 31 December 2016** | | | | | |
| **- Trade and other payables** | **21** | **867,989** | **-** | **-** | **-** |
| **- Related company payables** | **26** | **79,423** | **-** | **-** | **-** |
| **- Bank overdrafts** | **20** | **1,061** | **-** | **-** | **-** |
| **- Borrowings** | | **-** | **-** | **-** | **-** |
| At 31 December 2015 | | | | | |
| - Trade and other payables | 21 | 1,007,820 | - | - | - |
| - Related company payables | 26 | 58,485 | - | - | - |
| - Bank overdrafts | 20 | 149,892 | - | - | - |
| - Borrowings | | - | - | - | - |

## 5. Capital management

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

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

The gearing ratios at 31 December 2016 and 31 December 2015 were as follows:

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Total borrowings (including bank overdraft) | **1,061** | 149,892 |
| Less: cash and cash equivalents | **(146,057)** | (37,115) |
| Net debt | **(144,996)** | 112,777 |
| | | |
| Total equity | **483,731** | 358,450 |
| Total capital | **338,735** | 471,227 |
| Gearing ratio | **00%** | 24% |

## 6. Revenue

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| **Analysis of revenue by category:** | | |
| Airtime revenue | **1,387,453** | 1,356,455 |
| Data | **510,805** | 294,899 |
| SMS | **71,664** | 77,030 |
| Value added services content | **5,859** | 21,802 |
| Handsets and accessories | **44,064** | 82,929 |
| Roaming revenue | **42,827** | 52,656 |
| Interconnect revenue | **223,576** | 208,082 |
| Connection revenue | **8,491** | 9,414 |
| Trade Discounts | **(177,100)** | (179,600) |
| | | |
| **Total** | **2,117,639** | 1,923,667 |

## 7. Segment reporting

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

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

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

The breakdown of the revenue from all services is shown in note 6.

## 8. Other operating income

| Particulars | **2016 K'000** | 2015 K'000 |
|---|---|---|
| | | |
| Other income | **732** | 2,824 |
| Interest income | **1,497** | 34,015 |
| Profit on disposal of subsidiary | **-** | 628,971 |
| | | |
| **Total** | **2,229** | 665,811 |

In year 2015 the profit on disposal of equipment is mainly due to the sale of the Investment in the subsidiary Zambian Towers Limited for the amount mentioned above.

## 9. Finance Cost's

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Interest expense on borrowings | **18,205** | 24,773 |
| Interest expense on Finance Lease | **94,653** | 35,551 |
| Net foreign exchange (gain)/loss others | **(104,440)** | 301,602 |
| Net foreign exchange loss/(gain) on finance lease | **(86,961)** | 179,798 |
| | | |
| Net finance income/(costs) | **(78,543)** | 541,724 |

Finance cost has decreased significantly due to the appreciating Zambian kwacha against other foreign currencies especially the US Dollar.

## 10. Profit before tax

The following items have been charged in arriving at the profit before income tax:

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Depreciation on property and equipment (Note 16) | **448,926** | 330,161 |
| Amortisation of intangible assets (Note 17) | **462** | 463 |
| Operating lease rentals | **45,411** | 181,481 |
| Receivables – provision for impairment losses | **10,837** | 52,428 |
| Write down of inventories (note 18) | **3,329** | 1,131 |
| Employee benefits expense | **136,623** | 143,860 |
| Auditors' remuneration | **2,958** | 5,235 |

## 11. Employee benefit expense

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

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Aon Zambia Pension Fund Administrators Limited | **7,253** | 7,632 |
| National Pension Scheme Authority | **2,323** | 2,532 |

## 12. Income tax expense

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Current income tax | **110,302** | 36,204 |
| Group related tax adjustments | **61,894** | 13,461 |
| Deferred income tax (Note 15) | **2,371** | (2,285) |
| | | |
| **Total** | **174,567** | 47,380 |

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

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Profit before income tax | **403,847** | 250,401 |
| Tax calculated at the statutory income tax rate of 40% | **161,539** | 100,160 |
| Tax effect of: | | |
| Other deductible expenses | **-** | (1,630) |
| Origination and reversal of timing differences | **2,371** | (2,285) |
| Expenses not deductible for tax purposes | **10,657** | (48,865) |
| | | |
| **Total** | **174,567** | 47,380 |

**Income tax payable/(recoverable)**

Current income tax movement in the statement of financial position

| **Particulars** | **2016 K'000** | 2015 K'000 |
|---|---|---|
| | | |
| At the start of the year/period | **(78,738)** | (10,152) |
| Current income tax charge | **111,302** | 36,204 |
| Non cash tax group entry | **90,577** | (25,063) |
| Payments during the year | **(867)** | (79,727) |
| **At end of the year** | **121,274** | (78,738) |

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

Income tax provisional returns have been filed with the ZRA for the year ended 31 December 2016. Quarterly payments for the year ended 31 December 2016 were made on the due dates during the period.

## 13. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the period. There were no potentially dilutive shares outstanding at 31 December 2016 or 31 December 2015. Diluted earnings per share is therefore the same as basic earnings per share.

| **Particulars** | **2016 K'000** | 2015 K'000 |
|---|---|---|
| Profit attributable to the equity holders of the company | **229,280** | 203,021 |
| Weighted average number of ordinary shares (Nos'000) | **104,000** | 104,000 |
| Basic/diluted earnings per share (K) | **2.20** | 1.95 |

## 14. Share capital

| Particulars | Number of shares (millions) | Ordinary shares | Share Premium |
|---|---|---|---|
| **Balance at 31 December 2016** | **104** | **1,040** | **24,962** |
| Balance at 31 December 2015 | 104 | 1,040 | 24,962 |

The total authorised number of ordinary shares is 104 million with a par value of K0.01 per share. All issued shares are fully paid.

## 15. Deferred tax liability

Deferred tax liability is calculated using the enacted income tax rate of 40% (2015: 40%). The movement on the deferred tax liability account is as follows:

| Particulars | NOTE | 2016 K'000 | 2015 K'000 |
|---|---|---|---|
| At start of period | | **132,004** | 134,289 |
| Charge to profit or loss | 12 | **2,371** | (2,285) |
| **At end of period** | | **134,375** | 132,004 |

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

| Year ended 31 December 2016 | 1 Jan K'000 | Charged/ (credited) to Profit/loss K'000 | 31 December K'000 |
|---|---|---|---|
| **Deferred income  tax liabilities** | | | |
| Property and equipment | 261,572 | 188,457 | 450,029 |
| Unrealised exchange gains | | 126,550 | 126,550 |
| **Deferred income tax assets** | | | |
| Other temporary deductible differences | (213,737) | (147,462) | (361,199) |
| Other provisions | 36,661 | (90,752) | (54,091) |
| Unrealised exchange losses | 47,508 | (74,422) | (26,914) |
| **Net deferred income tax liability** | **132,004** | **2,371** | **134,375** |
| | | | |
| **Year ended 31 December 2015** | | | |
| **Deferred income tax liabilities** | | | |
| Property and equipment: | 224,248 | 37,324 | 261,572 |
| **Deferred income tax ass** | | | |
| Other temporary deductible differences | (71,180) | (142,557) | (213,737) |
| Other provisions | - | 36,661 | 36,661 |
| Unrealised exchange losses | (18,779) | 66,287 | 47,508 |
| **Net deferred income tax liability** | **134,289** | **(2,285)** | **132,004** |
| | | | |

## 16. Property and equipment

| Particulars | Buildings K'000 | Finance Lease Asset K'000 | Telecom equipment K'000 | Equipment K'000 | Fixture, Fittings & office Equipment K'000 | Motor Vehicles K'000 | Capital Working Progress K'000 | Total K'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | | | |
| **At 1 Jan 2015** | **130,509** | **8,730** | **1,303,502** | **491,421** | **353,402** | **9,226** | **185,910** | **2,482,700** |
| Additions | - | 793,445 | - | - | - | - | 534,805 | 1,328,250 |
| Transfers | 2,960 | - | 377,814 | - | 82, 861 | - | (463,635) | - |
| Disposal | - | - | (17) | - | (148) | - | - | (165) |
| Asset retirement | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| **31 Dec 2015** | **133,469** | **802,175** | **1,681,299** | **491,421** | **436,115** | **9,226** | **257,081** | **3,810,785** |
| | | | | | | | | |
| **At 1 Jan 2016** | 133,469 | 802,175 | 1,681,299 | 491,421 | 436,115 | 9,226 | 257,081 | 3,810,785 |
| Additions | - | 18,777 | - | - | - | - | 265037 | 283,814 |
| Transfers | 4,235 | - | 392,750 | - | 82,767 | - | (479,751) | - |
| Asset retirement | (4550) | - | (42,728) | (62,060) | (4,716) | (9,227) | - | (123,282) |
| | | | | | | | | |
| **31 Dec 2016** | **133,153** | **820,952** | **2,031,321** | **429,360** | **514,164** | **-** | **42,367** | **3,971,317** |
| | | | | | | | | |
| **Depreciation** | | | | | | | | |
| At 1 Jan 2015 | 18,160 | 4,417 | 756,528 | 292,909 | 314,580 | 9,181 | 7,755 | 1,403,530 |
| Charge for the Year | 11,963 | 22,354 | 168,699 | 53,348 | 70,012 | 21 | 3,764 | 330,161 |
| Transfers | - | - | - | - | - | - | - - | - |
| Disposal | - | - | (17) | - | - | - | - - | (17) |
| Asset retirement | - | - | (232) | - | - | - | - | (232) |
| | | | | | | | | |
| **At 31 Dec 2015** | **30,123** | **26,771** | **924,977** | **346,257** | **384,592** | **9,202** | **11,519** | **1,733,442** |
| At 1 Jan 2016 | 30,123 | 26,771 | 924,977 | 346,257 | 384,592 | 9,202 | 11,519 | 1,733,442 |
| Charge for the year | 8,021 | 81,608 | 239,837 | 58,957 | 64,344 | 24 | (3,865) | 448,926 |
| Transfers | - | | - | - | - | - | - - | - |
| Disposal | - | - | - | - | - | - | - - | - |
| Asset retirement | (4,550) | - | (78322) | (26,466) | (4,716) | (9,226) | - | (123,282) |
| | | | | | | | | |
| **At 31 Dec 2016** | **33,594** | **108,379** | **1,194,870** | **378,747** | **444,220** | **-** | **7,654** | **2,059,086** |
| | | | | | | | | |
| **Carrying amount:** | | | | | | | | |
| **At 31 Dec 2016** | **99,559** | **712,573** | **944,829** | **50,613** | **69,945** | **-** | **34,713** | **1,912,232** |
| At 31 Dec 2015 | 103,345 | 775,404 | 756,322 | 145,164 | 51,522 | 24 | 245,562 | 2,077,343 |

A schedule listing of the properties as required by section 193 and the second schedule of the Zambia Companies act, 1994 is available for inspection by the members or their authorised representatives at the registered office of the company.
All passive assets have been sold to the subsidiary. No assets have been pledged as security.
Asset Retirement was as a result of physical verification carried out to align the physical assets to the fixed asset register.

## 17. Intangible assets

| Particulars | Cellular Licence K'000 | ISP licence K'000 | Total K'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2015 | 7,372 | 125 | 7,497 |
| Additions | - | - | - |
| **At 31 December 2015** | **7,372** | **125** | **7,497** |
| At 1 January 2016 | 7,372 | 125 | 7,497 |
| Additions | - | - | - |
| **At 31 December 2016** | **7,372** | **125** | **7,497** |
| **Amortization** | | | |
| **At 1 January 2015** | **1,883** | **125** | **2,008** |
| Charge for the year | 463 | - | 463 |
| **At 31 December 2015** | **2,346** | **125** | **2,471** |
| **At 1 January 2016** | **2,346** | **125** | **2,471** |
| Charge for the year | | | |
| At 31 December 2016 | 2808 | 125 | 2933 |
| **At 31 December 2016** | **4,564** | **-** | **4,564** |
| At 31 December 2015 | **5,025** | - | 5,025 |

## 18. Inventories

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Merchandise held for sale | **51,073** | 53,556 |
| Less provision for obsolete stock | **(16,499)** | (17,950) |
| **Total** | **34,574** | 35,606 |

The cost of inventories sold recognised as an expense and included in 'cost of sales' amounted to K60.14 million (2015: K98.5 million). There was inventory write down in the year ended 31 December 2016 of K3.329 million (2015: K 1.131 million). In addition, there were no reversals of inventory write offs (2015: nil).

## 19. Trade and other receivables

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Trade receivables | **241,251** | 282,383 |
| Less provision for impairment losses | **(107,637)** | (104,192) |
| Net Trade receivables | **133,614** | 178,191 |
| Prepayments | **85,935** | 97,892 |
| Receivables from related companies (Note 26) | **126,981** | 115,447 |
| Other receivables | **80,507** | 45,152 |
| **Total** | **427,036** | 436,682 |

The carrying amounts of the above trade receivables, receivables from related companies and other receivables approximate their fair values due to their short term maturities.

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

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| At start of year | **104,192** | 66,305 |
| Provision for the year | **10,837** | 52,428 |
| Exchange difference | **(7,392)** | (14,541) |
| **At end of year** | **107,637** | 104,192 |

## 20. Cash and cash equivalents

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Cash and cash equivalents | **146,057** | 37,115 |
| Bank overdrafts | **(1,061)** | (149,892) |
| **Total** | **144,996** | (112,777) |

For the purposes of the cash flow statement, cash and cash equivalents comprise the cash in hand, and deposits held at call with the bank, net of bank overdraft. Deposits held at call earn interest at the respective held at call rates. Cash at banks earns interest at floating rates based on daily bank deposit rates. Bank overdrafts are at an average interest rate of 15.50%.

## 21. Trade and other payables

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Trade payables | **595,621** | 745,687 |
| Amounts due to related companies {Note 26 (iii)} | **79,423** | 58,485 |
| Dividends payable (Note 27) | **673** | 5,132 |
| Accrued expenses | **149,067** | 140,864 |
| Deferred income | **106,225** | 109,640 |
| Other payables | **16,403** | 6,497 |
| **Total** | **947,412** | 1,066,305 |

Trade payables are non interest bearing and are normally settled on 60 day terms. For terms and conditions with related parties, refer to Note 26. Accrued expenses and other payables are non interest bearing and have an average term of six months. Deferred income is realised when a customer makes use of the talk-time that was carried forward.

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

## 22.. Bank overdraft

The company has four overdraft facilities with limits of up to K40 million and US$12.36. The facilities are annual facilities subject to review. The company had drawn amounts as at the year-end of K Nil and US$0.106 million (2015: K76.9 million and US$6.98 million). The overdraft limit was not exceeded at any time during the period and all the overdraft facilities are not secured.

## 23. Contingent liabilities

- Legal proceedings
  The company had some pending legal proceedings as at 31 December 2016. The management is of the opinion having obtained relevant legal advice that there will be no material losses arising from pending proceedings against the company.

- Excise duty assessment
  The Zambia Revenue Authority (ZRA) performed a customs and excise duty audit on the company for the period 2009 to 2012, following which they raised an excise duty assessment of K32.8 million on discounts.

  The company refuted the above assessment having obtained relevant tax expert and legal opinion as this was contrary to the ZRA's ruling of 11 March 2010 in which they advised that those discounts were not subject to excise duty.

## 24. Commitments

### (i). Capital commitments

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

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Balance as at 31 December | **113,427** | 100,110 |

### (ii) Operating lease commitments

At the reporting date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Not later than 1 year | **54,947** | 49,981 |
| Later than 1 year and not later than 5 years | **280,511** | 255,156 |
| Later than 5 years | **410,697** | 491,425 |
| **Total** | **746,155** | 796,562 |

(iii) Finance lease commitments

Finance lease commitments-As a Lessee 2016

| Particular | Future minimum Lease payment K'000 | Interest K'000 | Present value K'000 |
|---|---|---|---|
| Not later than 1 year | 147,477 | 85,124 | 62,354 |
| Later than 1 year and not later than 5 years | 589,909 | 263,749 | 326,160 |
| Later than 5 years | 542,380 | 94,284 | 448,096 |
| **Total** | **1,279,766** | **443,156** | **836,610** |

**Finance lease commitments-As a Lessee 2015**

| Particulars | Future minimum Lease payment K'000 | Interest K'000 | Present value K'000 |
|---|---|---|---|
| Not later than 1 year | 160,558 | 99,834 | 60,724 |
| Later than 1 year and not later than 5 years | 642,233 | 322,871 | 319,362 |
| Later than 5 years | 741,991 | 158,221 | 583,770 |
| **Total** | **1,544,782** | **580,926** | **963,856** |

**Obligation under finance lease**

| Particulars | December 2016 K'000 | December 2015 K'000 |
|---|---|---|
| IHS Zambia limited | **836,610** | 963,856 |
| | | |
| At 1 January | **963,856** | - |
| Drawn during the year | **18,777** | 802,175 |
| Unrealised foreign exchange (gain)/ loss | **(94,983)** | 176,202 |
| Repaid during the year | **(51,040)** | (14,521) |
| At 31 December | **836,610** | 963,856 |
| | | |
| Less: Current portion | **62,354** | 60,724 |
| Non-Current portion | **774,256** | 903,132 |

The lease relates to renting of tower from IHS Zambia Limited

## 25. Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| | | |
| Profit before income tax | **403,847** | 250,401 |
| | | |
| Adjustments for: | | |
| Interest income | **(1,497)** | (34,015) |
| Interest expense | **112,858** | 60,324 |
| Depreciation | **448,926** | 330,161 |
| Amortisation of intangible assets | **462** | 463 |
| Loss/(profit) on sale of property and equipment | **-** | (628,971) |
| Unrealised forex (gain)/loss on finance lease | **(94,983)** | 175,799 |
| Changes in working capital: | | |
| trade and other receivables | **38,329** | 558,099 |
| inventories | **1,032** | (29,350) |
| Finance lease obligation | **18,777** | 802,175 |
| trade and other payables | **(114,434)** | 166,658 |
| | | |
| **Cash generated from operations** | **813,316** | 1,651,744 |

## 26. Related party transactions

The company is owned by Bharti Airtel Zambia Holdings BV (BAZHBV) which has 96.4% control of the shares. The remaining 3.6% are owned by public investors through the Lusaka Stock Exchange (LuSE).

The following transactions were carried out with related parties:

### (i) Purchase of goods and services

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Bharti Airtel (International) Netherlands B.V | **45,433** | 52,200 |
| Fellow subsidiaries | **64,343** | 80,183 |
| **Total** | **109,776** | 132,383 |

The following balances arising from transactions carried out with related parties were outstanding at the reporting date:

### (ii) Receivable from related parties

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Fellow subsidiaries | **126,981** | 115,447 |

### (iii) Payable to related parties

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Fellow subsidiaries | **41,076** | 56,037 |
| Other group payables | **38,347** | 2,448 |
| **Total** | **79,423** | 58,485 |

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

No provisions for impairment losses have been required in 2016 and 2015 for any related party receivables.

### (iv) Key management compensation

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| | | |
| Salaries and other short-term employment benefits | **42,181** | 40,202 |

### (v) Directors' remuneration

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| | | |
| Fees for services as a director | **2,291** | 878 |

## 27. Dividends proposed and paid

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| Opening balance | **5,132** | 126,672 |
| Dividends declared | **104,000** | 156,000 |
| Dividends paid | **(108,459)** | (277,540) |
| **Dividends payable** | **673** | 5,132 |

Proposed for approval at the Annual General Meeting

| Particulars | 2016 K'000 | 2015 K'000 |
|---|---|---|
| **Proposed dividends for 2016: K4.00 (2015: K1.00)** per share | **416,000** | 104,000 |

## 28. Fair value of Financial assets and liabilities

Set out below is a comparison by class of the carrying amount and fair value of the financial instruments that are recognised in the financial statements.

| Particulars | Carrying amount As of December 31, 2016 | As of December 31, 2015 | Fair value As of December 31, 2016 | As of December 31, 2015 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Assets carried at fair value through profit or loss** | | | | |
| **Derivatives - not designated as hedging instruments:** | | | | |
| -Forward and option contracts | **917** | 7,350 | **917** | 7,350 |
| -Embedded derivatives | **-** | 1,984 | **-** | 1,984 |
| **Available for sale investments** | | | | |
| Assets carried at amortised cost Fixed deposits with banks | | | | |
| - Cash and bank balances | **146,057** | 37,115 | **146,057** | 37,115 |
| - Trade and other receivables | **312,478** | 311,179 | **312,478** | 311,179 |
| - Other financial assets | **191** | 1,825 | **191** | 1,825 |
| **Total** | **459,642** | **359,453** | **459,642** | **359,453** |
| **Financial liabilities Liabilities carried at fair value through profit or loss** | | | | |
| Derivatives - not designated as hedging instruments | | | | |
| - Forward and option contracts | **(1,125)** | - | **(1,125)** | - |
| - Embedded derivatives | **(256)** | - | **(256)** | - |
| Liabilities carried at amortised cost | | | | |
| Borrowings- fixed rate | **(1,061)** | (149,893) | **(1,061)** | (149,893) |
| Trade and other payables | **(1,586,431)** | (1,832,530) | **(1,586,431)** | (1,832,530) |
| Other financial liabilities | **(7,804)** | (11,515) | **(7,804)** | (11,515) |
| | | | | |
| **Total** | **(1,596,676)** | (1,993,937) | **(1,596,676)** | (1,993,937) |

### (a) Assets/liabilities measured at fair value

| Particulars | as of December 31, 2016<br>Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial assets** | | | |
| **Derivatives - not designated as hedging instruments:** | | | |
| **- Forward contracts** | **-** | **917** | **-** |
| **- Embedded derivatives** | **-** | **-** | **-** |
| | | | |
| **Financial liabilities** | | | |
| **Derivatives - not designated as hedging instruments:** | | | |
| **- Forward contracts** | **-** | **(1,125)** | **-** |
| **- Embedded derivatives** | **-** | **(256)** | **-** |
| | | | |
| | | | |

| Particulars | as of December 31, 2015<br>Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Financial assets | | | |
| Derivatives - not designated as hedging instruments: | | | |
| - Forward contracts | - | 7,350 | - |
| - Embedded derivatives | - | 1,984 | - |
| | | | |
| Financial liabilities | | | |
| Derivatives - not designated as hedging instruments: | | | |
| - Forward contracts | - | - | - |

## 28. Fair value of financial assets and liabilities (continued)

### Valuation techniques and input used for level 2 and level 3

### (b) Assets/liabilities measured at fair value

| Particulars | Fair value hierarchy | Valuation technique | Inputs Used |
|---|---|---|---|
| | | | |
| **Financial assets** | | | |
| Derivatives - not designated as hedging instruments | | | |
| - Forward contracts | Level 2 | Market valuation techniques | Forward foreign currency exchange rates, interest rates to discount future cash flow |
| | | | |
| - Embedded derivatives | Level 2 | Discounted cash flow | Amount payable in future,<br>Forward foreign currency exchange rates, interest rates to discount future cash flow |
| **Financial Liabilities** | | | |
| Derivatives - not designated as hedging instruments | | | |
| | | | |
| - Forward contracts | Level 2 | Market valuation techniques | Forward foreign currency exchange rates, interest rates to discount future cash flow |
| | | | |
| - Embedded derivatives | Level 2 | Discounted cash flow | Amount payable in future, forward foreign currency exchange rates, interest rates to discount future cash flow |

## 29. Events after reporting date

There were no material subsequent events for the year ended 31 December 2016. The directors are not aware of any other matter or circumstances since the financial year end and the date of this report, not otherwise dealt with in the financial statements, which significantly affects the financial position of the company and the results of its operations.

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