
OUR
FINANCIALS

DIRECTORS' REPORT

Business review

The Directors submit this report together with the audited financial statements for the year ended 31 March 2020 which disclose the state of affairs of Safaricom PLC (the "Company" or "Safaricom") and its subsidiaries (together, the "Group").

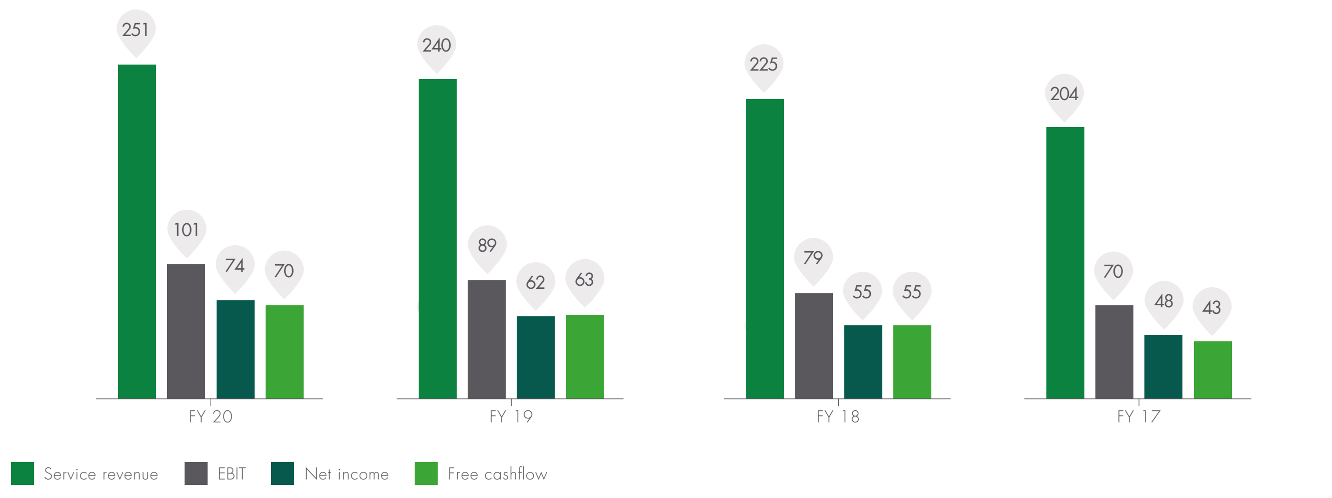
Business review

Safaricom exists to transform lives. We provide voice, data, financial services and enterprise solutions via multiple platforms to diverse subscribers, small businesses, large corporates and government institutions. We promise our customers to deliver our services simply, transparently and honestly.

Our corporate strategy is guided by three pillars: Customer first; Relevant products and services; and Operational excellence. It has enabled us grow our loyal customer base, produce excellent results across our key financial and commercial performance indicators and impact positively on society.

The graph below shows a five-year key performance indicators trend:

Key performance indicators
KShs billions



The Group has delivered a robust financial performance for the year ending 31 March 2020. To provide an accurate comparison for the year under review against the prior year, we have used the performance as would have been under IAS 17 – Leases (see Appendix 2).

Service revenue grew by 4.8% to KShs 251.21 billion. This was driven predominantly by increased use of non-voice services – mainly M-PESA, mobile data and fixed data service revenues – supported by 11.8% growth in the total customer base, to 35.6 million.

Overall voice service revenue stands at 37.6% of service revenue, representing a 1.4% decline to KShs 94.45 billion.

Mobile data revenue accounted for 16.2% of service revenue and grew at 12.1% to KShs 40.6 billion. This was driven by a 14.2% increase in 30-day active mobile data customers to 21.99 million.

Fixed data service revenue registered a growth of 10.7% and contributed 3.6% of total service revenue. Fixed revenue is driven by increased activity and penetration for Fibre to the Home (FTTH), which contributed 80.6% of the total growth.

The fixed data revenue includes KShs 648 million relating to the annual management service charge for the national secure communication network.

Business review Continued

M-PESA revenue grew 12.6% to KShs 84.44 billion. This was driven by a 10.0% increase in 30-day active M-PESA customers to 24.91 million.

Operating profit (EBIT) increased by 13.5%. This is attributed to growth in service revenue, cost optimisation and prudent capital expenditure (capex) investments.

Earnings per share improved by 14.5% Year on Year (YoY) (12.6% based on IFRS 16) driven by strong operating performance. Free cash flow improved by 11.4% YoY.

The accounting policies adopted in the financial year ended 31 March 2020 are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2019. The exceptions are the adoption of IFRS 16 – Leases, effective for annual reporting periods beginning on or after 1 January 2019, and the implementation of an updated depreciation policy for Company assets.

Safaricom PLC has elected to use a modified retrospective approach for transition to IFRS 16 accounting for Company leases from 1 April 2019, without having to restate comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard.

The reclassifications and adjustments arising from the new leasing rules are recognised in the opening balance sheet on 1 April 2019.

In the period to 31 March 2020, the Company reviewed the expected useful life and residual values of its assets in line with IAS 16 Property Plant and Equipment (PPE) requirements and updated its PPE depreciation policy prospectively effective 1 April 2019.

As part of our promise to be Simple. Transparent. Honest. FOR YOU, we introduced the new customer proposition, Neo – a no-expiry resources plan. The plan gives customers the freedom to purchase talk time and data bundles of any amount, starting from as low as KShs 1. Customers can clearly see how much data MBs, minutes and SMS they will receive before completing the transaction. Customers purchasing the new Call and SMS plans get an extra 50% talk time with every purchase, enabling them to talk more for less.

Our "For You" strategic theme was launched in October 2019 in the spirit of transforming lives. Inspired by the resilience of Kenyans who wake up every day to make a positive impact on those around them, the Company continues to partner with communities to bring their dreams to life. Our continued focus on health, education and empowerment enables us and our partners to develop new and exciting partnership models which combine philanthropy, strategic investments, shared values and issue-based advocacy to create meaningful connections with communities.

We take our social and moral responsibility to manage our environmental impacts very seriously. Environmental considerations are not separate from our core business and they impact on our overall commercial sustainability and success.

As part of our commitment to the Sustainable Development Goals (SDGs), and to protecting the environment, we are committed to maximising our positive impact and mitigating our negative impact by aligning our activities to three of the goals in particular:

i. promoting use of affordable and clean energy, both within our network and the homes of employees (SDG 7);

ii. advocating for, implementing and promoting responsible production and consumption of resources (SDG 12); and

iii. guiding efforts towards achieving 'net zero' carbon emissions through the development and implementation of climate change-related strategies and policies (SDG 13).

Key focus areas during the year included:

- Committing to become a net zero carbon-emitting Company by 2050. We have initiatives in place to monitor our emissions and introduce science-based carbon reduction targets;
- Continued compliance with regulations regarding use of plastics, air quality and noise levels;
- Clearly defined waste management policy, including e-waste collection initiatives and an end-to-end waste management, partnering with competent partners in the respective industries; and
- ISO 14001 recertification, upgrades to our Environmental Management System (EMS) and successful transition to ISO 14001:2015.

DIRECTORS' REPORT

Business review Continued

Our bold pledge has refocused our thinking and efforts across the entire business – including improving energy efficiency and reducing energy consumption across our network and facilities, deploying renewable energy solutions and exploring carbon offset projects.

Our risk management framework

Safaricom remains committed to robust risk management as an integral part of strong governance and good management. This is demonstrated by a top-down approach, with the board taking overall responsibility of managing risk. Appropriate support towards risk management ensures a positive risk culture across the organisation.

Our risk management framework is aligned to ISO 31000 and allows us to identify, measure, manage and monitor strategic and operational risks across the business. The framework provides management with a clear line of sight to enable informed, risk-based decision-making.

We continuously review the risk management framework, which provides the foundation and arrangements for identifying, treating, reporting, monitoring, reviewing and continually improving risk management throughout the organisation. The key components of the framework are outlined below.

We classify our risks into two categories: Strategic and Operational.

Our risk management framework

DIRECTORS' REPORT

Business review Continued

Risk appetite statement

Risk is an integral part of creating value. We have robust processes in place to proactively manage all major risks. We ensure customers get quality and reliable products and services by employing best practices across all touch points. Our management team, employees and business partners are held to the highest standards of integrity and we strive to ensure the principles of good corporate governance are upheld.

Our principal risks and what we are doing about them

Our risk identification and mitigation processes are designed to respond to the ever-changing operating environment.

We identify key risks through our Enterprise Risk Management (ERM) Framework. This provides the Executive Committee and Board with a robust assessment of the principal risks facing the Company. An embedded ERM process supports the identification of these principal risks. The risk appetite for each principal risk is reviewed and approved by the Board to inform risk-based decision-making.

The following are the principal risks and related mitigation strategies that receive close management attention:

Adverse regulatory pressures

We operate in a complex and heavily regulated environment. A breach of regulatory requirements could expose Safaricom to significant financial implications, reputational damage and/or suspension of our license.

The nature of our products and services requires that we comply with a wide range of rules and laws from our regulators, namely: Communications Authority of Kenya (CA); Competition Authority of Kenya (CAK); and Central Bank of Kenya (CBK).

Mitigation

We continue to build constructive relationships with regulators. We contribute to discussions on emerging legislation and regulations as we prepare to comply with them.

Our products and services are carefully and continuously monitored to ensure they do not contravene any regulations.

We have developed a robust assurance programme on regulatory compliance.

DIRECTORS' REPORT

Business review Continued

Cyber threats and Data privacy

An external cyber-attack, insider threat or supplier breach (malicious or accidental) could cause service interruption or loss of confidential data.

With the enactment of the Kenya Data protection Act 2019, there are specific obligations placed on data controllers and processors on how they collect and process customer data.

Mitigation

Robust cyber security controls are complemented by the 24/7 Cyber Defence Centre to safeguard the services we offer.

Our networks and infrastructure are built with security in mind; layers of security controls are applied to all applications and infrastructure.

ISO27001 Information Security Certification provides independent confirmation to our customers that we have implemented appropriate processes and controls to protect the privacy of their information.

We carry out continuous Data Protection Impact Assessment across our operations in compliance with the Data protection Act.

Economic growth prospects

The year 2019 saw mixed macro-economic changes such as high taxation, increased inflation and raising government debt in turn resulting to reduced consumer purchasing power due to low disposable incomes.

GDP declined to 5.1% in the last quarter of 2019 following a 5.6% growth in the previous period as economic activity and growth slowed in general.

The prolonged drought impacted negatively on agricultural productivity, affecting a large part of the population as agriculture is the backbone of our economy.

In the last quarter of the financial year, we experienced adverse global and local economic impact related to Covid-19 disruption. This affected broad ranging sectors leading to business losses, increased unemployment and a reduction of consumer purchase power.

Mitigation

We continue to proactively monitor these factors and to implement measures to mitigate the effects and cushion the business from adverse effects. These included:

Revamping our products and services to continue to serve customer needs.

Including contingencies in our business plans to provide for the negative operational impacts that could arise from lower economic growth and changes in interest, inflation and exchange rates.

Implementing a cost-efficiency programme to combat the effects of inflationary pressure on costs.

Pandemic response planning and implementation of business continuity to ensure that our employees are safe and our business operations are not impacted.

DIRECTORS' REPORT

Business review Continued

Market disruption and heightened competitor activity

Competition in the telecommunication industry remains vibrant in terms of product and service offerings by both traditional Telco's and Over the top (OTT) players.

Dynamic market needs, ever-changing consumer trends, new players entering the market and the speed of disruptive technologies have intensified competition with customer value proposition providing the competitive edge.

Mitigation

Our strategies to manage competition focus on growing and retaining customers by offering quality services and leveraging strategic partnerships across sectors to provide customers with relevant products and services.

We continue to innovate and adopt an agile operating model to respond rapidly to ever-changing customers' needs.

Geo-political risks and insecurity

There has been an increase in terror related activities in the country and targeted attacks in North Eastern region.

With our countrywide presence, these uncertainties have led to security concerns affecting our business operations and increasing the cost of operations.

The political climate has remained tense as more activities are noted towards the Building the Bridges Initiative and 2022 elections.

Mitigation

We continue to closely monitor the political situation while taking appropriate business measures to safeguard our operations.

To manage security risks, we have invested heavily to protect our staff, contractors and assets and we work closely with law enforcement authorities to ensure our customers' interests are well protected.

We also carry out proactive intelligence gathering, screening and security surveillance.

Results and dividend

The profit for the year before Share of profit from Joint Venture (M-PESA Global Services Ltd) is KShs 70,362 million (2019: KShs 62,491 million), and KShs 73,658 million after inclusion of the share of profit from the Joint Venture and has been added to retained earnings.

The directors recommend the approval of a final dividend in respect of the year ended 31 March 2020 of KShs 1.40 (2019: KShs 1.25) of KShs 56,092 million (2019: KShs 50,082 million) and the approval of a special dividend of KShs nil (2019: KShs 24,841 million equivalent to KShs 0.62 per share).

DIRECTORS' REPORT

Directors' report

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

Name	Representing	Nationality	Date of Appointment
Nicholas Nganga	Chairman and Government of Kenya nominee	Kenyan	6 May 2004
Bob Collymore[1]	Managing Director and Chief Executive Officer	British & Kenyan	5 September 2006
Michael Joseph[2]	Vodafone Kenya Limited nominee	Kenyan & American	8 September 2008
Peter Ndegwa[2]	Chief Executive Officer and Executive Director	Kenyan	1 April 2020
Sateesh Kamath (Outgoing)[1]	Chief Finance Officer	Indian	30 June 2016
CS, National Treasury	Cabinet Secretary to the National Treasury	Kenyan	5 November 2013
Esther Koimett	Alternate to CS, National Treasury	Kenyan	5 November 2013
Vivek Badrinath[3]	Vodafone Kenya Limited nominee	French	12 January 2017
Gianluca Ventura[3]	Alternate to Vivek Badrinath	Italian	6 March 2015
Francesco Bianco[3]	Vodafone Kenya Limited nominee	Italian	20 March 2020
Linda Muriuki	Government of Kenya nominee	Kenyan	31 August 2017
Mohamed Joosub	Vodafone Kenya Limited nominee	South African	31 August 2017
Bitange Ndemo	Independent Director	Kenyan	2 March 2017
Rose Ogega	Independent Director	Kenyan	12 February 2019
Till Streichert	Vodafone Kenya Limited nominee	German	8 May 2018

1 Bob Collymore ceased to be a Director on 1 July 2019 and consequently Sateesh Kamath (Outgoing) ceased to be his alternate.

2 Michael Joseph ceased to be the Interim Chief Executive Officer with effect from 31 March 2020.

2 Peter Ndegwa was appointed as the Chief Executive Officer and Executive Director in the Board with effect from 1 April 2020.

3 Vivek Badrinath ceased to be a Director with effect from 20 March 2020.

3 Gianluca Ventura ceased to be the Alternate Director to Vivek Badrinath on 2 May 2019.

3 Francesco Bianco was appointed as the Alternate Director to Vivek Badrinath on 2 May 2019. He subsequently ceased to be the Alternate Director to Vivek Badrinath on 20 March 2020 and was appointed a substantive Director in the Company with effect from 20 March 2020.

Statement as to disclosure to the Group's and Company's auditor

With respect to each Director at the time this report was approved:

a. there is, so far as the Director is aware, no relevant audit information of which the Group's and Company's auditor is unaware; and

b. the Director has taken all steps that the Director ought to have taken as a Director to be aware of any relevant audit information and to establish that the Group's and Company's auditor is aware of that information.

Terms of appointment of the auditor

The term of the audit engagement for PricewaterhouseCoopers is coming to an end after this year's audit work and hence they will cease to be the Company's auditor at the conclusion of the forthcoming Annual General Meeting of the Company on 31 July 2020. The Board will make a recommendation to the shareholders at the Annual General Meeting, to approve the appointment of the new auditor in accordance with the provisions of Section 721 of the Kenyan Companies Act, 2015.

The Directors monitor the effectiveness, objectivity and independence of the auditor. The Directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration has been charged to profit or loss in the year.

By order of the Board

Ms Kathryne Maundu
Company Secretary
28 April 2020

Statement of Directors' responsibilities

The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of their profit or loss for that year. It also requires the Directors to ensure that the Company keeps proper accounting records that: (a) show and explain the transactions of the Group and Company; (b) disclose, with reasonable accuracy, the financial position of the Group and Company; and (c) enable the Directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

i. designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii. selecting suitable accounting policies and then applying them consistently; and

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

Having made an assessment of the Group's and Company's ability to continue as a going concern, the Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's and Company's ability to continue as a going concern.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 28 April 2020 and signed on its behalf by:

Nicholas Nganga
Chairman and
Non-Executive Director

Michael Joseph
Director

DIRECTORS' REMUNERATION REPORT

Information not subject to audit

The Company's Board composition is as below:

Name	Representing	Nationality	Date of Appointment
a) Seven Non-Executive Directors:			
Nicholas Nganga	Chairman and Government of Kenya nominee	Kenyan	6 May 2004
CS, National Treasury	Cabinet Secretary to the National Treasury	Kenyan	5 November 2013
Esther Koimett	Alternate to CS, National Treasury	Kenyan	5 November 2013
Vivek Badrinath[3]	Vodafone Kenya Limited nominee	French	12 January 2017
Gianluca Ventura[3]	Alternate to Vivek Badrinath	Italian	6 March 2015
Francesco Bianco[3]	Vodafone Kenya Limited nominee	Italian	20 March 2020
Linda Muriuki	Government of Kenya nominee	Kenyan	31 August 2017
Mohamed Joosub	Vodafone Kenya Limited nominee	South African	31 August 2017
Till Streichert	Vodafone Kenya Limited nominee	German	8 May 2018
b) Two Independent Non-Executive Directors:			
Bitange Ndemo	Independent Director	Kenyan	2 March 2017
Rose Ogega	Independent Director	Kenyan	12 February 2019
c) One Executive Director:			
Bob Collymore[1]	Managing Director and Chief Executive Officer	British & Kenyan	5 September 2006
Michael Joseph[2]	Vodafone Kenya Limited nominee	American & Kenyan	8 September 2008
Peter Ndegwa[2]	Chief Executive Officer and Executive Director	Kenyan	1 April 2020
Sateesh Kamath (Outgoing)[1]	Chief Finance Officer	Indian	30 June 2016

During the period, there were below changes in the Board composition:

1 Bob Collymore ceased to be a Director on 1 July 2019 and consequently Sateesh Kamath (Outgoing) ceased to be his alternate.

2 Michael Joseph ceased to be the Interim Chief Executive Officer with effect from 31 March 2020.

2 Peter Ndegwa was appointed as Chief Executive Officer and Executive Director in the Board with effect from 1 April 2020.

3 Vivek Badrinath ceased to be a Director with effect from 20 March 2020.

3 Gianluca Ventura ceased to be the Alternate Director to Vivek Badrinath on 2 May 2019.

3 Francesco Bianco was appointed as the Alternate Director to Vivek Badrinath on 2 May 2019. He ceased to be the Alternate Director to Vivek Badrinath on 20 March 2020 and was appointed a substantive Director in the Company with effect from 20 March 2020.

Non-Executive Directors' remuneration

The Board establishes and approves transparent and competitive remuneration policies for the Non-Executive Board members. These policies clearly stipulate remuneration elements such as Directors' annual fees, sitting allowances per meeting attended and other benefits that are based on proper benchmarking and taking into consideration the prevailing market conditions.

Information not subject to audit Continued

Non-Executive Directors' remuneration (continued)

Safaricom PLC seeks to remunerate Non-Executive Directors at least at the 75th percentile. The current remuneration structure is based on a survey commissioned by the Board through its Board Nominations and Remuneration Committee and carried out by PricewaterhouseCoopers (PwC) across peer organisations comparable with Safaricom. Remuneration for Non-Executive Directors is reviewed every two years.

The below is the current agreed fees and allowances structure:

- Annual Directors fees paid to the Chairman of the Board agreed at KShs 5,700,000 per annum (2019: KShs 5,700,000);
- Annual Directors fees paid to each Non-Executive Director agreed at KShs 2,200,000 per annum (2019: KShs 2,200,000);
- Sitting allowance payable to the Chairman of the Board retained at KShs 85,000 per meeting (2019: KShs 85,000);
- Sitting allowance payable to the Chair of a Committee retained at KShs 74,150 per meeting (2019: KShs 74,150);
- Sitting allowance payable to each Non-Executive Director retained at KShs 60,000 per meeting (2019: KShs 60,000).

Annual Directors' fees for the Director representing the National Treasury are paid directly to the National Treasury.

Annual Directors' fees for the Directors representing Vodafone Kenya Limited are paid directly to Vodafone Group.

Board members are also entitled to telephone and internet usage allowance.

The Board carries out a formal annual process to review its performance and that of its committees and individual Directors. Evaluation of the Board is facilitated by an independent external consultant.

Executive Director's remuneration

The Executive Director's (the CEO) remuneration is as per the negotiated employment contract and is employed on a fixed term basis.

Besides basic salary, the Executive Director is entitled to an annual performance-based bonus and Vodafone PLC shares, residential accommodation, utility bills payment, children's school fees and club membership.

Changes to Directors' remuneration

There were no changes during the year in Non-Executive Directors' remuneration fees and allowances as shown above.

DIRECTORS' REMUNERATION REPORT

Information not subject to audit Continued

Non-Executive Directors' remuneration (continued)

Statement of voting on the Directors' Remuneration Report at the previous Annual General Meeting (AGM)

During the AGM held on 31 August 2019, voting was carried out by ballot to approve the Directors' Remuneration Report.

The results of the vote were as follows:

Agenda	Vote	Total votes	As a percentage of the total votes cast
Directors Remuneration Report	For	30,056,567,040	99.9997%
	Against	21,800	0.0001%
	Spoilt Votes	78,888	0.0003%
	Abstained	–	–
Total		**30,056,667,728**	**100%**

The Directors Remuneration Report for the year ended 31 March 2020 will be presented to shareholders for approval at the AGM scheduled to be held on 31 July 2020.

Information subject to audit

The following table shows a single figure remuneration for Executive and Non-Executive Directors in respect of qualifying services for the financial year ending 31 March 2020. Comparative figures for the year ended 31 March 2019 are also shown. The aggregate Directors' emoluments are shown in Note 31(iii).

Directors' remuneration for the year ended 31 March 2020

Name	Salary KShs'm	Directors' fees KShs'm	Bonus KShs'm	Non-cash benefits KShs'm	EPSAP* KShs'm	Totals KShs'm
Executive Directors						
Bob Collymore	25.26	–	6.53	7.76	23.53	63.08
Sateesh Kamath (Outgoing)	55.55	–	13.48	22.17	9.38	100.58
Michael Joseph	88.48	0.36	23.49	13.98	–	126.31
Total	**169.29**	**0.36**	**43.50**	**43.91**	**32.91**	**289.97**
Non-Executive Directors						
Nicholas Nganga	–	8.84	–	0.19	–	9.03
Bitange Ndemo	–	3.88	–	0.07	–	3.95
Rose Ogega	–	4.74	–	0.14	–	4.88
Linda Muriuki	–	3.82	–	–	–	3.82
Mohamed Joosub	–	2.98	–	–	–	2.98
Vivek Badrinath	–	3.22	–	–	–	3.22
Till Streichert	–	3.28	–	–	–	3.28
Francesco Bianco	–	–	–	–	–	–
National Treasury	–	2.20	–	–	–	2.20
Esther Koimett	–	1.20	–	0.22	–	1.42
Total	**–**	**34.16**	**–**	**0.62**	**–**	**34.78**
Grand Total	**169.29**	**34.52**	**43.50**	**44.53**	**32.91**	**324.75**

DIRECTORS' REMUNERATION REPORT

Information subject to audit Continued

Directors' remuneration for the year ended 31 March 2019

Executive Directors Name	Salary KShs'm	Directors' fees KShs'm	Bonus KShs'm	Non-cash benefits KShs'm	EPSAP* KShs'm	Totals KShs'm
Bob Collymore	96.83	–	32.87	41.49	29.76	200.95
Sateesh Kamath (Outgoing)	54.78	–	14.44	22.18	10.89	102.29
Total	151.61	–	47.31	63.67	40.65	303.24

Non-Executive Directors						
Nicholas Nganga	–	8.68	–	0.12	–	8.80
Bitange Ndemo	–	3.34	–	0.03	–	3.37
John Otty	–	0.73	–	–	–	0.73
Michael Joseph	–	3.40	–	1.19	–	4.59
Linda Muriuki	–	3.52	–	–	–	3.52
Mohamed Josuub	–	3.16	–	–	–	3.16
Susan Mudhune	–	2.57	–	0.01	–	2.58
Vivek Badrinath	–	3.10	–	–	–	3.10
Till Streichert	–	2.85	–	–	–	2.85
Gianluca Ventura	–	0.12	–	–	–	0.12
Rose Ogega	–	0.06	–	0.01	–	0.07
National Treasury	–	2.20	–	–	–	2.20
Esther Koimett	–	0.90	–	0.25	–	1.15
Total	**–**	**34.63**	**–**	**1.61**	**–**	**36.24**
Grand Total	**151.61**	**34.63**	**47.31**	**65.28**	**40.65**	**339.48**

* EPSAP – Employee Performance Share Award Plan. Actual settlement is done by the seconding Vodafone affiliate Company.

On behalf of the Board

Chairman, Board Nominations and Remuneration Committee
28 April 2020

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SAFARICOM PLC

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Safaricom PLC (the Company) and its subsidiaries (together, the Group) set out on pages 120 to 181, which comprise the consolidated statement of financial position at 31 March 2020 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 March 2020 and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of Safaricom PLC give a true and fair view of the financial position of the Group and the Company at 31 March 2020 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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.

Key audit matter

Key audit matter	How our audit addressed the matter
Recognition of revenue from contracts with customers As explained in notes 2 (e), 5 and 29 of the financial statements, the Company has several revenue streams driven by different contractual arrangements with customers. The determination of the quantum and timing of revenue recognition is complicated by the multiple information technology systems, tariff structures and pricing models for the various products to customers. Variations in the configurations of systems or accounting processes for the individual products could result in materially different revenue recognition outcomes.	We evaluated the Group's accounting policies and processes for revenue recognition. We tested the design and operating effectiveness of the controls over the integrity of the IT systems that relate to revenue, including the general and application controls on the revenue billing systems and their interfaces with the general ledger. On a sample basis, we tested individual transactions for accuracy and occurrence of revenue transactions, authorisation of rate changes and input of information into the billing system during the year. We performed substantive analytical reviews on relevant revenue streams. This was done by comparing the actual revenues to the expected revenue based on volumes and tariff rates of the various products. We traced the revenue amounts on a sample basis to source systems and other supporting documents. We evaluated and tested the adequacy of the relevant disclosures in the financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SAFARICOM PLC

Report on the audit of the financial statements Continued

Key audit matters (continued)

Key audit matter	How our audit addressed the matter
Measurement of bargain purchase (gain) from the acquisition of the M-PESA brand. As described in note 23(b) of the financial statements, the Company completed the acquisition of the M-PESA brand, product development and support services from Vodafone Group Plc through a newly created joint venture, M-PESA Global services Limited in March 2020. The accounting for the transaction resulted in bargain purchase (gain) of KShs 3.3 billion to the profit or loss account, being the difference between the fair value of the net assets acquired including identifiable intangible assets and the consideration paid. The determination of the fair value of the acquired net assets, including identifiable intangible assets, involved the use of significant estimates and assumptions such as the brand's useful life, projected cash flows, discount rate and terminal growth rate, that are not wholly based on observable data. A change in the assumptions could have a material variation in the fair value outcomes.	We evaluated management's processes and controls around recognizing transactions of this nature including the oversight from those charged with governance; With the assistance of our internal valuation experts, we tested the appropriateness of the valuation methodology and the reasonableness of the assumptions used by management in valuing the acquired net assets; We tested the logical and mathematical accuracy of the valuation models; and We evaluated the adequacy and consistency of disclosures in the financial statements.
Measurement of the right-of-use assets and related lease liabilities on adoption of IFRS 16 As described in note 2(a) and 22 of the financial statements, the Group adopted IFRS 16, Leases, which was applicable for periods beginning on or after 1 January 2019. Being the first year of adoption for the Group, the new standard on leases introduced new requirements which necessitated the use of significant judgements and assumptions in the measurement of the right-of-use asset and the related lease liabilities. The key areas where estimates and judgement were applied included: (i) The interpretation of the requirements to determine the contracts containing leases and separating the lease and the non-lease components of a contract; (ii) Determination of the incremental rate of borrowing; and (iii) The decision to exercise the extension or termination options while determining the lease term.	We obtained an understanding and evaluated the Group's IFRS 16 implementation process including governance over the implementation process; We reviewed the Group's updated accounting policies for compliance with the principles of IFRS 16; We assessed the reasonableness of the significant estimates and the judgements applied by management; We validated key inputs into the model against lease agreements in place and checked for mathematical accuracy of the computations; and We checked the financial statement disclosures for compliance with IFRS 16.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SAFARICOM PLC

Report on the audit of the financial statements Continued

Other information

The other information comprises the Directors' Report, Statement of Directors' Responsibilities, Directors' Remuneration Report and the appendices (Principal shareholders, Statement of profit or loss and other comprehensive income based on IAS 17 and Mobile money services performance) which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 we have received 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.

When we read the rest of the other information in the Annual Report, and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Report on the audit of the financial statements Continued

- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the Group's 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 matters prescribed by the Kenyan Companies Act, 2015

Report of the Directors

In our opinion the information given in the Directors' report on pages 104 to 110 is consistent with the financial statements.

Directors' Remuneration Report

In our opinion the auditable part of the Directors' Remuneration Report on pages 114 to 115 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

PricewaterhouseCoopers LLP

Certified Public Accountants
Nairobi
28 April 2020

CPA Peter Ngahu, Practising certificate No. 1458
Signing partner responsible for the independent audit

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Statement of profit or loss and other comprehensive income

		Group		Company	
	Notes	2020 KShs'm	2019 KShs'm	2020 KShs'm	2019 KShs'm
Revenue from contracts with customers	5(a)	260,463.8	248,101.8	259,078.7	247,237.8
Revenue from other sources	5(b)	2,091.9	2,181.3	2,326.8	2,242.9
Total revenue		**262,555.7**	**250,283.1**	**261,405.5**	**249,480.7**
Direct costs	6	(75,284.9)	(72,398.8)	(75,468.7)	(73,030.2)
Impairment (losses)/gains on receivables	25	(1,669.6)	9.6	(1,418.7)	9.6
Other expenses	7	(47,559.7)	(53,590.2)	(47,023.1)	(52,935.3)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**138,041.5**	**124,303.7**	**137,495.0**	**123,524.8**
Depreciation of property, plant and equipment	18	(31,964.8)	(33,660.4)	(31,925.3)	(33,660.4)
Amortisation – Indefeasible Rights of Use (IRUs)	19	(301.0)	(301.0)	(301.0)	(301.0)
Amortisation – intangible assets	21	(1,359.1)	(1,370.3)	(1,358.0)	(1,369.1)
Amortisation–Right of Use (ROU) assets	22(a)	(2,922.8)	–	(2,922.8)	–
Operating profit		**101,493.8**	**88,972.0**	**100,987.9**	**88,194.3**
Finance income	8	3,518.8	2,760.2	3,494.5	2,742.1
Finance cost	9	(2,596.6)	(519.6)	(2,585.5)	(472.6)
Share of profit of associate	23(b)	60.9	5.2	60.9	5.2
Share of profit of Joint Venture (M-PESA Global Services Limited)	23(b)	3,296.1	–	3,296.1	–
Profit before income tax		**105,773.0**	**91,217.8**	**105,253.90**	**90,469.0**
Income tax expense	12	(32,115.1)	(28,727.3)	(31,969.7)	(28,502.9)
Profit after tax		**73,657.9**	**62,490.5**	**73,284.2**	**61,966.1**
Other comprehensive income		–	–	–	–
Profit and total comprehensive income for the year attributable to the owners of the Company		**73,657.9**	**62,490.5**	**73,284.2**	**61,966.1**
Basic and diluted earnings per share (KShs per share)	13	**1.84**	**1.56**	**1.83**	**1.55**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Statement of financial position

		Group		Company	
	Notes	2020 KShs'm	2019 KShs'm	2020 KShs'm	2019 KShs'm
Share capital	14	2,003.3	2,003.3	2,003.3	2,003.3
Share premium	14	2,200.0	2,200.0	2,200.0	2,200.0
Retained earnings		82,785.2	65,218.9	81,038.6	63,846.0
Proposed dividend	15	56,091.6	74,922.4	56,091.6	74,922.4
Total equity		**143,080.1**	**144,344.6**	**141,333.5**	**142,971.7**
Non–current liabilities					
Payables and accrued expenses	28(a)	985.4	1,131.0	985.4	1,131.0
Contract liabilities	29(b)	983.4	739.5	983.4	739.5
Lease liability	22(b)	11,675.3	–	11,675.3	–
		13,644.1	**1,870.5**	**13,644.1**	**1,870.5**
Total equity and non–current liabilities		**156,724.2**	**146,215.1**	**154,977.6**	**144,842.2**
Non–current assets					
Deferred income tax	17	1,104.7	1,602.9	937.4	1,566.4
Property, plant and equipment	18	129,337.2	125,217.8	128,968.7	124,820.8
Right of use (ROU) assets	22(a)	15,242.9	–	15,242.9	–
Indefeasible rights of use (IRUs)	19	3,252.1	3,553.1	3,252.1	3,553.1
Investment property	20	845.0	845.0	845.0	845.0
Intangible assets	21	6,026.2	7,385.4	6,021.8	7,379.7
Investment in subsidiaries	23(a)	–	–	431.3	431.2
Investment in associate and joint venture	23(b)	4,965.1	150.3	4,965.1	150.3
Prepaid operating lease rentals		–	56.8	–	56.8
Contract assets	29(a)	881.7	964.5	881.7	964.5
Restricted cash	26(b)	1,911.7	1,845.5	1,911.7	1,845.5
Deferred restricted cash asset	26(c)	836.1	895.5	836.1	895.5
		164,402.7	**142,516.8**	**164,293.8**	**142,508.8**
Current assets					
Cash and cash equivalents	26(a)	26,759.7	20,030.1	25,859.7	19,828.1
Other financial assets	27	188.6	8,043.0	–	7,866.8
Receivables and prepayments	25	17,190.3	18,126.3	16,801.9	17,206.1
Inventories	24	1,859.4	1,774.6	1,793.1	1,774.6
Current income tax		260.4	–	251.8	–
Contract assets	29(a)	2,563.8	1,984.6	2,563.8	1,984.6
		48,822.2	**49,958.6**	**47,270.3**	**48,660.2**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Statement of financial position Continued

		Group		Company	
	Notes	**2020 KShs'm**	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Current liabilities					
Payables and accrued expenses	28(a)	29,920.1	28,703.9	30,153.8	28,911.4
Current income tax		112.9	351.3	–	253.1
Borrowings	16	8,000.0	4,032.0	8,000.0	4,032.0
Dividends payable	15	1,045.1	–	1,045.1	–
Lease liability	22(b)	3,549.4	–	3,549.4	–
Provisions for liabilities	28(b)	4,462.3	3,893.5	4,462.3	3,893.5
Contract liabilities	29(b)	9,410.9	9,279.6	9,375.9	9,236.8
		56,500.7	**46,260.3**	**56,586.5**	**46,326.8**
Net current assets/(liabilities)		**(7,678.5)**	**3,698.3**	**(9,316.2)**	**2,333.4**
		156,724.2	**146,215.1**	**154,977.6**	**144,842.2**

The financial statements on pages 120 to 181 were approved for issue by the Board of Directors on 28 April 2020 and signed on its behalf by:

Chairman and Non-Executive Director
Nicholas Nganga

Director
Michael Joseph

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Consolidated statement of changes in equity

Year ended 31 March 2019	Notes	Share capital KShs'm	Share premium KShs'm	Retained earnings KShs'm	Proposed dividends KShs'm	Total equity KShs'm
At start of year		2,003.3	2,200.0	75,638.4	44,071.0	123,912.7
Initial application of IFRS 15		–	–	2,012.4	–	2,012.4
Restated balance at 1 April 2018		2,003.3	2,200.0	77,650.8	44,071.0	125,925.1
Profit and total comprehensive income for the year		–	–	62,490.5	–	62,490.5
Transactions with owner:						
Dividends:						
– Final for 2018	15	–	–	–	(44,071.0)	(44,071.0)
– Proposed final for 2019	15	–	–	(50,082.0)	50,082.0	–
– Proposed special dividend for 2019	15	–	–	(24,840.4)	24,840.4	–
		–	–	(74,922.4)	30,851.4	(44,071.0)
At end of year		**2,003.3**	**2,200.0**	**65,218.9**	**74,922.4**	**144,344.6**
Year ended 31 March 2020						
At start of year		2,003.3	2,200.0	65,218.9	74,922.4	144,344.6
Profit and total comprehensive income for the year		–	–	73,657.9	–	73,657.9
Transactions with owners:						
Dividends:						
– Total final and special dividend for 2019	15	–	–	–	(74,922.4)	(74,922.4)
– Proposed final for 2020	15	–	–	(56,091.6)	56,091.6	–
		–	–	(56,091.6)	(18,830.8)	(74,922.4)
At end of year		**2,003.3**	**2,200.0**	**82,785.2**	**56,091.6**	**143,080.1**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Company statement of changes in equity

Year ended 31 March 2019	Notes	Share capital KShs'm	Share premium KShs'm	Retained earnings KShs'm	Proposed dividends KShs'm	Total equity KShs'm
At start of year		2,003.3	2,200.0	74,789.9	44,071.0	123,064.2
Initial application of IFRS 15		–	–	2,012.4	–	2,012.4
Restated balance at 1 April 2018		2,003.3	2,200.0	76,802.3	44,071.0	125,076.6
		–	–			
Profit and total comprehensive income for the year		–	–	61,966.1	–	61,966.1
Transactions with owners:						
Dividends:						
– Final for 2018	15	–	–	–	(44,071.0)	(44,071.0)
– Proposed final for 2019	15	–	–	(50,082.0)	50,082.0	–
– Proposed special dividend for 2019	15	–	–	(24,840.4)	24,840.4	–
		–	–	(74,922.4)	30,851.4	(44,071.0)
At end of year		**2,003.3**	**2,200.0**	**63,846.0**	**74,922.4**	**142,971.7**
Year ended 31 March 2020						
At start of year		2,003.3	2,200.0	63,846.0	74,922.4	142,971.7
Profit and total comprehensive income for the year		–	–	73,284.2	–	73,284.2
Transactions with owners:						
Dividends:						
– Total final and special dividend for 2019	15	–	–	–	(74,922.4)	(74,922.4)
– Proposed final for 2020	15	–	–	(56,091.6)	56,091.6	–
		–	–	(56,091.6)	(18,830.8)	(74,922.4)
At end of year		**2,003.3**	**2,200.0**	**81,038.6**	**56,091.6**	**141,333.5**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Statement of cash flows

		Group		Company	
	Notes	**2020 KShs'm**	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Cash flows from operating activities					
Cash generated from operations	30(a)	139,604.2	125,285.9	138,635.6	124,992.9
Movement in restricted cash		(67.9)	(332.8)	(67.9)	(332.8)
Interest received	8	2,940.9	2,318.5	2,917.1	2,300.4
Income tax paid		(32,114.6))	(27,460.0))	(31,845.9)	(27,184.1)
Net cash generated from operating activities		110,362.6	99,811.6	109,638.9	99,776.4
Cash flows from investing activities					
Purchase of property, plant and equipment	18	(36,098.5)	(37,253.3)	(36,087.5)	(36,857.2)
Proceeds from disposal of property, plant and Equipment		69.8	245.3	70.6	245.3
Purchase of other financial assets	27	–	(8,043.0)	–	(7,866.8)
Disposal of other financial assets		7,854.4	–	7,866.8	–
Investment in associates and joint ventures		(1,457.8)	–	(1,457.8)	–
Net cash used in investing activities		(29,632.1)	(45,051.0)	(29,607.9)	(44,478.7)
Cash flows from financing activities					
Dividends paid	15	(73,877.3)	(44,071.0)	(73,877.3)	(44,071.0)
Repayment of lease liabilities		(3,742.8)	–	(3,742.8)	–
Interest paid	9	(348.8)	(148.1)	(347.6)	(148.1)
Proceeds from short-term borrowings	16	20,132.0	8,028.0	20,132.0	8,028.0
Repayments on short-term borrowings	16	(16,164.0)	(8,036.0)	(16,164.0)	(8,036.0)
Additional investment in subsidiaries	23(a)	–	–	–	(407.2)
Repayment of loans by subsidiaries	31(x)	–	–	–	121.9
Net cash used in financing activities		(74,000.9)	(44,227.1)	(73,999.7)	(44,512.4)
Increase in cash and cash equivalents		6,729.6	10,533.5	6,031.3	10,785.3
Movement in cash and cash equivalents					
At start of year		20,030.1	9,496.6	19,828.4	9,043.1
Increase in cash and cash equivalents		6,729.6	10,533.5	6,031.3	10,785.3
At end of year*	**26(a)**	**26,759.7**	**20,030.1**	**25,859.7**	**19,828.4**

* Included in this balance are the effects of exchange rate changes on cash and cash equivalents.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes

1 General information

Safaricom PLC is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya.

The address of the registered office of the Company is:
L.R. No. 13263
Safaricom House, Waiyaki Way
P.O. Box 66827-00800
Nairobi

The Company's shares are listed on the Nairobi Securities Exchange.

For Kenya Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of other comprehensive income in these financial statements.

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 have been prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. The financial statements are presented in Kenya Shillings (KShs), which is also the functional currency, rounded to the nearest million (KShs'm), except where otherwise stated.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group'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.

Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies summarised below.

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or, in some cases, at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

(i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting year commencing 1 April 2019:

- IFRS 16: Leases.

Adoption of IFRS 16: Leases

The Group has adopted IFRS 16 leases retrospectively from 1 April 2019 but has not restated comparatives for the reporting period ended March 2019, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The observable incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 13%.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. After the adoption of IFRS 16, the Group recognises an amortisation expense on the right-of-use assets and an interest expense accruing on the lease liabilities and no longer recognises an operating lease expense for these leases as was the case in IAS 17 Lease accounting.

The Group's leasing activities and significant accounting policies

The Group's leases include base transceiver stations (BTS) sites, collocation sites, retail stores spaces, administrative office spaces and residential facilities.

Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. However, leases in similar categories have almost similar and homogeneous contract terms albeit with varying lease periods and lease amounts. Rental contracts are typically made for fixed periods varying between one to 15 years with a predetermined rent expense escalation clause varying between 2.5% to 15% with renewal periods as per contract terms.

As a lessee, the Group previously classified leases as operating, or finance leases based on assessment of whether the lease transferred substantially all the risks and rewards of ownership to the Group.

Payments made under operating leases (net of any incentives received from the lessor) were charged to statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

At any reporting date, prepaid operating lease rentals were categorised under receivables and prepayments and current and non-current assets determined on the basis of the duration of lease period paid for in advance in the statement of financial position. After the adoption of IFRS 16, Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period to produce a constant periodic interest on the remaining balance of the liability for each period. The right-of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Cash generated from operations increased as lease costs are no longer included in this category. Interest paid increased, as it includes the interest portion of the lease liability payments and the capital portion of lease liability repayments which is included in cash used in financing activities.

Lessor accounting remains like previous accounting under IAS 17.

Transition to IFRS 16: Changes in accounting policy

The lease liability is the present value of the remaining lease payments, discounted using the leasee's incremental borrowing rate at the date of the initial application. The right-of-use asset measurement is by retrospective calculation, using a discount rate based on the Group's incremental borrowing rate at the date of initial application.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Interest costs are charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

It is remeasured when there is a change in future lease payments arising from a change in index or rate, a change in the estimate of the amount payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months.

As a general policy guideline, lease payments are discounted using the Group's incremental borrowing rate which is determined from time to time based on the prevailing macroeconomic and regulatory guidelines.

The Group has elected to use the incremental rate of borrowing that reflects what it would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The initial incremental cost of borrowing for KShs denominated leases is 13% being Central Bank of Kenya Rate (CBR) + 400 basis points which was the ceiling lending rate for banks and lending institutions in Kenya as stipulated by Central Bank of Kenya at the time of adoption of IFRS 16.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

2 Summary of significant accounting policies continued

The right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of the lease liability.
- any lease payments made at or before the commencement date less any lease incentives received.
- any initial direct costs.

The right-of-use assets are subsequently measured at cost less any accumulated amortisation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group reassessed whether a contract is or contains a lease at the date of initial application and applied Interpretation 4 Determining whether an Arrangement contains a lease.

Renewal and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Group applies judgement in assessing whether it is reasonably likely that options will be exercised.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Lease and non-lease component

Several lease contracts include both lease and non-lease components. The Group allocates the consideration in the contract to each lease and non-lease component based on their contractual terms.

The Group has not elected to use the practical expedient to account for non-lease components as part of its lease liabilities and right-of-use assets. Therefore, non-lease components are accounted for as operating expenses and are recognised in profit or loss as they are incurred.

Impact on transition

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities.

When measuring lease liabilities for operating leases, the Group discounted the future lease payments using its incremental borrowing rate of 13%.

A reconciliation of the operating lease commitments disclosed as at 31 March 2019 discounted using the incremental borrowing rate at 1 April 2019 to the lease liability recognised on 1 April 2019 is disclosed below:

	1 April 2019 KShs'm
Operating lease commitments disclosed as at 31 March 2019	14,275.0
Discounted using the lessee's incremental borrowing rate at the date of initial application	8,621.2
Add: Contracts reassessed as lease contracts (adjustments as a result of newly identified leases e.g. collocation and residential leases)	7,328.6
Lease liability recognised as at 1 April 2019	15,949.8

At transition, the right-of-use is measured as follows:

	1 Apr 2019 KShs'm
Lease liabilities	15,949.8
Add prepaid lease rentals	838.9
Right-of-use (ROU) asset	**16,788.7**

The recognised right-of-use assets relate to the following types of right-of-use assets;

	31 Mar 2020 KShs'm	1 Apr 2019 KShs'm
Site lease	8,672.8	8,054.0
Collocation	5,281.2	5,051.0
Shops	1,286.6	1,173.9
Facilities	2,882.8	2,492.4
Secondees houses	42.3	17.4
Totals	**18,165.7**	**16,788.7**
Accumulated amortisation of right-of-use (ROU)	(2,922.8)	–
ROU carrying value	**15,242.9**	**16,788.7**

In order to show the impact of adoption of IFRS 16 and enhance comparability of current period results to prior year's (year ending March 2019) on a year on year (YoY) basis, the Group has presented in the table below a bridge between results as per IAS 17 and IFRS 16 for impacted revenue and cost lines for the 12 months period ended 31 March.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

2 Summary of significant accounting policies continued

	Group				
	31 March 2020 (IFRS 16) KShs'm	31 March 2019 (IAS 17) KShs'm	Delta KShs'm	**31 March 2020 KShs'm**	YoY Growth
Contribution margin	**185,601.2**	**185,601.2**	**0.0**	**177,893.9**	**4.3%**
Payroll & publicity	(21,730.9)	(21,730.9)	–	(23,406.4)	–7.2%
Network opex	(15,500.2)	(17,756.1)	2,255.9	(18,503.3)	–4.0%
Operating expenses (including forex gain/(loss) on working capital)	(10,328.6)	(11,481.5)	1,152.9	(11,680.5)	–1.7%
EBITDA	**138,041.5**	**134,632.7**	**3,408.8**	**124,303.7**	**8.3%**
Depreciation & amortisation	(33,624.9)	(33,624.9)	–	(35,331.7)	–4.8%
ROU asset amortisation expense	(2,922.8)	–	(2,922.8)	–	<100%
EBIT	**101,493.8**	**101,007.8**	**486.0**	**88,972.0**	**15.7%**
Net interest receivable	2,592.1	2,592.1	–	2,170.4	19.4%
Interest on ARO liability	(57.6)	(57.6)	–	(51.0)	13.0%
Interest on lease liability	(1,640.7)	–	(1,640.7)	–	<100%
Foreign exchange gain on cash and borrowings	38.0	38.0	–	40.5	–5.2%
Fair value gain construction and maintenance contract	51.5	51.5	–	135.2	–61.9%
Share of profit of associate	60.9	60.9	–	5.2	–
Share of profit of Joint Venture (M-PESA Global Services Limited)	3,296.1	3,296.1	–	–	<100%
Amortisation of impairment loss on restricted cash	(61.1)	(61.1)	–	(54.5)	10.8%
EBT	**105,773.0**	**106,927.7**	**(1,154.7)**	**91,217.8**	**13.6%**
Corporate tax	(31,616.7)	(31,736.3)	119.6	(28,169.2)	12.7%
Deferred income tax	(498.4)	(493.0)	(5.5)	(558.1)	–11.7%
Net Income	**73,657.9**	**74,698.4**	**(1,040.5)**	**62,490.5**	**19.5%**

In the statement of profit or loss and other comprehensive income, the Group has recognised amortisation of ROU asset of KShs 2,922.8 million and interest on lease liability of KShs 1,640.7 million compared to operating lease expenses of KShs 3,408.8 million that would have been recognised under IAS 17.

The unfavourable IFRS 16 impact at profit before income tax of KShs 1,154.7 million is mainly due to front loading effect of interest on lease liability and amortisation of ROU asset. The unfavourable IFRS 16 deferred tax liability impact of KShs 5.5 million arises from the written down value of the ROU assets.

In the statement of financial position, the Group recognised KShs 15,242.9 million of right-of-use assets and KShs 15,224.7 million of lease liabilities as at 31 March 2020.

Amounts recognised in the statement of cash flows

The statement of cash flows shows the following amounts relating to leases;

	March 2020 KShs'm
Interest paid	1,233.4
Repayment of lease liabilities	2,509.4
Total cash outflow	**3,742.8**

(ii) Change in accounting estimate

IAS 16.51 guides that the residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate under IAS 8. On an annual basis, the Group through its internal technology team conducts an extensive review of the useful life of its property, plant and equipment assets. This year the Group reviewed and subsequently changed the accounting estimate on useful life for specific property plant and equipment asset categories.

The review of the accounting estimate resulted in changes in the expected average useful life for the specific assets categories disclosed below:

Asset category	Prior Useful life (Years)	Current Useful life (Years)
Network Infrastructure		
Towers	8	20
Civil works (fences and walls)	8	15
Radio & Core (BSC's & RNC's)[1]	8	5
Transmission (ATNs, PTNs, VSATs, repeaters & links)[2]	8	5
Equipment		
Generators	5	10
Computer hardware and software		
IT servers	3	5
Computer equipment (laptops, monitors, desktops)	3	4

1 BSC – Base Station Controller
RNC – Radio Network Controller
2 ATN – Aeronautical Telecommunication Network
PTN – Packet Transmission Network
VSAT – Very Small Aperture Terminal

Subsequently the Group adopted a revised depreciation policy effective 1 April 2019. In the period, underlying depreciation charge on the asset categories above reduced by KShs 2.30 billion.

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Investment in associates and joint ventures

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and less than 50% of the voting rights of the entity. In assessing existence of significant influence, the Group considers among other parameters whether there is:

- Representation on the board of directors or equivalent governing body of the investee
- Participation in the policy-making process and material transactions between the investor and the investee
- Interchange of managerial personnel between the investor and the investee
- Provision of essential technical information by the investor to the investee

In certain instances, the requirement that significant influence arises from a 20% or more in investments can be invalidated where an entity can demonstrate that it does not have significant influence, or there is demonstrable presence of significant influence in an investment of less than 20% based on the above assessment criteria.

Investments in associates are accounted for using the equity method of accounting. The initial investment is recognised at cost of acquisition and any share of profit or loss from the investment is reflected as changes in the value of the investment.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

2 Summary of significant accounting policies continued

The Group assesses its joint arrangements to determine whether they are joint ventures or joint operations. Such arrangements are thereafter accounted for in line with the requirements of IFRS 3, IFRS 10 and IFRS 11. The nature, extent and financial effects of the interests in joint arrangements including information about contractual relationships with the other parties to the joint arrangement is disclosed in specific notes.

A joint venture arises from a joint arrangement where the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The resultant share of operational results, assets and liabilities of joint ventures are incorporated in the consolidated annual financial statements from the date on which the Group has joint control and derecognised on the date when the Group ceases to have such control, using the equity method of accounting.

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Joint operations

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The results, assets and liabilities of joint ventures are incorporated in the consolidated annual financial statements from the date on which the Group has joint control, respectively up to the date on which the Group ceases to have such influence, using the equity method of accounting.

Under the equity method, joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of the investment. Losses of a joint venture in excess of the Group's interest in that joint venture are not recognised. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment. A gain on bargain is recognised through statement of profit or loss and other comprehensive income.

(iv) Separate financial statements

In the separate financial statements, investments in subsidiaries are accounted for at cost less impairment and investment in associates is accounted for using the equity method. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Senior Leadership Team (SLT) that makes strategic decisions.

The SLT consider the Company to be comprised of one operating segment. The financial statements are presented on the basis that risks and rates of return are related to this one reportable segment.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenya Shillings (KShs), which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income and cumulated in 'available-for-sale financial assets reserve'.

(e) Revenue recognition

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- Over time, in a manner that best reflects the delivery of the Group's performance obligations; or
- At a point in time, when control of the goods or services is transferred to the customer.

The Group applies the five-step model as per IFRS 15 – *Revenue from contracts* with customers, to determine when to recognise revenue and at what amount. The following approach is used:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

The Group accounts for a contract with a customer only when: there is evidence of an arrangement; the Group can identify each party's rights regarding the goods and services to be transferred; the contract has commercial substance and collectability is reasonably assured.

The Group's principal business is the provision of telecommunication services. The business is transforming itself to a digital service provider. Airtime can be bought as scratch cards or PINless top ups through dealers and own-retail centres spread across the country. Customers can also buy airtime through M-PESA, emergency top up and direct top up for bulk purchases. Revenue from sale of the airtime is deferred and recognised as revenue on usage or expiry. Customers can use airtime to make voice calls, send SMS and browse the internet.

Voice and SMS revenue

Voice and SMS services enable both Prepay and Postpay customers to make calls and send text messages respectively within and outside the network. Prepay customers top up their phones by either buying Prepay cards from dealers, other retail outlets, by using M-PESA or borrowing credit through Emergency Top Up Service (Okoa Jahazi). They can also receive airtime from other subscribers through Sambaza. Postpay customers subscribe to various tariffs and are billed at the end of the month based on a fixed charge or usage.

The headline voice tariff for Prepay customers is called Uwezo and Advantage tariff for Postpay customers. The on-net and off-net rate is KShs 4.3 during the peak hours (8:00 am to 10:00 pm) and KShs 2.2 during off-peak hours (10:00 pm to 8:00 am) applicable to both Prepay and Postpay customers. Revenue from Prepay voice customers is recognised on usage whereas Postpay revenue is recognised at the end of every month based on a monthly charge.

In the spirit of being Simple, Transparent, Honest, for you, the Group introduced a non-expiry product named Milele Airtime (Neo). The customer is awarded 50% bonus on purchases of the product. The customer can use the airtime to either call or SMS at the normal rates. On purchase, the billed amount is deferred and revenues only recognised when the service is rendered as either voice or SMS.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

2 Summary of significant accounting policies continued

The Group has in place the Stori Ibambe bonus scheme where the subscribers are required to attain a predetermined daily target of usage after which the Group awards 100% bonus airtime valid until midnight daily that can be used for Safaricom to Safaricom Voice calls and SMS.

The Group has signed interconnect agreements with both local and foreign partners. This allows customers from either network to originate or terminate calls to each other's network. Revenue is earned and recognised when partners' calls are terminated to the Groups' network i.e. the service is rendered.

The Group has roaming agreements with roaming partners that enable customers to make and receive calls when travelling around the world. The agreed charges differ per partner. When visitors roam on Safaricom network, revenue is earned by billing the visiting customers' network while revenue from Safaricom customers is earned from customer billing for voice, SMS and data usage while roaming on other networks. Revenue is recognised on billing.

Customers can send messages for KShs 1.10 on both on-net and off-net. There are also attractive SMS bundles which offer an effective price per SMS lower than KShs 1. Revenue from SMS service is recognised on usage of SMS bundle.

Data revenue

Mobile data enables both Prepay and Postpay customers access the internet. Prepay customers top up their lines by purchasing credit or bundles in advance whereas Postpay customers are availed credit based on the tariff subscribed.

Mobile data has a wide range of propositions available as per customers' requirements. These include daily bundles, 7-day, 30-day, 90-day bundles and time-based billing.

The data bundles are deferred on purchase and recognised as revenue on usage.

The validity of purchased but unutilised data bundles is extended upon additional purchase of data bundles and the Group prompts the subscriber in advance before unutilised bundles expire and are consequently unavailable for use. Like voice and SMS, the Group introduced no expiry data bundles dubbed Neo data; the new data tariff now allows customers to buy data for any amount they wish.

The Group has in place a data manager tool that gives subscribers power to control data bundle usage and allows them to restrict browsing out of bundle which avoids instances of higher pricing when browsing the internet.

The Group has put in place its own home fibre to connect both households and businesses through Fibre to the Home (FTTH) and Fibre to the Building (FTTB) services that enable fast, reliable and unlimited internet access from the comfort of a customer's home/premises. This service is open and available to all customers residing within areas that have Safaricom fibre infrastructure ready and have applied to have their homes/premises connected to the Safaricom fibre grid.

The price charged is based on the bandwidth and speed contracted by the customer. The price is charged upfront for a standard period of 30 days and the customer can renew the subscription by making a payment. The amount charged is deferred and recognised as revenue proportionately over the subscription period.

Integrated bundles

An integrated bundle is one stop package that offers subscribers freedom to choose their preferred resources in form of voice minutes, SMS bundles and mobile data bundles (MBs).

The Group has in place All in One monthly bundles, Tunukiwa tariff, BLAZE, FlEX, Songa Music App and Platinum products under this category.

All in One monthly bundles are available to all Safaricom customers (Prepay, Postpaid and Hybrid) and they have a simplified journey that seeks to offer the consumer the best choice for maximising their purchase including free WhatsApp access once the customer exhausts their mobile data bundle and the expiry date has not yet elapsed.

Customers can access these bundles on USSD *544#,*100#,*200# and *456#, select the amount they wish to spend and then view all data and integrated products and resources at the respective amounts. All in One monthly bundles have a validity of 30 days.

Tunukiwa tariff is a personalised offer that is based on an individual customer usage, network utilisation, capacity availability, device type and general location. Daily, upon dialling *444# from their Safaricom line, customers access a list of custom made options being number and value of voice minutes, SMS bundles and mobile data bundles, to choose from.

Customers are able to purchase multiple options of the personalised package depending on their preferences. The personalised options are subject to the validity as specified in the USSD (*444#) before purchase.

BLAZE is a platform that empowers the youth using mobile phones and targets the fast-growing 18 to 26-year-old demographic group. The platform offers access to custom-made tariffs and product offerings that leverage Safaricom's extensive mobile network.

Create Your Plan is one of a number of unique services offered under the BLAZE portfolio that allows users to control how much they spend on voice, data and SMS each time they purchase airtime.

FLEX product has been designed for the customer who demands the most from their mobility and it allows customers to choose how they allocate airtime for voice calls, SMS or mobile data services.

Customers are able to subscribe to daily, weekly or monthly packages that offer value beyond typical bundles in order to maximise on their spend. Customers can roll over any unused FLEX units by renewing their existing FLEX bundles before expiry.

Songa by Safaricom is a music application (app) that enables our Prepay and Postpay subscribers' to get in one place and stay entertained with all genres of their preferred local and international songs. Subscribers opt in by dialling *812# or downloading the app from Google Play Store. There are affordable daily, weekly and monthly propositions available and subscribers will be required to utilise their mobile data bundle resources to stream and download the songs. Normal mobile data rates will apply.

Safaricom Platinum Plans are value for money mobile packages available to all individual Prepay, Postpay and Hybrid subscribers. The plan offers integrated data, voice and SMS packages at different price points ranging from KShs 1,000 to KShs 10,000 with a 30-day validity.

Currently the subscribers who opt into the Platinum Plus plan have accessibility to incentivised services from Shell Petrol station, TicketSasa and Eat Out outlets accessible through the mySafaricom app, 'Hot Deals' tab.

The price charged on these bundles is deferred on purchase and recognised as revenue on utilisation by the customers or on expiry in line with the validity period. Revenue from integrated bundles is recognised under the respective revenue stream i.e. voice, SMS and/or mobile data revenue streams.

M-PESA revenue

M-PESA is a mobile money transaction service allowing customers to deposit, transfer and withdraw money or pay for goods and services (Lipa Na M-PESA) using a mobile phone. M-PESA is available to all Safaricom subscribers (Prepay and Postpay). Registration is free and available at any M-PESA agent countrywide. The M-PESA application is installed on the SIM card and works on all makes of handsets.

Revenue from this service is earned largely from transfer and withdrawal transactions performed by customers. A graduated tariff depending on the funds being transacted is applied on all transactions which are cumulatively reported as M-PESA transaction commission revenue.

In partnership with Kenya lenders, NCBA and KCB Bank, the Group operates an Overdraft (OD) facility dubbed 'Fuliza', a product that enables customers to access unsecured lines of credit by overdrawing on M-PESA to cover short-term cash-flow shortfalls subject to an applicable pre-determined limit.

Fuliza is underwritten by Kenyan lenders, NCBA and KCB Bank. Customers who 'opt in' on Fuliza are charged a one-off access fee and daily maintenance fees on unpaid loan amounts based a predetermined matrix. Safaricom earns a proportion of the fee based on a predetermined revenue share matrix.

The Group, in partnership with M-Gas, a subsidiary of Circle Gas UK, launched a revolutionary, prepaid gas service for Kenyan households. The innovation empowers millions of Kenyan homes to enjoy access to clean, affordable and reliable cooking gas, providing them with the flexibility of purchasing gas based on their needs and how much they can afford at a time. The Group is extending its digital and payment capabilities to M-Gas, powering the smart meter technology on each cylinder that enables customers to have control over how they use and pay for gas. The M-Gas solution has been made possible by Safaricom's Narrow Band Internet of Things (NB IoT) network and M-PESA. Powered by the Group's robust 4G network, NB IoT provides a low-power, mobile connectivity to devices across the country.

The partnership is part of Safaricom's contribution to attainment of the Sustainable Development Goals, particularly goals 1, 3, 5, 7, 9, 11, 13 and 17.

The Group has in place an M-PESA tariff dubbed 'M-PESA Kadogo' where transaction charges for single transaction amounts that are up to KShs 100 were waived. This allows subscribers to send as little as KShs 1 on the M-PESA platform with nil charges.

Lipa Na M-PESA enables merchants to accept cashless payments for goods and services from customers. Revenue is earned on all the transactions based on a graduated tariff applied on the transacted values.

In line with the financial inclusion strategy, Safaricom has partnered with NCBA and KCB Bank Kenya Limited to offer Mshwari and KCB-M-PESA services respectively. These services enable customers to save as little as KShs 1 (USD 0.01) and get loans from KShs 50 (USD 0.491) to KShs 1 million (USD 9,900.99). Revenue is shared among the partners on the basis of the facility fee and other charges to customers based on a pre-determined revenue share matrix.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

2 Summary of significant accounting policies continued

This has enabled more subscribers to get access to mobile banking services that they did not have before.

There are no application forms, no ledger fees, no limits on the frequency of withdrawal, no minimum operating balance and no charges for moving money from M-PESA to bank accounts and vice versa.

M-Shwari lock box product enables customers to make fixed deposit savings at a higher interest rate.

Other service revenue

This includes access fees charged on emergency top up service when a customer borrows airtime (Okoa Jahazi) and data bundles (Okoa Data) with the debt being repayable within five days. It also includes a set-up fee charged for codes allocated to premium rate services providers (PRSPs). The fee charged is deferred and recognised as revenue on the usage of borrowed airtime and over the contract period for PRSPs.

Loyalty programme

The Groups loyalty programme, 'Bonga Points', was introduced in January 2007 for both Prepay and Postpay subscribers. Under this scheme, subscribers earn one Bonga point for every KShs 10 spent on voice calls, short messages service (SMS), data and M-PESA services. These points can be redeemed for free airtime, SMS or merchandise such as phones, modems and tablets at Safaricom retail outlets.

The Group has in place the 'Bonga everywhere' scheme where subscribers are able to utilise their Bonga points in appointed retail outlets e.g. Naivas supermarkets amongst others to purchase goods and services.

Management defers revenue for every point accumulated and recognises the revenue relating to the points earned on redemption. Management also recognises revenue on the remaining loyalty points for the churned SIM cards.

In addition, Enterprise Business customers earn loyalty points upon achievement of their revenue targets and the accumulated amounts are only redeemable after the maturity of the underlying revenue contracts with the Group. Management defers revenue for amounts accumulated guided by a predetermined matrix and recognises the revenue earned upon redemption.

Handsets and acquisitions revenue

These include revenue on sale of mobile phone handsets, decoders, starter packs, SIM Swaps and other accessories sold through dealers and own-retail centres spread across the country. Starter packs consist of a SIM card and information brochures. Handsets, SIM Swaps and accessories have no right of return and revenue is recognised on sale.

However, income from sale of SIM cards is deferred and recognised as revenue over the determined customer life when the customer activates the line through initial top up.

Construction and managed service contract

The Company has a construction contract for the construction of a national secure communication network and surveillance system for the National Police Service. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions, or their ultimate purpose or use.

Construction costs incurred are accumulated under inventory work in progress until when they are billed or the percentage of completion is determined. Revenue from construction is recognised progressively on a percentage of completion basis.

The contract also has a managed service element. Revenue from the managed service of the infrastructure is recognised when delivered on a pro rata basis. Costs relating to the managed service are recognised as incurred. Costs incurred in the year in connection with future construction services are presented under inventories as work in progress.

Other revenue

This includes, among others, site rentals. Site rental revenue is billed monthly and is based on the number of sites and equipment hosted per site. Revenue is recognised systematically over the lease period.

Miscellaneous income

Miscellaneous income includes among others cash discounts received from vendors, donations from third parties utilised to fund Safaricom Foundation activities.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost and subsequently depreciated. 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life as follows:

Network infrastructure	5 – 20 years
Equipment and motor vehicles	4 – 10 years
Fibre	25 years
Leasehold improvements	Shorter of life of lease or useful life of the asset
Network maintenance spares	4 – 10 years

Spare parts, standby equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment.

The Group capitalises staff costs directly attributable to construction of network infrastructure that meet the recognition criteria of IAS 16.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each period end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Property, plant and equipment acquired in exchange for non-monetary assets or a combination of monetary and non-monetary assets are measured at fair value of the new asset. If the fair value cannot be determined reliably, then the exchanged asset is measured at the carrying amount of the asset given up.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with their carrying amounts and are taken into account in determining profit for the period.

Asset retirement obligations

The Group accounts for the costs associated with dismantling and removing network infrastructure assets and returning a network infrastructure site operated under a lease to its original condition upon termination of the network infrastructure site lease in accordance with IAS 16.

A restoration provision is recorded based on the best estimate of the average restoration costs (being the future costs relating to dismantling and removing property, plant and equipment and restoring each site) multiplied by the number of sites for which the Company has a restoration obligation.

The best estimate of average restoration costs per site is determined using historical and current experience, adjusted where necessary for known factors which will impact the future. In the absence of such experience, the best estimate is based on quotations obtained from relevant suppliers or an equally rigorous internal costing process.

Upon recognition of a provision, a corresponding tangible fixed asset is recorded and depreciated over its useful life, which would normally be the period to the removal of the network infrastructure from the site. This period should not exceed the remaining lease term.

Where the impact is material, the provision, as originally established, should be discounted using the Company's incremental cost of borrowing. This discount should be unwound through the interest line in the income statement over the period to the lease termination date.

(g) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value.

Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. The Group reassess the fair value of its investment property annually.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the period in which the property is derecognised.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

2 Summary of significant accounting policies continued

(h) Intangible assets – network licences

Separately acquired trademarks and licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Licences that have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 10 to 15 years.

A telecommunication licence is a requirement of the Communications Authority of Kenya (CA) for mobile telephone companies. The licence is renewable for an additional period upon its expiry.

Telecommunication licence fees are capitalised at cost and amortised over the period of the licence using the straight-line method from commencement of the service of the network.

Currently, the Group has the following licences:

Safaricom PLC is licenced under the Unified Licence Framework which means it possesses:

- Network Facilities Provider licence Tier 1 (NFP) licence;
- Applications Services Provider (ASP) licence;
- Content Service Provider (CSP) licence;
- International Gateway Systems and service (IGSS) licence;
- Spectrum licence 2G (900, 1800 MHz) licence;
- Spectrum licence 3G (2100 MHz) licence; and
- Spectrum licence 4G (800 MHz LTE) licence.

These licences were initially issued in June 1999 for a 15-year term ending 30 June 2014. The licences were further renewed by CA for a period of 10 years and expire in June 2024. The 3G licence will expire in June 2022. The 4G licence was issued in 2016 and will expire in 2026.

Licence fees are amortised on a straight-line basis over the life of the licence.

There are annual network licence fees associated with these licences which are expensed each year.

The following licences are also in place:

- Subscription Broadcasting Licence issued on 16 July 2019 to Comtec Training and Management Services Limited valid for 10 years.

Network licences are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(j) Accounting for leases

The Group has adopted IFRS 16 from 1 April 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

(k) Financial assets

Initial recognition

Financial instruments are recognised when, and only when, the Group becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the Group commits itself to the purchase or sale.

Classification

The Group classifies its financial instruments into the following categories:

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at amortised cost.

Financial instruments held during the year were classified as follows:

- Trade and other receivables, loan to subsidiary, fixed deposits, treasury bills and cash and bank balances were classified as at amortised cost.
- Restricted cash was classified as at amortised cost.

Initial measurement

On initial recognition:

- Financial assets classified as at fair value through profit or loss are measured at fair value.
- Trade and other receivables are measured at their transaction price.
- All other categories of financial assets and financial liabilities are measured at the fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the instrument.

Subsequent measurement

Financial assets after initial recognition are measured either at amortised cost.

Interest income, dividend income, and exchange gains and losses on monetary items are recognised in profit or loss.

Impairment

The Group recognises a loss allowance for expected credit losses on debt instruments that are measured at amortised cost. The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which: (a) the credit risk has increased significantly since initial recognition; or (b) there is observable evidence of impairment (a credit-impaired financial asset). If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Presentation

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the Group has transferred substantially all risks and rewards of ownership, or when the Group has no reasonable expectations of recovering the asset.

(l) Indefeasible rights of use

The Group enters into long-term service contracts under which it purchases capacity from fibre networks. The purchase involves making prepayments to acquire indefeasible right of use (IRU) for a fixed period of time. The prepayment is amortised and recognised in the profit or loss on a straight-line basis over the life of the contract.

IRU	Contract period
TEAMS	20 years
KPLC	20 years
SEACOM	20 years
TATA	15 years
ETISALAT	15 years

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

2 Summary of significant accounting policies continued

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of inventories comprises purchase price and other incidental costs. Net realisable value is the estimate of the selling price and other incidental costs.

Provisions for saleable inventories are made based on aged listing for items older than 180 days, damaged and unusable stocks.

(n) Payables and accrued expenses

Payables and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables and accrued expenses are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

(o) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value (KShs 0.05) of the shares is classified as 'share premium' in equity.

Ordinary shares represent the residual economic value of a company. They carry rights to distribution of profits through dividends, to the surplus assets of a company on a winding up and to votes at general meetings of the Company.

There are no differences in the voting rights of the ordinary shares held by the shareholders of the Company.

(p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(q) Restricted cash

Restricted cash is an asset that is constrained from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Restricted cash relates to deposits held with Housing Finance Group Limited, NCBA Bank and KCB Bank Kenya Limited. The cash is used as a backup for the staff mortgage loans and its withdrawal is restricted.

The restricted cash is initially measured at fair value using discounted cash flow method. The discount rate used is based on 70% of the Central Bank of Kenya Rate (CBR). Subsequently, the restricted cash is measured at amortised cost. The difference between the actual cash held as deposits and the determined value (i.e. the deferred restricted cash asset) is amortised over the term of the deposit.

(r) Employees' benefits

(i) Retirement benefit obligation

The Group has a defined contribution plan for its employees. The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group 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 are recognised as an employee benefit expense when they are due.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(iii) Other entitlements

The estimated monetary liability for employees accrued annual leave entitlement at the statement of financial position date is recognised as an expense accrual.

(s) Share-based payments

The Group operates an Employee Performance Share Award Plan (EPSAP) under which senior management and other qualifying staff are entitled to receive a predetermined number of shares at a predetermined price, subject to fulfilment of the vesting conditions.

The process of EPSAP includes the Group purchasing shares from the market pro-rata to vesting period and then issuing the same to eligible employees after a three-year vesting period at no cost. The shares are purchased through a Trust and held by the same until the end of the vesting period. The cost of purchase is charged to profit or loss.

(t) Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates except where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(u) Borrowings

Borrowings are recognised initially at fair value including transaction costs and subsequently stated at amortised cost using the effective interest method. Any differences between proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year end.

Capitalisation of borrowing cost

The Group from time to time capitalises borrowing costs as provided under IAS 23. In line with the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore, will be capitalised. A qualifying asset is one which necessarily takes more than six months to get ready for its intended use or sale. A qualifying asset can either be tangible or intangible in nature. Examples of qualifying assets include core network equipment, transmission and radio equipment for base station sites, computer software and licences.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

2 Summary of significant accounting policies continued

(v) Dividend distribution

Dividends payable to the shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends are shown as a separate component of equity until approved.

(w) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(x) Comparatives

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.

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 Group 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.

Income taxes

Significant judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Property, plant and equipment

Critical estimates are made by management in determining depreciation rates and timing of capitalisation of the assets. The depreciation rates used are set out in Note 2 (f) above.

Further details on the revision of useful lives is included under Note 2 (a) (ii).

IFRS 16 leases

The key areas where estimates and judgement were applied included the interpretation of the requirements to determine the contracts containing leases and separating the lease and the non-lease components of a contract, the determination of the incremental rate of borrowing and the decision to exercise the extension or termination options while determining the lease term. See further details under Note 2(a).

A fluctuation in the discounting rate by 1% would have resulted in an increase/decrease of the right-of-use asset and lease liability by KShs 212 million.

Valuation of Bonga points

Bonga points are valued based on fair value which is determined by historical redemption information. The length of historical period used to determine the fair value is set by management and is based on previous redemptions rates on airtime, data, SMS or merchandise.

If the fair value per point was +/- 2% higher/lower, there would be a decrease/increase in profit before tax of KShs 67 million respectively (2019: KShs 71 million).

Provisions

The Group faces exposure to claims and other liabilities arising from normal course of business. These claims and other liabilities normally take time to be determined and therefore significant judgement is required in assessing the likely outcome and the potential liability for such matters. Management in consultation with the legal, tax and other advisers estimates a provision based on exposure, precedents and industry best practice.

Expected credit losses

The Group considers forward looking information at a customer level based on macroeconomics, microeconomics around the customer and level of effort utilised to collect the debt. This estimate is therefore based on factors not in control by the Group. Based on forward looking economic expectations at the reporting date resulted in the requirement to hold higher credit impairments. The Group has considered the impact of COVID-19 in assessing the expected credit losses and this has been included in the financial statements.

Determination of the bargain purchase on M-PESA brand acquisition

The determination of the fair value of the acquired net assets, including identifiable intangible assets, involved the use of significant estimates and assumptions such as the brand's useful life, projected cash flows, discount rate and terminal growth rate, that are not wholly based on observable data. A change in the assumptions could have a material variation in the fair value outcomes.

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

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

- The classification of financial assets, contract assets and liabilities;
- Whether assets are impaired;
- The average customer life; Customer life is based on the average churn period of the customers from the network;
- Impact of application of IFRS 16 – Leases; and
- Impact of application of IFRS 9 – Financial instruments.

(iii) Critical judgement on going concern

The Group's current liabilities exceed its current assets by KShs 7.7 billion (2019 net current asset position: KShs 3.7 billion) at the statement of financial position date as shown on page 122. For items that significantly impact the net working capital, refer to Notes 24 to 29.

This net current liability position is expected to remain in the near future as a result of the nature of the Group's business. A significant portion of creditors relate to network infrastructure investments rather than ongoing trading hence net working capital is typically a negative amount due to the mismatch of the financing (short term) and the investment (long term). Other significant portion of current liabilities is a result of how revenue is recognised. The related liabilities are all held in the statement of financial position and are explained below:

- Unused airtime and data bundles by prepaid customers of KShs 2.5 billion (2019: 2.5 billion). Prepaid airtime when sold to customers is held as a liability in the statement of financial position (deferred revenue) until the customer uses it, at which point revenue is recognised by reducing the liability and reporting revenue. Based on its nature, there is no expected cash outflow since its reduction is based on usage rather than actual cash outflow.
- Loyalty points earned by customers (Bonga points) of KShs 3.9 billion (2019: KShs 3.8 billion). Loyalty points are earned when a customer uses a Safaricom service including use of airtime, data or M-PESA. These points are valued and accumulated into the customer account until such a time when the customer opts to redeem the points against merchandise (devices including handsets, accessories and merchandise from appointed Bonga everywhere outlets) or non-merchandise (free airtime and data bundles). Based on its nature, there are no expected cash outflow since its reduction is based on usage rather than actual cash outflow.
- Unutilised resources by the customers of KShs 2.1 billion (2019: KShs 0.9 billion). The Group applies IFRS 15 — Revenue from Contracts with Customers in accounting for bundled resources. During the year the Group introduced the no expiry products under the Neo theme to ensure customers get value for what they buy. As a result, the value of unutilised resources increased sitting us subscriber liability at 31 March 2020 went up in line with IFRS 15 revenue recognition requirements. Based on its nature, there is no expected cash outflow since its reduction is based on usage rather than an actual cash settlement.

These amounts are included under contract liabilities in the statement of financial position. Management has accessed each of the items above and does not anticipate any cash outflow.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

3 Critical accounting estimates and judgements continued

Further, the Group finances its long-term projects with short-term debt. In the year ended 31 March 2020, the Group borrowed KShs 20.1 billion and repaid KShs 16.2 billion. The outstanding amount of KShs 8 billion is due for payment by May 2020. Management is confident that sufficient funds will be available and accessible to meet obligations as they fall due.

Given the nature of the liabilities listed above, other than the repayment of the short-term loans no significant cash outflow is expected during the 12 months after the date of the statement of financial position in relation to these liabilities.

Based on this, management has assessed that the Group and Company will continue as a going concern.

4 Financial risk management

The Group's activities expose it to a variety of financial risks, market risk (including foreign exchange risk, interest rate risk, and price risk), credit risk and liquidity risk.

Financial risk management is carried out by the Treasury section in the Finance division under policies approved by the Board of Directors. The Treasury section identifies, evaluates and hedges financial risks.

The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

Loans and receivables have been disclosed at their carrying values. Financial liabilities have been carried at amortised cost.

Market risk

(i) Foreign exchange risk

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

The Group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities using spot and forward contracts but has not designated any derivative instruments as hedging instruments. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

A 10% fluctuation of the shilling against the US dollar during the year, with all other variables held constant, consolidated post tax profit for the year would have been KShs 16.4 million (2019: KShs 11 million) lower/higher, mainly as a result of US dollar denominated cash and bank balances, receivables and payables.

A 10% fluctuation of the shilling against the Euro during the year with all other variables held constant, consolidated post tax profit for the year would have been KShs 76.6 million (2019: KShs 21million) lower/higher, mainly as a result of increased Euro denominated creditors balances.

(ii) Price risk

The Group does not hold investments or securities that would be subject to price risk. The Group is not exposed to commodity price risk.

(iii) Interest rate risk

Interest rate risk arises from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. The Group regularly monitor financing options available to ensure optimum interest rates are obtained.

A 100-basis points fluctuation in interest during the year (2019: 100 basis points) would have resulted in a net decrease/increase in consolidated post tax profit of KShs 263 million (2019: KShs 215 million).

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, other financial instruments, trade receivables and other receivables. The Group has no significant concentrations of credit risk. The Group assesses the expected credit losses for all financial instruments and all changes in loss allowance are recognised in profit or loss as impairment gains or losses.

Cash at bank, government securities and deposits with financial institutions

For banks and financial institutions, only reputable well-established financial institutions are used. The following table represents the cash and short-term fixed deposits held in financial institutions per category. Category 1 is made up of counterparties with international presence; Category 2 are counterparties who are subsidiaries of parents that have an international presence; Category 3 counterparties are local banks that are categorised as tiers 1 and 2 by the Central Bank of Kenya.

Notes Continued

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Category 1	8,820.8	11,866.9	8,632.2	11,690.7
Category 2	10,084.9	9,083.2	10,019.8	9,068.0
Category 3	8,042.6	7,123.0	7,207.7	6,936.4
	26,948.3	28,073.1	25,859.7	27,695.1

The Group has used the general approach for measuring the loss allowance for cash at bank, government securities and deposits with financial institutions using the lifetime expected credit loss model which is based on external ratings for the institutions. None of the balances are past due or impaired, and no collateral is held on any of the cash at bank, government securities and deposits with financial institutions.

Management has deemed the expected credit losses on cash at bank, government securities and deposits with financial institutions to be insignificant, and there is no charge to the statement of profit or loss and other comprehensive income during the year.

Other receivables

The credit risk for other receivables is considered negligible, since counterparties are reputable institutions without a history of default and are going concerns. The Group has used the simplified approach for measuring the loss allowance for other receivables using the lifetime expected credit loss model which is based on external ratings for the institutions. No collateral is held on any of the other receivables. None of the balances are past due, impaired, or have had their terms renegotiated.

Management has deemed the expected credit losses on the other receivables to be insignificant, and there is no charge to the statement of profit or loss and other comprehensive income during the year.

Due from related parties

The credit risk for related party receivables is considered negligible and no collateral is held on the amount outstanding. This receivable arises mainly from interconnect and roaming business and adequate ECL provisions are made in the financial statements. None of the balances are past due, impaired, or have had their terms renegotiated. A list of, and amounts due from, related parties is disclosed in Note 31.

Trade receivables

For trade receivables, depending on the type of customer, the Group Credit Controller assesses the credit quality of each customer, taking into account its financial position, past experience and other factors including information from credit reference bureau to set individual risk limits. The utilisation of credit limits is regularly monitored.

Dealers comprise the largest distribution network for the Group. Dealers operate either on a cash basis or on credit following successful application of the credit facility. All credit limits are supported by a bank guarantee.

Postpay debtors comprise of individuals as well as corporate customers. Postpay debtors have a 15-day credit period after which individual customers must pay within 10 days after due date, while business accounts have up to 30 days. The auto-bar feature ensures that once the limit has been reached the customer account is barred. This minimises the credit risk associated with these customers.

The Group has signed international roaming agreements. The roaming strategy targets countries which historically have had the most visitors to Kenya, including UK, Italy, Spain, Sweden, South Africa, and Kenya's neighbouring countries. Roaming partners have entered into an agreement with the Group to terminate their calls on the Group's network for visitors travelling into Kenya. Amounts due from the roaming partners are settled within 60 days unless a dispute arises. Disputes are handled by Syniverse, a roaming clearing house.

The Group has also signed interconnect agreements with partners to terminate calls to and from other networks on the Group's network. Amounts due from interconnect partners are settled within 30 days of invoice unless a dispute arises. Disputes are handled in the first instance by the Regulatory Department of the Group. The Group's maximum exposure to credit risk is approximated by the carrying amounts.

The Group has an elaborate ageing system for monitoring its receivables. Dealers' transactions and credit positions are closely monitored.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

4 Financial risk management continued

Collateral is held for bulk of the trade receivables in the form of bank guarantees and deposits. None of the above assets are either past due or impaired except for the following amounts in trade receivables.

The Group applies the simplified approach to determine the expected credit losses (ECL) for trade receivables. This results in calculating lifetime expected credit losses (ECL) for these trade receivables. ECL for trade receivables is calculated using a provision matrix.

The Group segregates the trade receivables based on the ageing of the receivables. The Group determines the expected loss rate per the categories based on a historical 24-month roll over model. The loss rate is computed based on the rate movement of the outstanding balances between categories and the recovery rate of past debtors for the respective debt categories. The Group has considered forward looking information at a customer level based on macroeconomics, microeconomics, including the impact of COVID 19, around the customer and level of effort utilised to collect the debt.

The loss allowance as at 31 March 2020 was determined as shown below for trade receivables.

Group	0-30 days	30-90 days	Over 90 days	Total
At 31 March 2020	KShs'm	KShs'm	KShs'm	KShs'm
Trade receivables	7,780.3	971.5	2,099.6	10,851.4
Expected credit loss rate	5.004%	41.195%	97.124%	–
Loss allowance	**389.3**	**400.2**	**2,039.2**	**2,828.7**
At 31 March 2019				
Trade receivables	6,868.0	1,040.0	1,261.1	9,169.1
Expected credit loss rate	4.07%	19.52%	98.57%	–
Loss allowance	**280.3**	**203.4**	**1,242.1**	**1,725.8**
Company				
At 31 March 2020				
Trade receivables	7,067.1	971.5	2,099.6	10,138.1
Expected credit loss rate	3.777%	41.190%	97.125%	–
Loss allowance	**266.9**	**400.2**	**2,039.2**	**2,706.3**
At 31 March 2019				
Trade receivables	6,316.3	1,040.0	1,325.9	8,682.2
Expected credit loss rate	4.43%	19.52%	93.74%	–
Loss allowance	**280.3**	**203.4**	**1,242.1**	**1,725.8**

A detailed assessment of the trade receivables as shown overleaf:

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

(a) Group	Gross carrying amount KShs'm	Expected credit loss KShs'm	Exposure to credit risk KShs'm
At 31 March 2020			
Dealers	82.5	(1.0)	81.5
Postpay	2,781.9	(851.1)	1,930.8
Roaming and interconnect	2,488.3	(664.0)	1,824.3
Other trade receivables	5,498.7	(1,312.6)	4,186.1
Total trade receivables	10,851.4	(2,828.7)	8,022.7
At 31 March 2019			
Dealers	64.9	–	64.9
Postpay	2,578.8	(831.4)	1,747.4
Roaming and interconnect	2,085.3	(388.0)	1,697.3
Other trade receivables	4,440.3	(506.7)	3,933.6
Total trade receivables	9,169.3	(1,726.1)	7,443.2

(b) Company	Gross carrying amount to credit risk KShs'm	Expected credit loss KShs'm	Exposure KShs'm
At 31 March 2020			
Dealers	82.5	(1.0)	81.5
Postpay	2,781.9	(851.1)	1,930.8
Roaming and interconnect	2,488.3	(664.0)	1,824.3
Other trade receivables	4,785.4	(1,190.2)	3,595.2
Total trade receivables	10,138.1	(2,706.3)	7,431.8
At 31 March 2019			
Dealers	64.9	–	64.9
Postpay	2,578.8	(831.4)	1,747.4
Roaming and interconnect	2,086.3	(388.0)	1,697.3
Other trade receivables	3,952.2	(506.7)	3,445.5
Total trade receivables	8,681.2	(1,726.1)	6,956.1

None of the trade receivables are impaired or have had their terms renegotiated. Collateral held on the trade receivables as at 31 March 2020 is KShs 243.0 million. (2019: KShs 263.0 million). The collaterals relate to guarantees on dealer receivables. There is no concentration risk on trade receivables or revenue.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

4 Financial risk management continued

Maximum credit exposure

The amounts on the statement of financial position represent the maximum credit exposure for financial assets subject to credit risk. Below is a summary of the maximum credit exposure.

(a) Group	Gross carrying amount KShs'm	Expected credit loss KShs'm	Exposure to credit risk KShs'm
At 31 March 2020			
Cash at bank, government securities and deposits with financial institutions	26,948.3	–-	26,948.3
Trade receivables	10,851.4	(2,828.7)	8,022.7
Due from related parties	1,511.0	(11.7)	1,499.3
Other receivables	4,202.6	–	4,202.6
Total	**43,513.3**	**(2,840.4)**	**40,672.9**

At 31 March 2019	Gross carrying amount KShs'm	Expected credit loss KShs'm	Exposure to credit risk KShs'm
Cash at bank, government securities and deposits with financial institutions	28,073.1	–	28,073.1
Trade receivables	9,169.3	(1,726.1)	7,443.2
Due from related parties	2,117.0	(10.7)	2,106.3
Other receivables	2,970.6	–	2,970.6
Total	**42,330.0**	**(1,736.8)**	**40,593.2**

(b) Company	Gross carrying amount KShs'm	Expected credit loss KShs'm	Exposure to credit risk KShs'm
At 31 March 2020			
Cash at bank, government securities and deposits with financial institutions	25,859.7	–	25,859.7
Trade receivables	10,138.1	(2,706.3)	7,431.8
Due from related parties	1,821.4	(11.7)	1,809.7
Other receivables	4,108.7	–	4,108.7
Total	**41,927.9**	**(2,718.0)**	**39,209.9**
At 31 March 2019			
Cash at bank, government securities and deposits with financial institutions	27,695.2	–	27,695.2
Total trade receivables	8,681.2	(1,726.1)	6,955.1
Due from related parties	1,804.1	(10.7)	1,793.4
Other receivables	2,866.2	–	2,866.2
Total	**41,046.7**	**(1,736.8)**	**39,309.9**

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs.

Such forecasting takes into consideration the entity's debt financing plans (See Note 16 for undrawn bank facilities), covenant compliance, and compliance with internal statement of financial position ratio targets. Surplus cash held by the entity over and above the amounts required for working capital management are invested in interest bearing current accounts and fixed deposit accounts and marketable securities.

The Group's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Treasury section maintains flexibility in funding by maintaining availability under committed credit lines. Liquidity position is monitored through daily cash position as well as a monthly cash forecast that monitors debt structure and expected cash position.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

(a) Group	Less than 1 year KShs'm	Over 1 year KShs'm	Total KShs'm
At 31 March 2020:			
– payables and accrued expenses	29,920.1	985.4	30,905.5
– lease liabilities*	3,549.4	11,675.3	15,224.7
– borrowings	8,000.0	-	8,000.0
Total financial liabilities	**41,469.5**	**12,660.7**	**54,130.2**
At 31 March 2019:			
– payables and accrued expenses	28,703.9	1,131.0	29,834.9
– borrowings	4,032.0	-	4,032.0
Total financial liabilities	**32,735.9**	**1,131.0**	**33,866.9**

(b) Company	Less than 1 year KShs'm	Over 1 year KShs'm	Total KShs'm
At 31 March 2020:			
– payables and accrued expenses	30,153.9	985.4	31,139.3
– lease liabilities*	3,549.4	11,675.3	15,224.7
– borrowings	8,000.0	–	8,000.0
Total financial liabilities	**41,703.3**	**12,660.7**	**54,364.0**
At 31 March 2019:			
– payables and accrued expenses	28,911	1,131.0	30,042
– borrowings	4,032.0	–	4,032.0
Total financial liabilities	**32,943**	**1,131.0**	**34,074**

* The lease liability presented above is discounted. The undiscounted lease liability payable in less than one year is KShs 3,677.0 million and over one year is KShs 14,953.4 million.

Guarantees amounting to KShs 244.4 million (2019: KShs 195.8 million) have been issued by the banks to various suppliers for services provided to the Group as detailed under Note 32.

There are also undrawn bank facilities amounting to KShs 31.84 million (2019: KShs 36.33 million) that would be utilised to settle its obligations as they fall due.

Capital management

The Group and Company's objectives when managing capital are to safeguard its 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 Group may adjust the amount of dividends paid to shareholders.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

4 Financial risk management continued

The Company has a dividend policy that permits dividends to be paid if the Board of Directors finds that the payments are sustainable, after taking into account the sufficiency of distributable reserves and liquidity in order to ensure the Group's operational needs and/or business growth are not limited by the unavailability of funds, as well as the Company's known contingencies and compliance with any funding facility covenants.

The first priority of the Group is to maintain sufficient distributable reserves and liquidity to ensure that operational needs and/or business growth are not limited by the unavailability of funds and also that facilities are available to cover all known contingencies.

Subject to this, the Group intends to operate a progressive distribution policy based on what it believes to be sustainable levels of dividend payments.

Whenever possible, it will be the Group's intention to, at least, maintain annual dividend payments at the level declared in the previous year. However, past dividend payments should not be taken as an indication of future payments.

The Group's focus is to minimise funds tied up in working capital, whilst ensuring that it has sufficient financial ability to meet its liabilities as and when they fall due. The Group 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 strategy is to maintain gearing at low levels as demonstrated by the position below:

	Group		Company	
Gearing ratio	**2020 KShs'm**	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Net cash – Note 30 (b)	3,535.0	15,998.1	2,635.0	15,796.4
Total equity	143,079.3	144,346.6	141,333.7	142,971.7
Total capital	139,544.3	128,348.5	138,698.7	127,175.30
Gearing ratio	0%	0%	0%	0%

Fair value estimation

Financial instruments measured at fair value are measured using the following levels of fair value measurement hierarchy:

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily NSE equity investments classified as trading securities.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Group and Company	Level 1 KShs'm	Level 2 KShs'm	Level 3 KShs'm	Total KShs'm
At 31 March 2020				
Restricted and deferred restricted cash asset	–	–	2,747.8	2,747.8
Construction contract receivable	–	–	601.5	601.5
	–	**–**	**3,349.3**	**3,349.3**

Group and Company	Level 1 KShs'm	Level 2 KShs'm	Level 3 KShs'm	Total KShs'm
At 31 March 2019				
Restricted and deferred restricted cash asset	–		2,741	2,740.9
Construction contract receivable	–	–	1,735	1,735.1
	–	**–**	**4,476.0**	**4,476.0**

There were no transfers between levels in 2019 and 2018.

The fair valuations on the two instruments are a consideration of the discounted cash flows, utilising a discounting rate. The discounting rate is the yield, if the entity had invested similar values of money in alternative financial instruments. The discounting rate utilised is 6.5%. A 1% fluctuation in the discounting rate would result in a movement in fair value by KShs 8 million for restricted cash and KShs 2 million for construction contract receivable.

5 Revenue

(a) Revenue from contracts with customers

The Group has one reportable operating segment whose revenue is presented below.

	31 March 2020			31 March 2019		
Group	KShs'm At a point in time	KShs'm Over time	KShs'm Total	KShs'm At a point in time	KShs'm Over time	KShs'm Total
Voice revenue	–	89,521.9	89,521.9	–	91,171.9	91,171.9
Interconnect voice revenue from local partners	–	4,930.2	4,930.2	–	4,626.4	4,626.4
Messaging revenue	–	17,075.8	17,075.8	–	19,517.5	19,517.5
Interconnect messaging revenue from local partners	–	109.1	109.1	–	94.6	94.6
Mobile data revenue	–	40,668.0	40,668.0	–	36,265.4	36,265.4
Fixed data revenue	–	8,966.9	8,966.9	–	8,101.0	8,101.0
M-PESA revenue	84,438.0	–	84,438.0	74,989.9	–	74,989.9
Emergency top up access fee	–	4,494.2	4,494.2	–	4,309.0	4,309.0
Premium rate services initial set up fees	–	2.0	2.0	–	1.8	1.8
Other service revenue	–	1,008.0	1,008.0	–	689.9	689.9
Service revenue	**84,438.0**	**166,776.1**	**251,214.1**	**74,989.9**	**164,777.5**	**239,767.4**
Handset revenue	6,631.0	–	6,631.0	6,008.4	–	6,008.4
Connection revenue	–	2,034.8	2,034.8	–	1,722.9	1,722.9
Construction revenue	–	583.9	583.9	–	603.1	603.1
Total revenue	**91,069.0**	**169,394.8**	**260,463.8**	**80,998.3**	**167,103.5**	**248,101.8**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

5 Revenue continued

	31 March 2020			31 March 2019		
Company	KShs'm At a point in time	KShs'm Over time	KShs'm Total	KShs'm At a point in time	KShs'm Over time	KShs'm Total
Voice revenue	–	89,521.9	89,521.9	–	91,171.9	91,171.9
Interconnect voice revenue from local partners	–	4,930.2	4,930.2	–	4,626.4	4,626.4
Messaging revenue	–	17,075.8	17,075.8	–	19,517.5	19,517.5
Interconnect messaging revenue from local partners	–	109.1	109.1	–	94.6	94.6
Mobile data revenue	–	40,668.0	40,668.0	–	36,265.4	36,265.4
Fixed data revenue	–	8,966.9	8,966.9	–	8,101.0	8,101.0
M-PESA revenue	83,135.6		83,135.6	74,126.0	–	74,126.0
Emergency top up access fee	–	4,494.2	4,494.2	–	4,309.0	4,309.0
Premium rate services initial set up fees	–	2.0	2.0	–	1.8	1.8
Other service revenue	–	925.3	925.3	–	689.9	689.9
Service revenue	**83,135.6**	**166,693.4**	**249,829.0**	**74,126.0**	**164,777.5**	**238,903.5**
Handset revenue	6,631.0	–	6,631.0	6,008.4	–	6,008.4
Connection revenue	–	2,034.8	2,034.8	–	1,722.8	1,722.8
Construction revenue	–	583.9	583.9	–	603.1	603.1
Total revenue	**89,766.6**	**169,312.1**	**259,078.7**	**80,134.4**	**167,103.4**	**247,237.8**

(b) Revenue from other sources

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Collocation	1,822.0	1,716.9	1,883.3	1,778.5
Other income				
– Gain on disposal of property plant and equipment	56.5	160.2	56.5	160.2
– Miscellaneous income*	213.4	304.2	387.0	304.2
	2,091.9	**2,181.3**	**2,326.8**	**2,242.9**

* Miscellaneous income includes cash discounts received from vendors and donations received from third parties for Safaricom Foundation activities.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

6 Direct costs

M-PESA commissions	(23,823.4)	(22,255.5)	(23,676.3)	(22,255.5)
Airtime commissions	(10,961.9)	(11,012.6)	(10,961.9)	(11,012.6)
Licence fees	(9,794.7)	(10,078.5)	(9,739.8)	(10,063.5)
Interconnect and roaming costs	(7,596.3)	(7,546.1)	(8,129.3)	(8,192.5)
Handset costs	(7,580.8)	(6,093.6)	(7,580.8)	(6,093.6)
Customer acquisition and retention	(8,511.6)	(7,800.6)	(8,511.6)	(7,800.6)
Promotions and Value-Added Services costs (Voice &SMS)	(5,790.2)	(6,308.4)	(5,790.2)	(6,308.4)
Other direct costs	(642.1)	(700.3)	(494.9)	(700.3)
Construction costs	(583.9)	(603.2)	(583.9)	(603.2)
	(75,284.9)	**(72,398.8)**	**(75,468.7)**	**(73,030.2)**

7 Other expenses

Repairs and maintenance expenditure on property, plant and equipment	(334.1)	(311.5)	(333.6)	(311.2)
Operating lease cost-buildings**	(48.8)	(1,206.3)	(48.8)	(1,206.3)
Operating lease cost-sites**	(345.1)	(2,563.2)	(345.1)	(2,563.2)
Warehousing costs	(324.7)	(318.1)	(324.7)	(318.1)
Employee benefits expense (Note 10)	(16,937.5)	(16,929.9)	(16,807.1)	(16,853.3)
Auditor's remuneration	(55.6)	(54.0)	(49.4)	(47.7)
Sales and advertising	(5,792.4)	(7,483.7)	(6,177.9)	(7,786.7)
Consultancy including legal fees	(1,431.4)	(40.0)	(1,431.0)	(37.4)
Network operating costs	(13,408.2)	(14,036.9)	(13,145.0)	(13,713.4)
Travel and accommodation	(751.4)	(874.1)	(738.5)	(857.0)
Computer maintenance	(2,092.7)	(2,219.7)	(2,092.7)	(2,219.7)
Office administration	(1,020.5)	(1,328.4)	(1,016.2)	(1,325.2)
Net foreign exchange gains, other than on borrowings and cash and cash equivalents	172.3	64.0	131.6	14.4
Other operating expenses*	(5,189.6)	(6,288.4)	(4,644.7)	(5,710.5)
	(47,559.7)	**(53,590.2)**	**(47,023.1)**	**(52,935.3)**

* Other operating expenses includes Vodafone procurement fees (Note 31 c), fleet management costs, general staff expenses including training and welfare costs and innovation costs.

** The current period balance relates to the non-lease component of the leases e.g service charge. The cost is excluded from the measurement of the lease liability as provided for by IFRS 16. The prior year number included the rent expense.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

8 Finance income

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Interest income	2,940.9	2,318.5	2,917.1	2,300.4
Foreign exchange gain on cash and borrowings	639.0	496.2	638.5	496.2
Fair value (loss) on restricted cash*	(61.1)	(54.5)	(61.1)	(54.5)
	3,518.8	**2,760.2**	**3,494.5**	**2,742.1**

9 Finance costs

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Interest expense	(348.8)	(148.1)	(347.6)	(148.1)
Foreign exchange losses on cash and borrowings	(601.0)	(455.7)	(591.1)	(408.7)
Interest on asset retirement obligation (ARO) liability	(57.6)	(51.0)	(57.6)	(51.0)
Interest on lease liability	(1,640.7)	–	(1,640.7)	–
Fair value gain on construction and* maintenance contract receivable	51.5	135.2	51.5	135.2
	(2,596.6)	**(519.6)**	**(2,585.5)**	**(472.6)**

10 Employee benefits expense

The following items are included within employee benefits expense:

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Club membership	(61.2)	(133.4)	(60.8)	(130.9)
Employee other administrative costs	(66.1)	(78.6)	(66.1)	(78.4)
Secondees other administrative costs	(126.1)	(233.7)	(124.2)	(232.5)
Employee Performance Share Award Plan	(432.6)	(449.9)	(433.7)	(449.9)
Leave accrual	(16.9)	(59.8)	(16.3)	(59.7)
NSSF	(12.8)	(12.7)	(12.8)	(12.7)
Pension	(698.8)	(644.0)	(695.1)	(642.4)
Salaries	(13,786.9)	(13,559.3)	(13,662.0)	(13,488.3)
Secondee salaries	(292.6)	(399.4)	(292.6)	(399.4)
Staff medical & life insurance	(1,443.5)	(1,359.1)	(1,443.5)	(1,359.1)
	(16,937.5)	**(16,929.9)**	**(16,807.1)**	**(16,853.30)**

	Group and Company	
Number of employees	**2020**	2019
Permanent employees	**4,523**	4,503
Fixed term contract employee	**1,100**	1,820
	5,623	6,323

* Time value for money adjustment

11 Employee Performance Share Award Plan

On 1 July 2011, the Group implemented an Employee Performance Share Award Plan (the Trust) where shares are awarded to qualifying staff based on previous year's achieved performance ratings. Under the outright grant scheme, shares are purchased from the market and transferred to eligible staff at no cost after a three-year vesting period. The shares are purchased and held by the Trust until the end of the vesting period.

During the year, 12.5 million shares were bought by the Trust, at a cost of KShs 355 million. Additionally, 17.83 million shares historically valued at KShs 438.6 million (2019: 15.1 million shares valued at 268.2 million) vested and were exercised by eligible staff.

The Trust currently holds 16.94 million shares at a total cost of KShs 486.7 million (2019: 21.83 million shares at a cost of KShs 570.0 million).

The Trust is a 'cash-settled share-based scheme' as described in IFRS 2, Share Based Payments as the Company provides money to the Trust to purchase shares which will be distributed to the entitled employees on the vesting date.

The Company has accounted for a receivable from the Trust in relation to shares purchased and payables to employees is recognised in these financial statements.

12 Income tax expense

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Current income tax	(31,616.7)	(28,169.2)	(31,340.6)	(27,942.1)
Deferred income tax (Note 17)	(498.4)	(558.1)	(628.9)	(560.8)
Income tax expense	**(32,115.1)**	**(28,727.3)**	**(31,969.5)**	**(28,502.9)**
Profit before income tax	105,772.7	91,217.9	105,254.0	90,469.2
Tax calculated at the applicable income tax rate of 30% (2019: 30%)	(31,731.8)	(27,365.4)	(31,576.2)	(27,140.1)
Tax effect of:				
Income not subject to tax	2,190.4	56.1	2,150.0	42.1
Expenses not deductible for tax purposes	(2,573.7)	(1,367.4)	(2,543.3)	(1,367.4)
Under provision of deferred tax in prior years	–	(53.6)	–	(40.5)
Under provision of current tax in prior years	–	3.0	–	3.0
Income tax expense	(32,115.1)	(28,727.3)	(31,969.5)	(28,502.9)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

13 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	Mar 2020	Mar 2019
Profit attributable to equity holders of the Group (KShs million)	73,658	62,491
Weighted average number of ordinary shares in issue (million)	40,065	40,065
Basic earnings per share (KShs)	1.84	1.56
Diluted earnings per share (KShs)	1.84	1.56
Headline earnings per share		
Profit attributable to equity holders of the Group (KShs million)	73,658	62,491
Less: share of profit of joint venture	(3,296.1)	–
Headline earnings after tax	70,361.9	62,491.0
Headline earnings per share (basic & diluted)	1.76	1.56

14 Share capital and share premium

	Number of shares (million)	Ordinary shares KShs'm	Share premium KShs'm	Total KShs'm
At 1 April 2018, 31 March 2019 and 31 March 2020	40,065	2,003.3	2,200	4,203

The authorised shares capital of the Company is KShs 6,000,000,000 divided into 119,999,999,600 ordinary shares of KShs 0.05 each and 5 non-redeemable preference shares of KShs 4 each.

The issued share capital comprises 40,065,428,000 (2019: 40,065,428,000) ordinary shares with a par value of KShs 0.05 each.

Share premium reserve was established on initial issuance of the Group ordinary shares at premium.

Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the general meetings of the Company.

15 Dividends

Proposed dividends are classified as a separate component of equity in the statement of changes in equity through a transfer from retained earnings. They are transferred to the dividends payable account once approved by shareholders in a general meeting.

At the Annual General Meeting to be held on 31 July 2020, a final dividend in respect of the year ended 31 March 2020 of KShs 1.40 per share (2019: KShs 1.87 per share, comprising of KShs 1.25 final dividends and KShs 1.10 special dividends) amounting to a total of KShs 56 billion (2019: KShs 74 billion) is to be proposed.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders. Total dividends payouts in the year were as follows:

Movement in the year	2020 KShs'm	2019 KShs'm
Opening balance – 1 April	–	–
Declared during the year	74,922.4	44,071.0
Paid during the period	(73,877.3)	(44,071.0)
Closing balance – 31 March	1,045.1	–

16 Borrowings

The Group has a short-term revolving facility with Standard Chartered Bank of Kenya of KShs 8 billion with maturity date of May 2020. The interest rate for the facility is Central Bank Rating (CBR) plus margin (where the margin equals the 91-day T-bill plus 42.5bps minus CBR). This facility was fully drawn as at 31 March 2020.

As at 31 March 2020, the Group had undrawn credit facilities with various banks equivalent of KShs 31,84 million (2019: KShs 36,3 million).

The movement in borrowings is as below:

	Group and Company	
	2020 KShs'm	2019 KShs'm
Opening balance – 1 April	4,032.0	4,040.0
Additions	20,132.0	8,028.0
Repayments	(16,164.0)	(8,036.0)
Closing balance – 31 March	**8,000.0**	**4,032.0**

Under the terms of the loan facilities, the Group is required to comply with certain covenants. The Group had complied with all the covenants

17 Deferred income tax

(a) Group

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2020 KShs'm	2019 KShs'm
Deferred tax assets:		
– Deferred tax assets to be recovered after 12 months	752.7	587.6
– Deferred tax assets to be recovered within 12 months	2,577.2	1,936.9
	3,329.9	**2,524.9**
Deferred tax liabilities:		
– Deferred tax liability to be recovered after 12 months	(2,225.1)	(921.1)
– Deferred tax liability to be recovered within 12 months	–	(0.7)
	(2,225.2)	(921.8)
Net deferred income tax asset	**1,104.7**	**1,603.1**
Deferred income tax is calculated using the enacted income tax rate of 30% (2019: 30%).		
At start of year	1,603.1	2,159.9
Charge to statement of profit or loss and other comprehensive income	(498.4)	(557.8)
At end of year	**1,104.7**	**1,603.1**

Consolidated deferred income tax assets and liabilities and deferred income tax charge/(credit) in the statement of profit or loss and other comprehensive income (SOCI) are attributable to the following items:

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

17 Deferred income tax continued

Year ended 31 March 2020	1 April 2019 KShs'm	Credit/ (charged) to SOCI KShs'm	31 March 2020 KShs'm
Deferred income tax liabilities			
Property, plant and equipment	(921.1)	(1,298.7)	(2,219.8)
Unrealised foreign exchange gains	(0.7)	12.8	12.1
Net right-of-use	–	(5.5)	(5.5)
	(921.8)	(1,291.4)	(2,213.2)
Deferred income tax assets			
Unrealised foreign exchange losses	0.9	37.7	38.6
Tax losses	18.4	111.8	130.2
Other temporary differences	2,505.6	643.5	3,149.1
	2,524.9	793.0	3317.8
Net deferred income tax asset	**1,601.1**	**(498.4)**	**1,104.7**

Year ended 31 March 2019	1 April 2019 KShs'm	Credit/ (charged) to SOCI KShs'm	31 March 2019 KShs'm
Deferred income tax liabilities			
Property, plant and equipment	(606.0)	(315.1)	(921.1)
Unrealised foreign exchange gains	(17.0)	16.3	(0.7)
	(623.0)	(298.8)	(921.8)
Deferred income tax assets			
Unrealised foreign exchange losses	2.9	(2.0)	0.9
Tax losses	–	18.4	18.4
Other temporary differences	2,780.0	(275.4)	2,504.6
	2,782.9	(259.0)	2,523.9
Net deferred income tax asset	**2,159.9**	**(557.8)**	**1,602.1**

(b) Company

	2020 KShs'm	2019 KShs'm
Deferred tax assets:		
– Deferred tax assets to be recovered after 12 months	752.8	586.9
– Deferred tax assets to be recovered within 12 months	2,395.6	1,917.6
	3,148.4	2,504.5
Deferred tax liabilities:		
– Deferred tax liability to be recovered after 12 months	(2,223.8)	(937.8)
– Deferred tax liability to be recovered within 12 months	12.8	(0.4)
	(2,211.0)	(938.2)
Net deferred income tax asset	**937.4**	**1,566.3**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

Deferred income tax is calculated using the enacted income tax rate of 30% (2019: 30%).

	2020 KShs'm	2019 KShs'm
At start of year	1,566.3	2,127.1
Charge credit to statement of profit or loss and other comprehensive income (Note 12)	(628.9)	(560.8)
At end of year	**937.4**	**1,566.3**

Company deferred income tax assets and liabilities and deferred income tax charge/(credit) in the statement of profit or loss and other comprehensive income are attributable to the following items:

Year ended 31 March 2020	1 April 2019 KShs'm	Credit/ (charged) to SOCI KShs'm	**31 March 2020 KShs'm**
Deferred income tax liabilities			
Property, plant and equipment	(938.0)	(1,280.4)	(2,218.4)
Unrealised foreign exchange gains	(0.4)	12.4	12.8
Net right-of-use	–	(5.5)	(5.5)
	(938.4)	(1,273.5)	(2,211.9)
Deferred income tax assets			
Unrealised foreign exchange losses	2.0	36.6	38.6
Other temporary differences	2,502.7	628.0	3,110.7
	2,504.7	644.6	3,148.3
Net deferred income tax asset	**1,566.3**	**(628.9)**	**937.4**

Year ended 31 March 2019	1 April 2019 KShs'm	Credit/ (charged) to SOCI KShs'm	31 March 2019 KShs'm
Deferred income tax liabilities			
Property, plant and equipment	(625.0)	(313.0)	(938.0)
Unrealised foreign exchange gains	(16.0)	16.4	0.4
	(641.0)	(296.6)	(937.6)
Deferred income tax assets			
Unrealised foreign exchange losses	3.0	(1.0)	2.0
Other temporary differences	2,765.0	(263.0)	2,502.0
	2,768.0	(264.0)	2,504.0
Net deferred income tax asset	**2,127.0**	**(560.6)**	**1,566.4**

In the opinion of the Directors, the deferred income tax balances are expected to be recoverable against future profits.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

18 Property, plant and equipment

(a) Group	Network infrastructure KShs'm	Capital work in progress (CWIP)* KShs'm	Network maintenance spares KShs'm	Leasehold improvements KShs'm	Vehicles & equipment KShs'm	Fibre KShs'm	Total KShs'm
At 1 April 2018							
Cost	249,124.9	15,042.0	1,527.7	6,709.7	71,051.8	20,018.3	363,474.4
Accumulated depreciation	(185,555.7)	–	(819.8)	(4,954.8)	(48,231.1)	(2,203.4)	(241,764.8)
Net book amount	**63,569.2**	**15,042.0**	**707.9**	**1,754.9**	**22,820.7**	**17,814.9**	**121,709.6**
Year ended 31 March 2019							
Opening net book amount	63,569.2	15,042.0	707.9	1,754.9	22,820.7	17,814.9	121,709.6
Additions	–	36,970.0	9.3	–	274.0	–	37,253.3
Transfers from CWIP	17,177.4	(38,749.4)		330.4	16,018.0	5,223.6	–
Disposal – cost	(519.0)			(1.1)	(326.8)	–	(846.9)
Asset retirement – cost**	(42,395.6)	–	–	–	–	–	(42,395.6)
Depreciation charge	(17,786.3)	–	(139.7)	(538.4)	(14,246.3)	(949.7)	(33,660.4)
Depreciation on disposal	410.0			1.1	351.1	–	762.2
Depreciation on retired assets**	42,395.6	–	–	–	–	–	42,395.6
Closing net book amount	**62,851.3**	**13,262.6**	**577.5**	**1,546.9**	**24,890.7**	**22,088.8**	**125,217.8**
At 31 March 2019							
Cost	223,387.7	13,262.6	1,537.00	7,039.0	87,017.0	25,241.9	357,485.2
Accumulated depreciation	(160,536.4)	–	(959.5)	(5,492.1)	(62,126.3)	(3,153.1)	(232,267.4)
Net book amount	**62,851.3**	**13,262.6**	**577.5**	**1,546.9**	**24,890.7**	**22,088.8**	**125,217.8**
Year ended 31 March 2020							
Opening net book amount	62,851.3	13,262.6	577.5	1,546.9	24,890.7	22,088.8	125,217.8
Additions		35,738.0	27.5	–	333.0	–	36,098.5
Transfers from CWIP	16,190.1	(38,673.5)	–	404.2	17,033.2	5,046.00	–
Disposal – cost	–	–	–	–	(278.5)	–	(278.5)
Asset retirement – cost**	(11,451.6)	–	–	–	–	–	(11,451.6)
Depreciation charge	(17,041.9)	–	(141.6)	(537.7)	(13,042.9)	(1,200.7)	(31,964.8)
Depreciation on disposal	–	–	–	–	264.2	–	264.2
Depreciation on retired assets**	11,451.6	–	–	–	–	–	11,451.6
Closing net book amount	**61,999.5**	**10,327.1**	**463.4**	**1,413.4**	**29,199.7**	**25,934.1**	**129,337.2**
At 31 March 2020							
Cost	228,126.2	10,327.1	1,564.5	7,443.2	104,104.7	30,287.9	381,853.6
Accumulated depreciation	(166,126.7)		(1,101.1)	(6,029.8)	(74,905.0)	(4,353.8)	(252,516.4)
Net book amount	**61,999.5**	**10,327.1**	**463.4**	**1,413.4**	**29,199.7**	**25,934.1**	**129,337.2**

Notes Continued

(b) Company	Network infrastructure KShs'm	Capital work in progress (CWIP)* KShs'm	Network maintenance spares KShs'm	Leasehold improvements KShs'm	Vehicles & equipment KShs'm	Fibre KShs'm	Total KShs'm
At 1 April 2018							
Cost	248,988.3	15,042.1	1,527.7	6,709.7	70,948.9	20,012.3	363,229.0
Accumulated depreciation	(185,419.2)	–	(819.2)	(4,956.9)	(48,127.8)	(2,197.2)	(241,520.3)
Net book amount	**63,569.1**	**15,042.1**	**708.5**	**1,752.8**	**22,821.1**	**17,815.1**	**121,708.7**
Year ended 31 March 2019							
Opening net book amount	63,569.1	15,042.1	708.5	1,752.8	22,821.1	17,815.1	121,708.7
Additions	–	36,573.9	9.3	–	274.0	–	36,857.2
Transfer from CWIP	17,177.4	(38,749.4)	–	330.4	16,018.0	5,223.6	–
Disposal – cost	(519.0)	–	–	(1.1)	(326.8)	–	(846.9)
Asset retirement – cost**	(42,395.6)	–	–	–	–	–	(42,395.6)
Depreciation charge	(17,786.3)	–	(139.7)	(538.4)	(14,246.3)	(949.7)	(33,660.4)
Depreciation on disposals	410.0	–	–	1.1	351.1	–	762.2
Depreciation on retired assets**	42,395.6	–	–	–	–	–	42,395.6
Closing net book amount	**62,851.2**	**12,866.6**	**578.1**	**1,544.8**	**24,891.1**	**22,089.0**	**124,820.8**
At 31 March 2019							
Cost	223,251.1	12,866.6	1,537.0	7,039.0	86,914.1	25,235.9	356,843.7
Accumulated depreciation	(160,399.9)	–	(958.9)	(5,494.2)	(62,023.0)	(3,146.9)	(232,022.9)
Net book amount	**62,851.2**	**12,866.6**	**578.1**	**1,544.8**	**24,891.1**	**22,089.0**	**124,820.8**
Year ended 31 March 2020							
Opening net book amount	62,851.2	12,866.6	578.1	1,544.8	24,891.1	22,089.0	124,820.8
Additions	–	35,738.0	27.5	–	322.0	–	36,087.5
Transfer from CWIP	16,190.1	(38,420.4)	–	404.2	16,780.2	5,045.9	–
Disposal – cost	–	–	–	–	(278.5)	–	(278.5)
Asset retirement – cost**	(11,451.6)	–	–	–	–	–	(11,451.6)
Depreciation charge	(17,041.9)	–	(141.6)	(537.7)	(13,003.4)	(1,200.7)	(31,925.3)
Depreciation on disposals	–	–	–	–	264.2	–	264.2
Depreciation on retired assets**	11,451.6	–	–	–	–	–	11,451.6
Closing net book amount	**61,999.4**	**10,184.2**	**464.0**	**1,411.3**	**28,975.6**	**25,934.2**	**128,968.7**
At 31 March 2020							
Cost	227,989.6	10,184.2	1,564.5	7,443.2	103,737.8	30,281.8	381,201.1
Accumulated depreciation	(165,990.2)	–	(1,100.5)	(6,031.9)	(74,762.2)	(4,347.6)	(252,232.4)
Net book amount	**61,999.4**	**10,184.2**	**464.0**	**1,411.3**	**28,975.6**	**25,934.2**	**128,968.7**

* Capital work in progress largely relates to self-constructed assets not yet completed. These mostly include network infrastructure and fibre that had not been brought into use as at year end.

** During the year ended 31 March 2019, the Company carried out an assessment of the Fixed Asset Register, (FAR). From this assessment, assets worth KShs 54 billion were identified to be fully depreciated and not in use. The assets were mainly network infrastructure. The assets have been written off.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

19 Indefeasible rights of use (IRUs)

(a) Group	TEAMS KShs'm	SEACOM KShs'm	KPLC KShs'm	ETISALAT KShs'm	TATA KShs'm	EATCL KShs'm	Total KShs'm
Year ended 31 March 2019							
Opening net book amount	2,273.3	920.0	496.2	61.9	102.7	–	3,854.1
Amortisation charge	(162.7)	(76.7)	(41.9)	(7.4)	(12.3)	–	(301.0)
Closing net book amount	**2,110.6**	**843.3**	**454.3**	**54.5**	**90.4**	**–**	**3,553.1**
At 31 March 2019							
Cost	3,253.0	1,534.9	838.3	111.3	183.9	91.5	6,012.9
Accumulated amortisation	(1,142.4)	(691.6)	(384.0)	(56.8)	(93.5)	(91.5)	(2,459.8)
	2,110.6	**843.3**	**454.3**	**54.5**	**90.4**	**–**	**3,553.1**
Year ended 31 March 2020							
Opening net book amount	2,110.6	843.3	454.3	54.5	90.4	–	3,553.1
Amortisation charge	(162.7)	(76.7)	(41.9)	(7.4)	(12.3)	–	(301.0)
Closing net book amount	**1,947.9**	**766.6**	**412.4**	**47.1**	**78.1**	**–**	**3,252.1**
At 31 March 2020							
Cost	3,253.0	1,534.9	838.3	111.3	183.9	91.5	6,012.9
Accumulated amortisation	(1,305.1)	(768.3)	(425.9)	(64.2)	(105.8)	(91.5)	(2,760.8)
Net book amount	**1,947.9**	**766.6**	**412.4**	**47.1**	**78.1**	**–**	**3,252.1**

(b) Company	TEAMS KShs'm	SEACOM KShs'm	KPLC KShs'm	ETISALAT KShs'm	TATA KShs'm	Total KShs'm
Year ended 31 March 2019						
Opening net book amount	2,273.3	920.0	496.2	61.9	102.7	3,854.1
Amortisation charge	(162.7)	(76.7)	(41.9)	(7.4)	(12.3)	(301.0)
Closing net book amount	**2,110.6**	**843.3**	**454.3**	**54.5**	**90.4**	**3,553.1**
At 31 March 2019						
Cost	3,253.0	1,534.9	838.3	111.3	183.9	5,921.4
Accumulated amortisation	(1,142.4)	(691.6)	(384.0)	(56.8)	(93.5)	(2,368.3)
	2,110.6	**843.3**	**454.3**	**54.5**	**90.4**	**3,553.1**
Year ended 31 March 2020						
Opening net book amount	2,110.6	843.3	454.3	54.5	90.4	3,553.1
Amortisation charge	(162.7)	(76.7)	(41.9)	(7.4)	(12.3)	(301.0)
Closing net book amount	**1,947.9**	**766.6**	**412.4**	**47.1**	**78.1**	**3,252.1**
At 31 March 2020						
Cost	3,253.0	1,534.9	838.3	111.3	183.9	5,921.4
Accumulated amortisation	(1,305.1)	(768.3)	(425.9)	(64.2)	(105.8)	(2,669.3)
Net book amount	**1,947.9**	**766.6**	**412.4**	**47.1**	**78.1**	**3,252.1**

20 Investment property

The investment property relates to a vacant open land title No. 164259 and 164260 located in Nairobi area. This land does not generate any rental income or direct operating costs. There are no restrictions attached to realisability of the investment property or the remittance of income and proceeds of disposal.

Group and Company	2020 KShs'm	2019 KShs'm
At 1 April	845.0	845.0
Fair value adjustment	–	–
At 31 March	**845.0**	**845.0**

The fair value measurement of the investment property as at 31 March 2020 was performed by registered and independent valuers. They are members of the Institute of Surveyors of Kenya, have appropriate qualifications, relevant and recent experience in the fair value measurement of properties in various locations in Kenya.

The fair value was determined by reference to market evidence of recent transactions for similar properties. In estimating the fair value of the properties, the highest and best use of those similar properties was assumed. There was no significant change in the previous valuation and management has opted to retain the existing value.

Details of the Group's investment property and information about fair value hierarchy as at 31 March 2020 is as follows:

Non-financial asset	Fair value as at 31 March 2020 KShs'm	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Investment property	845.0	Level II	Open market value basis – highest and best use model	Not applicable	Not applicable

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

21 Intangible assets

(a) Group	Licence fees KShs'm	Total KShs'm
Year ended 31 March 2019		
Opening net book amount	8,755.6	8,755.6
Amortisation	(1,370.3)	(1,370.3)
Closing net book amount	**7,385.3**	**7,385.3**
At 31 March 2019		
Cost	18,982.6	18,982.6
Accumulated amortisation	(11,597.3)	(11,597.3)
Net book amount	**7,385.3**	**7,385.3**
Year ended 31 March 2020		
Opening net book amount	7,385.3	7,385.3
Amortisation	(1,359.1)	(1,359.1)
Closing net book amount	**6,026.2**	**6,026.2**
At 31 March 2020		
Cost	18,982.6	18,982.6
Accumulated amortisation	(12,956.4)	(12,956.4)
Net book amount	**6,026.2**	**6,026.2**

(b) Company	**2020 KShs'm**	2019 KShs'm
Opening net book amount	7,379.8	8,748.9
Amortisation charge	(1,358.0)	(1,369.1)
Closing net book amount	**6,021.8**	**7,379.8**
Cost	18,960.3	18,960.3
Accumulated amortisation	(12,938.5)	(11,580.5)
Net book amount	**6,021.8**	**7,379.8**

Notes Continued

22 Leases

The Group has adopted IFRS 16 from 1 April 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

(a) Right-of-use (ROU) asset movement schedule

Group and Company	Site KShs'm	Collocation KShs'm	Shops KShs'm	Facilities KShs'm	Secondees' houses KShs'm	Total KShs'm
Year ended 31 March 2020						
Balance on migration (1 April 2019) (Note 2 (a) (i))	8,054.0	5,051.0	1,173.9	2,492.4	17.4	16,788.7
Additions for the year	618.7	230.2	112.7	390.4	25.0	1,377.0
Closing book cost	**8,672.7**	**5,281.2**	**1,286.6**	**2,882.8**	**42.4**	**18,165.7**
At 31 March 2020						
Cost	8,672.7	5,281.2	1,286.6	2,882.8	42.4	18,165.7
Amortisation charge	(1,089.9)	(910.2)	(252.5)	(647.8)	(22.4)	(2,922.8)
Closing net book amount	**7,582.8**	**4,371.0**	**1,034.1**	**2,235.0**	**20.0**	**15,242.9**

(b) Lease liability movement schedule

Group and Company	Site KShs'm	Collocation KShs'm	Shops KShs'm	Facilities KShs'm	Secondees houses KShs'm	Total KShs'm
Year ended 31 March 2020						
Balance on migration (1 April 2019) (Note 2 (a) (i))	(7,458.8)	(4,983.4)	(1,072.7)	(2,412.6)	(22.3)	(15,949.8)
Additions for the year	(618.7)	(230.2)	(112.7)	(390.4)	(25.0)	(1,377.0)
Interest charge	(904.5)	(384.6)	(100.0)	(250.1)	(1.5)	(1,640.7)
Payments	1,651.8	1,074.1	314.0	674.8	28.1	3,742.8
Lease liability balance	**(7,330.2)**	**(4,524.1)**	**(971.4)**	**(2,378.3)**	**(20.7)**	**(15,224.7)**

The lease liability balance at the end of the period was as follows:

Year ended 31 March 2020	Site KShs'm	Collocation KShs'm	Shops KShs'm	Facilities KShs'm	Secondees houses KShs'm	Total KShs'm
Current	(1,304.8)	(1,138.4)	(295.6)	(798.3)	(12.3)	(3,549.4)
Non-current	(6,025.4)	(3,385.7)	(675.8)	(1,580.0)	(8.4)	(11,675.3)

Included in the direct costs and reported in the statement of profit or loss and other comprehensive income in the period is an amount of KShs 1,527.3 million (2019: KShs 1,497.0 million) relating to short term leases of less than one year which were exempted from the lease liabilities above due to the application of short term leases expedient as provided by IFRS 16.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

23 Investments

From time to time the Group invests in various entities in form of subsidiaries, associates and joint arrangements for strategic reason in order to achieve the overall objective of transforming lives.

(a) Investment in subsidiaries

All subsidiaries are unlisted and have the same year end as the Company except for Safaricom Money Transfer Services Limited which has a 31 December year-end. They are all incorporated in Kenya. The investments relate to cost of shares held in the subsidiaries.

	Company	
	2020 KShs'm	2019 KShs'm
At start of year	431.2	24.0
Additional investment (Instaconnect Limited)		407.2
Additional investment (DigiFarm Limited)	0.1	–
At end of year	**431.3**	**431.2**

As at 31 March 2020, the Company's interest in its subsidiaries was as follows:

	Year end	% interest held	**2020 KShs'm**	2019 KShs'm
One Communications Limited and its subsidiaries[1]	31 March	100	–	–
Packet Stream Data Networks Limited	31 March	100	–	–
IGO Wireless Limited	31 March	100	–	–
Instaconnect Limited	31 March	100	411.2	411.2
East Africa Tower Company Limited	31 March	100	–	–
DigiFarm Kenya Limited[2]	31 March	100	0.1	–
Safaricom Money Transfer Services Limited	31 December	100	20.0	20.0
			431.3	**431.2**

1 Comtec Training Management Service Limited, Comtec Integrations System Limited, and Flexible Bandwidth Service Limited.

2 In October 2019, DigiFarm was incorporated as a 100% owned subsidiary by Safaricom PLC. The nominal share capital of the Company is 100,000 divided into 1,000 ordinary shares of KShs 100 each. The entity is primarily designed to offer agribusiness tech support services to Kenyan farmers linking the entire production chain by connecting producers to buyers and cushioning farmers from middlemen. Other expected value addition to the DigiFarm model will be filling the gaps below:

- Access to financial services – credit & insurance.
- Access to Quality inputs.
- Knowledge on best farming practices through Extension services.
- Access to market and post-harvest loss management.

The subsidiary is still in its initial set up stages operationally.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

(b) Investment in associates and joint ventures – Group and Company

	2020 KShs'm	2019 KShs'm
Investment in associates		
Circle Gas	384.6	–
TEAMS	211.2	150.3
Total investment in associates	**595.8**	**150.3**
Investment in joint ventures		
M-PESA Global Services Limited	4,369.3	–
Total investment in joint ventures	**4,369.3**	–
Total investment in associates and joint ventures	**4,965.1**	**150.3**
The movement in investment in associate and joint ventures is as follows:		
At start of year	150.3	145.1
Share of profit TEAMS	60.9	5.2
Acquisitions – Circles Gas	384.6	–
Acquisitions – M-PESA Global Services Limited	1,073.2	–
Share of profit from M-PESA Global Services Limited	3,296.1	–
At end of year	**4,965.1**	**150.3**

In December 2019, Safaricom completed a purchase of 18.96% of the issued shares capital of Circle Gas Limited (KShs 385 million), a company incorporated in England. Strategically, the investment in Circle Gas solution is a digital service offering leveraging IoT and M-PESA, that will drive our ambition to be the leading digital services provider in Kenya whilst driving financial inclusion through technology by offering customers an affordable, clean energy source for cooking. Key features of the investment contract are:

- One Non-Executive Director's slot on Circle Gas board – Safaricom has one reserved board seat so long as a Trade Mark Licence and Brand Management Co-operation Agreement made remains in force and Safaricom remains a holder of ordinary shares.
- Use of Safaricom trademarks as per agreement in return for a royalty fee agreement and interchange of managerial personnel between the entities.
- Circle Gas shall be riding on Safaricom's network to guarantee connectivity to its smart meters.

The investment in Circle Gas has been treated as an investment in associate as per IAS 28.7.

Included in the investment in associate is the investment of 32.5% (2019: 32.5%) of the ordinary shares of The East African Marines Systems Limited (TEAMS). TEAMS is a private company and there is no quoted market price available for its shares. TEAMS's place of business and country of incorporation is Kenya. There are no contingent liabilities relating to the Group's interest in the associate.

TEAMS has a 30 June year end and derives its revenues from the provision of submarine fibre optic cable system. Changes in the risk and fluctuation in the results of the associate is not expected to have a significant impact on the results of the Group. As such, the unaudited nine months results for the associate have been incorporated in the Group's financial statements. Set out below is the summarised financial information for TEAMS as at 31 March 2020 and 31 March 2019 which is accounted for using the equity method.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

23 Investments continued

TEAMS summarised statement of financial position	2020 KShs'm	2019 KShs'm
Total equity	442.3	293.2
Non-current assets	7.7	8.0
Current assets		
Cash and cash equivalents	701.5	625.8
Other current assets	37.0	99.9
Total current assets	**738.5**	**725.7**
Current liabilities	(303.9)	(440.5)
Net current assets	**434.6**	**285.2**
Net assets	**442.3**	**293.2**

TEAMS summarised statement of profit or loss and other comprehensive income for the nine months period ended 31 March	2020 KShs'm	2019 KShs'm
Revenue	231.4	221.2
Other income	13.1	11.7
Operating expenses	(148.3)	(144.0)
Administrative expenses	(32.7)	(31.9)
Total expenses	(181.0)	(175.9)
Profit before tax	63.5	57.0
Income tax expense	–	–
Profit after tax	63.5	57.0
Share of profit before tax (32.5%)	20.6	18.5
Profit/(loss) for the 3 months ended 30 June (2019 and 2018 respectively)	40.3	(13.3)
Share of profit of associate	**60.9**	**5.2**

The information above reflects the amounts presented in the management accounts of the associate and not the Safaricom PLC share of those amounts, adjusted for differences in accounting policies between the Company and associate. The results of TEAMS do not have a material impact on the Group's results.

In March 2020, Safaricom PLC and Vodacom Group Limited completed the acquisition of the M-PESA brand, product development and support services from Vodafone Group Plc through a newly-created joint venture (JV), M-PESA Global Services Limited, for a cash consideration of KShs 2,146.4 m with each entity paying 50% of this amount (KShs 1,073.2 million) commensurate to their proportionate interest in the joint venture. The new JV will strategically help accelerate M-PESA growth in Africa by giving both Safaricom PLC and Vodacom Group Limited full control of M-PESA brand in Africa.

M-PESA Global Services Limited is registered in Kenya. It has one 100% owned subsidiary, K2019102008 (SOUTH AFRICA) (Proprietary) Limited registered in South Africa. Safaricom PLC owns 50% of the issued share capital of the JV with Vodacom Group Limited owning the remaining 50%.

Details of the Company's joint venture as at 31 March is as follow:

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

Name of joint venture	Principal activity	Country of incorporation or registration	Percentage of shareholding
M-PESA Global Services Limited	M-PESA product development and support services	Kenya	50%
K2019102008 (South Africa) (Proprietary) Limited	M-PESA product development and support services	South Africa	50%

The joint venture is accounted for using equity method in these consolidated financial statements. Summarised financial information in respect of Safaricom PLC investment in joint venture as at 31 March 2020 is set out below:

	31 March 2020 KShs'm
Cost of investment in joint venture	1,073.2
Share of profit of joint venture	3,296.1
	4,369.3

There are no significant restrictions on the ability of the joint venture to transfer funds to Safaricom PLC in the form of cash dividends or repayment of loans. Decisions by the joint venture to declare and/or pay any dividends or make any capital distribution to shareholders must have prior written consent of the existing shareholders.

M-PESA Global Services Limited summarised statement of profit or loss and other comprehensive income

	31 March 2020 KShs'm
Profit for the period (including bargain purchase gain[1])	6,592.2
Profit and total comprehensive income for the year	**6,592.2**
Share of profit of Joint Venture Safaricom PLC (50%)	3,296.1
Share of profit of associate Vodacom Group Limited (50%)	3,296.1

1 The revaluation of the acquired assets exceeded the consideration paid to Vodafone Group. This was due to the valuation of the M-PESA brand in Africa that was acquired together with the assets.
As a result, this resulted to a bargain purchase gain. The bargain purchase gain was shared equally to the investors.

M-PESA Global Services Limited summarised Statement of financial position

	31 March 2020 KShs'm
Total equity	8,725.9
Non-current liabilities[1]	2,688.4
Total equity and non-current liabilities	11,414.3
Non-current assets	11,414.2
Current assets	0.1
Total assets	**11,414.3**

1 The current liabilities at the end of the year relates to deferred tax liability arising from the acquisition transaction.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

24 Inventories

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Handsets and accessories	1,275.8	1,609.7	1,275.8	1,609.7
Scratch cards	64.6	74.8	64.6	74.8
Starter packs	453.1	202.0	453.1	202.0
Stationery and other stocks	8.8	10.0	8.8	10.0
Set top boxes	5.1	20.4	5.1	20.4
Less: provision for obsolescence	(174.9)	(200.8)	(174.9)	(200.8)
	1,632.5	1,716.1	1,632.5	1,716.1
Inventory work-in-progress	160.6	58.5	160.6	58.5
DigiFarm stocks	66.3	–	–	–
	1,859.4	**1,774.6**	**1,793.1**	**1,774.6**

Note: The amount of inventories recognised as an expense during the period was KShs 9,245.5 million (2019: 7,599.4 million reported under direct costs (Note 6).

25 Trade and other receivables

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Current:				
Trade receivables	10,851.4	9,169.3	10,138.1	8,682.2
Less: provision for impairment losses	(2,828.7)	(1,726.1)	(2,706.3)	(1,726.1)
	8,022.7	7,443.2	7,431.8	6,956.1
Receivable from related parties (Note 31 (viii))	1,511.0	2,117.0	1,821.4	1,803.1
Less: provision for impairment losses	(11.7)	(10.7)	(11.7)	(10.7)
	1,499.3	2,106.3	1,809.7	1,792.4
	–	–	–	–
Other receivables	4,202.6	2,970.6	4,108.7	2,866.2
Less: provision for impairment losses		–		–
	4,202.6	2,970.6	4,108.7	2,866.2
Prepayments	2,864.2	3,871.1	2,850.2	3,856.3
Construction and maintenance contract receivable	614.0	1,799.1	614.0	1,799.1
Less: provision for fair value losses	(12.5)	(64.0)	(12.5)	(64.0)
Net construction and maintenance contract receivable	601.5	1,735.1	601.5	1,735.1
	17,190.3	**18,126.3**	**16,801.9**	**17,206.1**

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

Notes Continued

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
At start of year	1,800.8	2,271.4	1,800.8	2,271.4
Provisions made in the year				
– trade and other receivables	2,188.5	3,386.3	1,937.6	3,386.3
– related parties	11.7	10.7	11.7	10.7
Release of prior year provisions	(530.6)	(3,406.6)	(530.6)	(3,406.6)
Impairment gain/(loss) on trade receivables	1,669.6	(9.6)	1,418.7	(9.6)
Provisions made in the year for construction and maintenance contract receivable	12.5	64.0	12.5	64.0
Release of prior year provisions	(64.0)	(199.2)	(64.0)	(199.2)
Impairment gain/(loss) on construction and maintenance contract receivable	(51.5)	(135.2)	(51.5)	(135.2)
Total impairment gain/(loss) for the year	**1,618.1**	**(144.8)**	**1,367.2**	**(144.8)**
Receivables written off during the year as uncollectible	**(566.0)**	**(325.8)**	**(437.4)**	**(325.8)**
Closing provisions as at year end	**2,852.9**	**1,800.8**	**2,730.6**	**1,800.8**

The carrying amounts of the above receivables approximate their fair values.

In connection with the National Police Service contract, bills have been raised for both the construction and maintenance service as per the contract terms. An amount of KShs 1.78 billion was received during the year and the outstanding balance at year end was KShs 646.8 million. Due to the extended payment terms of the contract, fair value adjustment of KShs 12.5 million has been made in arriving at the outstanding receivable.

26 Cash and cash equivalents and restricted cash

Cash equivalents

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
a) Cash and cash equivalents				
Cash at bank and in hand	26,759.7	20,030.1	25,859.7	19,828.1
b) Restricted cash				
Restricted cash	2,963.2	2,895.5	2,963.2	2,895.5
Fair value adjustment at inception	(1,051.5)	(1,049.9)	(1,051.5)	(1,049.9)
	1,911.7	**1,845.6**	**1,911.7**	**1,845.6**
c) Deferred restricted cash asset				
Fair value adjustment at inception (b)	1,051.5	1,049.9	1,051.5	1,049.9
Amortisation	(215.4)	(154.3)	(215.4)	(154.3)
Net deferred restricted cash asset	**836.1**	**895.6**	**836.1**	**895.6**

Restricted cash relates to deposits held with Housing Finance Group Limited, NCBA Bank and Kenya Commercial Bank (KCB). The cash is used as a backup to the staff mortgage loans and its withdrawal is restricted.

The deposit earns interest below the market rate and therefore the need to fair value at inception. The fair value of the restricted cash on initial recognition was determined using the discounted cash flow method. The difference between the actual cash held as deposits and the fair value (i.e. the deferred restricted cash asset) is amortised over the term of the deposit. Subsequently, the restricted cash is carried at amortised cost. The fair value adjustment at inception is amortised over the period of the staff's mortgage.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

27 Other financial assets

	Group		Company	
	2020 KShs'm	2019 KShs'm	2020 KShs'm	2019 KShs'm
At 1 April 2019	8,043.0	–	7,866.8	–
Government securities at amortised cost	–	4,043.0	–	3,866.8
Deposits with financial institutions	–	4,000.0	–	4,000.0
Less; matured assets	(7,854.4)	–	(7,866.8)	–
At 31 March	188.6	8,043.0	–	7,866.8

28(a) Payables and accrued expenses

Current				
Trade payables	7,181.1	3,811.2	7,128.8	3,764.2
Due to related companies (Note 31 (ix))	949.9	1,198.3	1,254.5	1,467.8
Accrued liabilities				
– Network infrastructure	3,893.2	4,525.7	3,893.2	4,525.7
– Inventory	850.0	491.4	850.0	491.4
– Other expenses	9,834.3	11,360.9	9,837.8	11,392.9
Other payables				
– Indirect and other taxes payable	3,619.8	3,941.6	3,640.4	3,926.9
– M-PESA agent accrual	1,996.0	2,044.3	1,996.0	2,044.3
– Other accrued payables	1,595.8	1,330.5	1,553.2	1,298.2
	29,920.1	**28,703.9**	**30,153.9**	**28,911.4**
Non-current				
At 1 April 2019	1,131.0	–	1,131.0	–
Charge for the year	26.8	1,209.3	26.8	1,209.3
Payments for the year	(172.4)	(78.3)	(172.4)	(78.3)
At 31 March	**985.4**	**1,131.0**	**985.4**	**1,131.0**

This relates to the payable amount for the overdraft facility (Fuliza) platform payable after 12 months.

28(b) Provisions for liabilities

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
At 1 April	3,893.6	4,027.6	3,893.6	4,027.6
Charge for the year	1,428.9	906.1	1,428.9	906.1
Payments and release for the year	(860.2)	(1,040.2)	(860.2)	(1,040.2)
At 31 March	**4,462.3**	**3,893.5**	**4,462.3**	**3,893.5**

The Group faces exposure to claims and other liabilities arising from the normal course of business. These claims and other liabilities normally take time to be determined and therefore significant judgement is required in assessing the likely outcome and the potential liability for such matters. Management in consultation with the legal, tax and other advisers estimates a provision based on exposure, precedents and industry best practice. Specific provisions are made for estimated claims and other liabilities to the extent that the Group considers it probable that there will be an outflow of economic benefits.

In the Directors' opinion after taking appropriate legal and management advice, the outcome of existing claims and obligations will not give rise to any significant loss beyond the recorded provisions at 31 March 2020. Due to the nature of these provisions, management is unable to estimate the timing of their settlement with certainty. The impact of discounting on the provision is not considered to be material.

The Group accounts for the costs associated with dismantling and removing network infrastructure assets and returning a network infrastructure site operated under a lease to its original condition upon termination of the network infrastructure site lease in accordance with IAS 16.

A restoration provision is recorded based on the best estimate of the average restoration costs (being the future costs relating to dismantling and removing property, plant and equipment and restoring each site) multiplied by the number of sites for which the Company has a restoration obligation. This is then discounted to the present value of the obligation.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

29(a) Contract assets

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Dealer connection commissions	2,695.0	2,250.0	2,695.0	2,250.0
SIM activation cost	750.5	699.8	750.5	699.8
Total contract assets	**3,445.5**	**2,949.8**	**3,445.6**	**2,949.8**
The movement of the contract assets is as below:				
Opening balance – 1 April	2,949.8	–	2,949.8	–
Opening adjustments on adoption of IFRS 15	–	2,802.6	–	2,802.6
Additions in the year	4,029.2	3,056.0	4,029.2	3,056.0
Amortised as costs in the year	(3,533.5)	(2,908.8)	(3,533.5)	(2,908.8)
Closing balance – 31 March	**3,445.5**	**2,949.8**	**3,445.5**	**2,949.8**
Current portion	2,563.8	1,985.3	2,563.8	1,985.3
Non–current portion	881.7	964.5	881.7	964.5
	3,445.5	**2,949.8**	**3,445.5**	**2,949.8**
(b) Contract liabilities				
Customer loyalty programmes	3,936.5	3,853.7	3,936.5	3,853.7
Deferred airtime revenue	2,477.4	2,388.2	2,477.4	2,388.2
Deferred connection revenue	877.3	1,378.0	877.3	1,378.0
Deferred NPS revenue	–	648.4		648.4
Deferred integrated products	1,565.2	764.4	1,565.2	764.4
Deferred fixed data	509.2	481.7	474.2	438.9
Deferred fibre & collocation revenue	438.9	421.5	438.9	421.5
Deferred bulk SMS	216.1	62.6	216.1	62.6
Deferred bundled handsets resources	28.5	12.9	28.5	12.9
Deferred ETU access fee	2.3	5.2	2.3	5.2
Deferred PRSP initial set up fee	2.3	2.5	2.3	2.5
Deferred Neo Voice, data	236.1	–	236.1	–
Deferred Karibu Postpay	48.0	–	48.0	–
Deferred Neo voice	56.5	–	56.5	–
Total contract liabilities	**10,394.3**	**10,019.1**	**10,359.3**	**9,976.3**
The movement of the contract liabilities is as below:				
Opening balance – 1 April	10,019.1	8,846.2	9,976.3	8,790.6
Opening adjustments on adoption of IFRS 15	–	790.2	–	790.2
Additions in the year	214,698.6	170,133.3	214,142.7	169,558.2
Recognised as revenue in the year	(214,323.4)	(169,750.6)	(213,759.7)	(169,162.7)
Closing balance – 31 March	**10,394.3**	**10,019.1**	**10,359.3**	**9,976.3**
Current portion	9,410.9	9,279.6	9,375.9	9,236.8
Non–current portion	983.4	739.5	983.4	739.5
	10,394.3	**10,019.1**	**10,359.3**	**9,976.3**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

30(a) Cash generated from operations

	Group		Company	
	2020 KShs'm	2019 KShs'm	2020 KShs'm	2019 KShs'm
Profit before income tax	105,773.0	91,217.8	105,253.9	90,469.0
Adjustments for:				
Interest income (Note 8)	(2,940.9)	(2,318.5)	(2,917.1)	(2,300.4)
Interest expense (Note 9)	348.8	148.1	347.6	148.1
Depreciation on property, plant and equipment (Note 18)	31,964.8	33,660.4	31,925.3	33,660.4
Amortisation of right-of-use (ROU) asset	2,922.8		2,922.8	
Amortisation of intangible assets (Note 21)	1,359.1	1,370.3	1,358.0	1,369.1
Share of profit from associate (Note 22 (b))	(60.9)	(5.2)	(60.9)	(5.2)
Amortisation of IRUs (Note 19)	301.0	301.0	301.0	301.0
Share of profit of Joint Venture (M-PESA Global Services Limited) (Note 23 (b))	(3,296.1)	–	(3,296.1)	–
Gain on disposal of property, plant and equipment (Note 5 (b))	(56.5)	(160.2)	(56.5)	(160.2)
Fair valuation of restricted cash (Note 8)	61.1	54.5	61.1	54.5
Fair value adjustment on construction contract receivable	(51.5)	(135.2)	(51.5)	(135.2)
Interest on ARO liability	57.6	51.0	57.6	51.0
Interest on lease liability	1,640.7	–	1,640.7	–
Change in operating assets and liabilities:				
– Movement in provision for other liabilities (Note 28(b))	511.2	(185.0)	511.2	(185.0)
– Movement in contract liabilities	375.2	382.2	383.0	395.0
– Movement in contract assets	(496.4)	(146.5)	(496.4)	(146.5)
– Prepaid lease rental	(838.9)	–	(838.9)	–
– Movement in receivables and prepayments	987.5	(2,134.0)	455.7	(2,071.9)
– Movement in inventories	(84.8)	(170.0)	(18.5)	(170.0)
– Movement in non-current prepaid operating lease rentals	56.8	(12.3)	56.8	(12.3)
– Movement in payables and accrued expenses	1,070.6	3,367.5	1,096.80	3,731.5
Cash generated from operations	139,604.2	125,285.9	138,635.6	124,992.9

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

30(b) Net cash/(debt) reconciliation

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Cash and cash equivalents (Note 26 (a))	26,759.7	20,030.1	25,859.7	19,828.4
Borrowings (Note 16)	(8,000.0)	(4,032.0)	(8,000.0)	(4,032.0)
Lease liabilities (Note 22)	(15,224.7)	–	(15,224.7)	–
Net cash	3,535.0	15,998.1	2,635.0	15,796.4
Cash and cash equivalents (Note 26 (a))	26,759.7	20,030.1	25,859.7	19,828.4
Gross debt – fixed interest rates	(23,224.7)	(4,032.0)	(23,224.7)	(4,032.0)
Net cash	3,535.0	15,998.1	2,635.0	15,796.4

30(c) Liabilities from financing activities

Group	Borrowings KShs'm	Lease liabilities KShs'm	Subtotal KShs'm	Cash and cash equivalents KShs'm	Total KShs'm
Net debt as at					
1 April 2019	(4,032.0)	–	(4,032.0)	20,030.1	15,998.1
Cash flows	(3,968.0)	3,742.8	(225.2)	6,729.6	6,504.4
Acquisitions	–	(17,326.8)	(17,326.8)	–	(17,326.8)
Other changes	–	(1,640.7)	(1,640.7)	–	(1,640.7)
31 March 2020	**(8,000.0)**	**(15,224.7)**	**(23,224.7)**	**26,759.7**	**3,535.0**
Net debt as at					
1 April 2018	(4,040.0)	–	(4,040.0)	9,497.0	5,457.0
Cash flows	8.0	–	8.0	10,533.0	10,541.0
Acquisitions	–	–	–	–	–
31 March 2019	(4,032.0)	–	(4,032.0)	20,030.0	15,998.0
Company					
Net debt as at					
1 April 2019	(4,032.0)	–	(4,032.0)	19,828.0	15,796.0
Cash flows	(3,968.0)	3,742.8	(225.2)	6,031.7	5,806.5
Acquisitions	–	(17,326.8)	(17,326.8)	–	(17,326.8)
Other changes	–	(1,640.7)	(1,640.7)	–	(1,640.7)
31 March 2020	**(8,000.0)**	**(15,224.7)**	**(23,224.7)**	**25,859.7**	**2,635.0**
1 April 2018	(4,040.0)	–	(4,040.0)	9,043.0	5,003.0
Cash flows	8.0	–	8.0	10,785.0	10,793.0
31 March 2019	(4,032.0)	–	(4,032.0)	19,828.0	15,796.0

Notes Continued

31 Related party transactions

Vodafone Kenya Limited, incorporated in Kenya, whose ultimate parent is Vodafone Group PLC, incorporated in the United Kingdom (UK), is the largest single shareholder of the Company. There are other companies in the Vodafone Group that are related to the Company through common shareholdings or common directorships.

The following are the significant arrangements that exist and form the basis of various transactions within the Group:

(a) The Company has roaming agreements with Vodafone affiliated companies in many countries around the world, including the UK.

(b) The Company operates the M-PESA business on a licence basis. M-PESA is an innovative mobile payment solution that enables users to complete money transfer transactions and pay for goods and services by use of mobile phone for which the Company earns a commission which is based on the amounts transacted. The Company also uses the M-PESA platform to sell airtime to M-PESA account holders as well as run the M-Shwari and KCB M-PESA products as detailed out in Note 2(d).

Vodafone Sales and Services Limited (VSSL), which previously held the M-PESA solution, had entered into a managed services agreement with the Company under which VSSL had agreed to provide the M-PESA solution to the Company against which a licence fee was charged quarterly. The licence fee was based on 2% of the M-PESA transaction revenue effective 1 April 2017. This solution has now been transferred to M-PESA Global Services Limited.

M-PESA Holding Co. Limited acts as the trustee for M-PESA customers and holds all funds from the M-PESA business in trust to ensure that those funds are safeguarded at all times.

(c) The Company has signed an agreement with Vodafone Sales and Services Limited, a company incorporated in England. The agreement is effective from 1 April, 2011 renewable annually. Under the agreement, Safaricom PLC will have access to Vodafone's global price book and supply chain resources for purposes of procurement, terminals management, Vodafone technical expertise, best practice systems and processes, Vodafone knowledge bank, benchmarking reports, Vodafone Global Enterprise customers to increase revenues, Vodafone business assurance and the business and consumer products and marketing support.

The participation fee is fixed at an annual amount equal to six million, nine hundred thousand Euros (EUR 6,900,000) and a variable element of 6.85% of value of purchases made.

(d) The Company has employees who are seconded from Vodafone affiliate companies. The payroll cost for the secondees is managed by Vodafone Group Services Limited and recharged (invoiced) to the Company for payment on a monthly basis.

(e) The Company seconds its staff to other Vodafone affiliate companies. The payroll cost for these secondees is managed by Vodafone Group Enterprises (VGE) and recharged (invoiced) by the Company for payment on a monthly basis.

The following relationships exist within Safaricom PLC:

Related parties	Held by	Percentage of interest held as at 31 March 2020	2019
Subsidiaries			
One Communications Limited	Safaricom PLC	100%	100%
Instaconnect Limited	Safaricom PLC	100%	100%
Packet Stream Data Networks Limited	Safaricom PLC	100%	100%
Safaricom Money Transfer Services Limited	Safaricom PLC	100%	100%
East Africa Tower Company Limited	Safaricom PLC	100%	100%
IGO Wireless Limited	Safaricom PLC	100%	100%
Safaricom Foundation*	Safaricom PLC	–	–
Flexible Bandwidth Services Limited	One Communications Limited	100%	100%
Comtec Training and Management Services Limited	One Communications Limited	100%	100%
Comtec Integration Systems Limited	One Communications Limited	100%	100%
DigiFarm Kenya Limited	Safaricom PLC	100%	–
Associates			
The East African Marines Systems Limited (TEAMS)	Safaricom PLC	32.5%	32.5%
Circle Gas Limited	Safaricom PLC	18.96%	–
Joint Venture			
M-PESA Global Services Limited	Safaricom PLC	50%	–

* Safaricom Foundation was established by Safaricom PLC as a public charitable trust by a Declaration of trust dated 14 August 2003 and is domiciled in Kenya.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

31 Related party transactions continued

The following transactions were carried out with related parties:

(i) Sale of goods and services

	Group		Company	
	2020 KShs'm	2019 KShs'm	2020 KShs'm	2019 KShs'm
Vodafone Roaming Services S.à r.l	115.6	73.0	115.6	73.0
Vodacom Tanzania Public Limited Company	57.1	65.0	57.1	65.0
M-PESA Holding Co. Limited	78,795.2	72,717.7	77,493.0	72,083.0
Vodacom South Africa Limited	591.6	209.6	591.6	209.6
Vodafone UK	220.9	214.6	220.9	214.6
Vodafone Group Enterprises	158.5	171.4	158.5	171.4
Vodacom Business (Kenya) Limited	6.7	7.4	6.7	7.4
Vodafone Egypt Telecom. S.A.E.	9.3	4.4	9.3	4.4
Vodafone Network PTY Limited	1.0	0.9	1.0	0.9
Vodafone Sverige AB	0.9	0.9	0.9	0.9
Vodafone Qatar Q.S.C.	1.1	0.7	1.1	0.7
Safaricom Money Transfer Services Limited	–	–	330.0	251.3
Instaconnect	–	–	27.0	61.6
One Communications Limited	–	–	533.0	448.7
	79,957.9	73,465.6	79,545.7	73,592.5

(ii) Purchase of goods and services

	Group		Company	
	2020 KShs'm	2019 KShs'm	2020 KShs'm	2019 KShs'm
Vodafone Sales and Services Limited	3,172.1	3,856.5	3,172.1	3,856.5
Vodafone Group Services Limited	478.2	695.6	478.2	695.6
Vodafone Roaming Services S.à r.l	96.9	104.2	96.9	104.2
Vodafone UK	41.1	19.1	41.1	19.1
Vodacom South Africa Limited	26.6	36.1	26.6	36.1
Vodacom Tanzania Public Limited Company	271.8	316.8	271.8	316.8
Vodafone Sverige AB	0.9	–	0.9	–
Vodafone Egypt Telecom. S.A.E.	9.6	5.7	9.6	5.7
Vodafone Network PTY Limited	1.2	2.5	1.2	2.5
Vodafone Qatar Q.S.C.	5.7	5.7	5.7	5.7
Vodacom Business (Kenya) Limited	35.9		35.9	–
Vodafone India Limited	5.1	–	5.1	–
One Communications Limited	–	–	401.7	683.7
	4,145.1	5,042.2	4,546.8	5,725.9

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

iii) Directors' remuneration

	Group and Company	
	2020 KShs'm	2019 KShs'm
Fees for services as Director	34.5	34.6
Salaries	169.3	151.6
Bonuses	43.5	47.3
Value for non–cash benefits	44.5	65.3
Employee Performance Share Award Plan	32.9	40.6
	324.7	339.5

iv) Key management compensation

	2020 KShs'm	2019 KShs'm
Salaries and other short–term employment benefits	852.3	951.1
Employee Performance Share Award Plan	134.4	142.3
Pension contribution	20.2	18.9
Termination benefits	–	47.4
	1,006.9	1,159.7

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of the entity.

v) Loans from shareholders

There no loans from shareholders outstanding at 31 March 2020 (2019: Nil).

vi) Loans to Directors of the Company

There are no loans to Directors of the Company at 31 March 2020 (2019: Nil).

vii) Donations to Safaricom Foundation

Donations made during the year amounted to KShs 510 million (2019: KShs 466 million).

viii) Outstanding receivable balances arising from sale of goods/services

	Group		Company	
	2020 KShs'm	2019 KShs'm	2020 KShs'm	2019 KShs'm
Vodafone Roaming Services S.à r.l	13.0	7.0	13.0	7.0
Vodafone Group Enterprises	51.9	18.2	51.9	18.2
M-PESA Holding Co. Limited	1,184.1	1,975.6	595.2	1,473.4
Vodacom Tanzania Public Limited Company	4.3	4.9	4.3	4.9
Vodacom South Africa Limited	193.1	46.8	193.1	46.8
Vodafone UK	56.4	62.6	56.4	62.6
Vodacom Business (Kenya) Limited	2.8	–	2.8	–
Vodafone Egypt Telecom. S.A.E.	5.4	0.9	5.4	0.9
Vodafone Sverige Ab	–	–	0.3	0.3
One Communications Limited	–	–	31.9	79.3
East African Towers Company Limited	–	–	16.0	16.0
Instaconnect Limited	–	–	88.4	61.6
Safaricom Money Transfer Services Limited	–	–	44.1	32.1
DigiFarm Kenya Limited	–	–	718.6	–
	1,511.0	2,116.0	1,821.4	1,803.1

The receivables arise mainly from trading, are unsecured and bear no interest. A provision of KShs 11.7 million (2019: KShs 11 million) (Note 25) is held against receivables from related parties.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

Notes Continued

31 Related party transactions continued

ix) Outstanding payable balances arising from purchases of goods/services

	Group		Company	
	2020 KShs'm	2019 KShs'm	**2020 KShs'm**	2019 KShs'm
Vodafone Sales and Services Limited	557.8	823.1	557.8	823.1
Vodafone Group Services Limited	319.6	332.0	319.6	332.0
Vodafone Roaming Services S.à r.l	4.2	6.5	4.2	6.5
Vodacom Tanzania Public Limited Company	42.6	26.9	42.6	26.9
Vodacom South Africa Limited	2.1	0.3	2.1	0.3
Vodafone UK	2.9	2.8	2.9	2.8
Vodafone Network PTY Limited	0.4	0.9	0.4	0.9
Vodafone Sverige AB	0.3	1.2	0.3	1.2
Vodafone D2 GMBH	0.9	1.2	0.9	1.2
Vodafone Qatar Q.S.C.	9.4	3.4	9.4	3.4
Vodafone Egypt Telecom. S.A.E.	0.3	–	0.3	–
Vodacom Business (Kenya) Limited	6.8	–	6.8	–
MTC Vodafone Bahrain	1.4	–	1.4	–
Vodafone India Limited	1.1	–	1.1	–
One Communications Limited	–	–	281.5	237.5
Safaricom Money Transfer Services Limited	–	–	23.0	32.0
	949.8	1,198.3	**1,254.3**	1,467.8

32 Contingent liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. At 31 March 2020, a guarantee of KShs 25 million (2019: KShs 20 million) had been given to Citibank NA against credit cards for the use by senior staff during travel.

The Company has outstanding matters with Kenya Revenue Authority (KRA) and various ongoing legal cases from trade and contractual disputes arising from normal course of business.

The Directors have assessed the status of the contingent liabilities and as a result do not anticipate any additional material liabilities that may have a significant impact on these financial statements.

33 Commitments

Capital commitments

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

	Group and Company	
	2020 KShs'm	2019 KShs'm
Property, plant and equipment	11,536.2	8,974
Operating lease commitments		
Not later than 1 year	–	2,099
Between 1 year and 5 years	–	7,701
Later than 5 years	–	4,475
	–	**14,275**

Operating lease commitments relate to contracted leases for facilities and site rentals at the statement of financial position date. After adoption of IFRS 16, these have now been treated as lease liabilities and ROU assets as per the new accounting guidelines.

34 COVID-19 Assessment

The Group is continuously tracking the developing issues around COVID-19 and has put in place measures to mitigate the impact of the outbreak to customers, employees, salesforce and other stakeholders.

Based on the cash flows projections prepared by management under the different scenarios, there is no significant deterioration in the free cash flows under each scenario. Management does not expect any asset impairment resulting from the pandemic.

Based on the assessments made, the Directors are not aware of any material uncertainties related to these events or conditions that may cast doubt upon the Company's and the Group's ability to continue as going concerns. Further, the Directors consider the carrying value of the assets held at 31 March 2020 to be fairly stated.

APPENDICES TO THE FINANCIAL STATEMENTS

Appendix 1 – Principal shareholders

The 10 largest shareholders in the Company (ordinary shares only) and the respective number of shares held as at 31 March 2020 were as follows:

Name of shareholder

	Number of shares
1 VODAFONE KENYA LIMITED	16,000,000,000
2 CABINET SECRETARY TO THE TREASURY	14,022,572,580
3 STANDARD CHARTERED NOMINEES NON–RESD. A/C 9069	594,053,047
4 KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 1019D	321,646,300
5 STANDARD CHARTERED KENYA NOMINEES LTD,A/C KE19796	283,706,900
6 STANBIC NOMINEES LTD A/C NR1030824	178,819,400
7 STANDARD CHARTERED NOMINEES RESD A/C KE11401	150,112,517
8 STANDARD CHARTERED KENYA NOMINEES LTD,A/C KE20435	144,506,800
9 STANDARD CHARTERED NOMINEES RESD A/C KE11443	138,174,907
10 KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B KENYA	135,493,086
11 OTHERS	8,096,342,463
Total	40,065,428,000

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
1 to 1000	360,934	215,367,874	0.54%
1001 – 10,000	168,137	478,218,513	1.19%
10,001 – 100,000	18,670	469,337,547	1.17%
100,001 – 1,000,000	1,713	479,141,975	1.20%
1,000,001 – 10,000,000	528	1,861,351,440	4.65%
10,000,001 – 100,000,000	175	4,271,937,209	10.66%
100,000,001 – 1,000,000,000	11	2,267,500,862	5.66%
1,000,000,001 – 100,000,000,000	2	30,022,572,580	74.93%
Total	550,170	40,065,428,000	100.00%

APPENDICES TO THE FINANCIAL STATEMENTS

Appendix 2 – Statement of profit or loss and other comprehensive income based on IAS 17

	Group		Company	
	2020 IFRS 16 KShs'm	2020 IAS KShs'm	2020 IFRS 16 KShs'm	2020 IAS KShs'm
Service revenue	260,463.8	260,463.8	259,078.7	259,078.7
Handset and other revenues	2,091.9	2,091.9	2,326.8	2,326.8
Construction revenue				
Total revenue	**262,555.7**	**262,555.7**	**261,405.5**	**261,405.5**
Direct costs	(75,284.9)	(75,284.9)	(75,468.7)	(75,468.7)
Provision for expected credit loss (ECL) on receivables	(1,669.6)	(1,669.6)	(1,418.7)	(1,418.7)
Other expenses	(47,559.7)	(50,968.4)	(47,023.1)	(50,431.9)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	138,041.5	134,632.8	137,495.0	134,086.2
Depreciation of property, plant and equipment	(31,964.8)	(31,964.8)	(31,925.3)	(31,925.3)
Amortisation – Indefeasible Rights of Use (IRUs)	(301.0)	(301.0)	(301.0)	(301.0)
Amortisation – intangible assets	(1,359.1)	(1,359.1)	(1,358.0)	(1,358.0)
Amortisation – Right of Use (ROU) assets	(2,922.8)	–	(2,922.8)	–
Operating profit	**101,493.8**	**101,007.9**	**100,987.9**	**100,501.9**
Finance income	3,518.8	3,518.8	3,494.5	3,494.5
Finance cost	(2,596.6)	(956.0)	(2,585.5)	(944.8)
Share of profit of associate	60.9	60.9	60.9	60.9
Share of profit of Joint Venture (M-PESA Global Services Limited)	3,296.1	3,296.1	3,296.1	3,296.1
Profit before income tax	**105,773.0**	**106,927.7**	**105,253.9**	**106,408.6**
Income tax expense	(32,115.1)	(32,229.3)	(31,969.7)	(32,083.9)
Profit and total comprehensive income for the year attributable to the owners of the Company	**73,657.9**	**74,698.4**	**73,284.2**	**74,324.7**
Earnings per share before share of profit from joint venture	1.76	1.56	1.75	1.55
Basic and diluted (KShs per share)	1.84	1.86	1.83	1.86

APPENDICES TO THE ANNUAL REPORT

The journey of transforming lives

1999

Safaricom was licensed (Officially launched in October 2000)

2000

Vodafone PLC (UK) bought 40% of Telkom Kenya

2001

Entry of Kencell into the Kenyan market

2002

Safaricom had 26k subscribers

- KShs 9 billion revenue
- Converted into a public company with 60% owned by GoK
- KShs 100 scratch card was introduced

2003

54.0% Market Share

Drive into mass market:

- Launch of Simu ya Jamii (Swahili for communal phone). Users were able to make affordable calls at regulated rates charged per unit second
- Launch of per second billing – counter competition per minute billing rates charged per unit second

2004

59.2% Market Share

- Subscriber numbers hit 2 million
- Telkom exclusivity with Safaricom ends. Kencell sold to Vivendi then Celtel
- Mobile internet launched

2005

54.5% Market Share

- Launch of Sambaza (allows subscribers to share credit)
- Launch of "Please Call Me", Safaricom's flash back service

2006

54.5% Market Share

2007

65.4% Market Share

- 6 million subscribers
- Launch of M-PESA on 1 March 2007
- First to market with 3G

2008

59.2% Market Share

- Safaricom IPO government sold 25% and diluted to 35% ownership
- 10 million subscribers
- KShs 61 billion revenue
- Celtel branded to Zain. Telkom partners with Orange. Entry of Essar Telecoms YU
- IMT pilot partnership with Vodafone and Western Union

2009

79.1% Market Share

- M-PESA Interoperability with banks, WiMAX
- Off island fibre, investment in SEACOM and TEAMS

2010

78.3% Market Share

- Bob Collymore is appointed CEO
- Airtel buys Celtel branded as Zain
- The Commission assigned additional frequency spectrum resources to Zain to enable it offer 3G services.
- Regulator implements MTR reduction to KShs 99 which sparks price war

2011

67.0% Market Share

- 17 million subscribers
- Mobile number portability
- Price war in the market

2012

65.3% Market Share

- Safaricom partners with CBA to launch a savings and loan product called M-Shwari
- KShs 107 billion revenue

2013

54.5%

65.1% Market Share

- Launch of Lipa Na M-PESA
- Safaricom is the first company to launch a Sustainability Report

2014

66.7% Market Share

- 21 million subscribers
- Launch of 4G network
- Launch of National Security Surveillance
- Launch of Spark Venture Fund – Fund started to help tech startups grow their businesses

2015

67.1% Market Share

- Regional structure – Inspired by Safaricom's desire to put the Customer First and provide Operational Excellence in line with our strategic pillars
- Safaricom relocates M-PESA servers from Germany to Kenya
- Launch of KCB M-PESA and True Value Report (Safaricom contribution to Kenyan economy is 6% of GDP)
- Orange and Airtel receive approval to test 4G
- Safaricom partners with GoK to launch eCitizen (online payment for GoK)

2016

65.6% Market Share

- Launch of SDGs – First company in Kenya to link its growth strategy to the UN's 17 Sustainable Development Goals (SDGs)

2017

71.9% Market Share

- 28 million subscribers
- KShs 224 billion revenue
- Rebrand to Twaweza "When we come together, great things happen"
- Launch of Home Solutions and E-commerce

2018

67.0% Market Share

- 29million subscribers
- Launch of e-commerce
- Launch of DigiFarm
- Launch of M-PESA Global

2019

62.4% Market Share

- 31.8million subscribers
- Launch of Nawe Kila Wakati (NKW) Always With You campaign
- Launch of Fuliza

2020

64.8% Market Share

- Launch of 'For You' customer promise
- Acquisition of M-PESA brand via joint venture with Vodacom
- Partnership with Visa

Simple • Transparent • Honest

FOR YOU.

OVERVIEW
OUR BUSINESS
OUR PERFORMANCE
OUR GOVERNANCE
OUR FINANCIALS
OTHER INFORMATION

APPENDICES TO THE ANNUAL REPORT

Definition of terms

Unaudited information

Name	Definition
2G	2G networks are operated using the Global System for Mobile (GSM) technology which offers services such as voice, text messaging and low speed data. In addition, all the Group's controlled networks support General Packet Radio Services (GPRS), often referred to as 2.5G. GPRS allows mobile devices to access IP based data services such as the internet and email.
3G	A cellular technology based on wide band code division multiple access delivering voice and faster data services.
4G/LTE	4G or Long-Term Evolution ('LTE') technology offers even faster data transfer speeds than 3G/HSPA.
5G	5G is the fifth-generation wireless broadband technology which provides better speeds and coverage than the current 4G.
Adjusted EBIT	Operating profit excluding share of results in associates and joint ventures, impairment losses, amortisation of customer bases and brand intangible assets, restructuring costs arising from discrete restructuring plans and other income and expense. The Group's definition of adjusted EBIT may not be comparable with similarly titled measures and disclosures by other companies.
Adjusted EBITDA	Operating profit excluding share of results in associates and joint ventures, depreciation and amortisation, gains/losses on the disposal of fixed assets, impairment losses, restructuring costs arising from discrete restructuring plans and other income and expense. The Group's definition of adjusted EBITDA may not be comparable with similarly titled measures and disclosures by other companies.
AGM	Annual General Meeting.
ARPU	Average Revenue per user, defined as customer revenue and incoming revenue divided by average customers.
Capital additions ('capex')	Comprises the purchase of property, plant and equipment and intangible assets, other than licence and spectrum payments, during the year.
Churn	Total gross customer disconnections in the period divided by the average total customers in the period.
Customer costs	Customer costs include acquisition costs, retention costs and expenses related to ongoing commissions.
Customer Value Management ('CVM')	The delivery of perceived value to identifiable customer segments that results in a profitable return for the Company.
Depreciation and other amortisation	The accounting charge that allocates the cost of a tangible or intangible asset to the income statement over its useful life. This measure includes the profit or loss on disposal of property, plant, equipment and computer software.
Direct costs	Direct costs include interconnect costs and other direct costs of providing services.
Fixed service revenue	Service revenue relating to provision of fixed line ('fixed') and carrier services.
FTTH	Fibre to the Home provides an end-to-end fibre optic connection, the full distance from the exchange to the customer's premises.
Free cash flow ('FCF')	Operating free cash flow after cash flows in relation to taxation, interest and dividends received from associates and investments and dividends paid to non-controlling shareholders in subsidiaries, but before restructuring costs arising from discrete restructuring plans and licence and spectrum payments.

Unaudited information

Name	Definition
IFRS	International Financial Reporting Standards.
IFRS 15	International Financial Reporting Standard 15 "Revenue from Contracts with Customers". The new accounting standard adopted by the Group on 1 April 2018 and applied to the Group's statutory results for the year ended 31 March 2019.
Internet of Things ('IoT')	The network of physical objects embedded with electronics, software, sensors and network connectivity, including built-in mobile SIM cards, that enables these objects to collect data and exchange communications with one another or a database.
IP	Internet Protocol is the format in which data is sent from one computer to another on the internet.
IP-VPN	A Virtual Private Network ('VPN') is a network that uses a shared telecommunications infrastructure, such as the internet, to provide remote offices or individual users with secure access to their organisation's network.
Mobile broadband	Mobile broadband allows internet access through a browser or a native application using any portable or mobile device such as smartphone, tablet or laptop connected to a cellular network.
Mobile customer	A mobile customer is defined as a Subscriber Identity Module ('SIM'), or in territories where SIMs do not exist, a unique mobile telephone number, which has access to the network for any purpose, including data only usage.
Mobile customer revenue	Represents revenue from mobile customers from bundles that include a specified number of minutes, messages or megabytes of data that can be used for no additional charge (in-bundle) and revenues from minutes,messages or megabytes of data which are in excess of the amount included in customer bundles (out-of-bundle). Mobile in-bundle and out-of-bundle revenues, previously disclosed separately, are now combined to simplify the presentation of the Group's results.
Mobile service revenue	Service revenue relating to the provision of mobile services.
Net Promoter Score ('NPS')	Net Promoter Score is a customer loyalty metric used to monitor customer satisfaction.
Operating expenses	Operating expenses comprise primarily sales and distribution costs, network and IT related expenditure and business support costs.
Operating free cash flow	Cash generated from operations after cash payments for capital additions (excludes capital licence and spectrum payments) and cash receipts from the disposal of intangible assets and property, plant and equipment, but before restructuring costs arising from discrete restructuring plans.
Penetration	Number of SIMs in a country as a percentage of the country's population. Penetration can be in excess of 100% due to customers owning more than one SIM.

APPENDICES TO THE ANNUAL REPORT

Board member profiles

Executive Directors

Name	Skills and experience
Michael Joseph (74) Director (Outgoing Chief Executive Officer)	Michael Joseph is the former Chief Executive Officer of Safaricom PLC, a position held from 2 July 2019 to 31 March 2020. He joined the Board on 8 September 2008. Michael is employed by Vodafone Group Services Limited as the Director of Mobile Money. He is also Vodafone's Strategic Advisor appointed to the Boards of Vodacom Group South Africa, Vodacom Tanzania and Vodacom Mozambique. He is also the Chairman of Kenya Airways. Previously, Michael was the Chief Executive Officer of Safaricom Limited from July 2000 when the company was re-launched as a joint-venture between Vodafone UK and Telkom Kenya until his retirement in November 2010. During his tenure, he steered the Company from a subscriber base of less than 20,000 to over 16.71 million subscribers. This phenomenal growth straddling nearly a decade was motored by the launch of many innovative products and services such as M-PESA. Today, Safaricom is one of the leading companies in East Africa and one of the most profitable companies in the region. He has extensive international experience in company start-ups, the implementation and operation of large wireless and wire-line networks, including operations in Hungary, Spain, Brazil, Peru, Argentina, Korea, the USA, Australia and the Middle East. Michael is a U.S. citizen and has a B.Sc. (cum laude) in Electrical Engineering from the University of Cape Town and is a member of the I.E.E.E. and I.E.E. (U.K.). Michael, has an Honorary Doctorate degree (Doctor of Letters) from Africa Nazarene University, bestowed to him in recognition of his contribution to the growth of Safaricom from very humble beginnings to becoming one of the most innovative, influential and profitable companies in the East African region.
Sateesh Kamath (47) Chief Financial Officer & Executive Director (Outgoing)	Sateesh Kamath is responsible for leading Finance operations and is in charge of Financial Planning & Analysis, Investor Relations, Internal Audit and Financial Reporting. He joined Safaricom PLC on 1 August 2016 from Vodacom Tanzania Ltd., where he was the Chief Financial Officer and Executive Director on the board. Prior to joining Safaricom, Sateesh held senior roles over the last 12 years at both a global and local level for Vodafone operations in London, Australia, New Zealand, Turkey and Fiji. He also continues to be a Non-Executive Director in other group companies and investments. Sateesh has over 20 years' experience in both mature and emerging markets across Asia, Europe and Africa, where he has built a strong background in strategic performance management and streamlining robust operations across the telecoms, FMCG and manufacturing sectors. He holds a Bachelor of Commerce Degree from Mahatma Gandhi University (First Class) and is also a Qualified Accountant from the Institute of Cost and Works Accountants of India.

Non-Executive Directors

Name	Skills and experience
Esther Koimett (64) Alternate to Henry Rotich representing the Government of Kenya	Esther Koimett joined the Board of Safaricom in May 2005. She previously served on the Board between April 2001 and September 2002. She holds a Bachelor of Commerce and MBA Degrees from the University of Nairobi and is currently the Principal Secretary, State Department of Transport, Ministry of Transport, Infrastructure, Urban Development and Public Works. Esther has also served as the Permanent Secretary in the Ministry of Tourism, Investment Secretary in the Treasury and Information Department and Managing Director, Kenya Post Office Savings Bank.
Kathryne Maundu (41) Company Secretary	Kathryne Maundu has 16 years of consulting experience guiding local and multinational companies and their boards in discharging their statutory and corporate governance mandates. She is currently working as a senior executive in the Corporate Services Practice of the law firm Bowmans Coulson Harney LLP, where she provides outsourced Company Secretarial and Governance Services. Kathryne has worked in the East African countries of Kenya, Uganda and Tanzania and is well versed with the applicable corporate laws and other statutory regulations in these jurisdictions. Kathryne holds a Bachelor of Laws Degree from the University of Nairobi, a Post Graduate Diploma in Law from the Kenya School of Law and a Post Graduate Certificate in International Business Law from the University of London. She is an Advocate of the High Court of Kenya, a member of the Law Society of Kenya, a registered Certified Public Secretary and an Accredited Governance Auditor with the Institute of Certified Public Secretaries of Kenya. She is currently pursuing her LL.M (Masters in Law) in Corporate and Commercial Law with the University of London, Queen Mary College.
Nicholas Nganga (82) Chairman and Non-Executive Director	Mr. Nganga joined the Board of Safaricom on 6 May 2004 and was elected Chairman on 16 January 2007. He is a holder of a BA Degree from Makerere University. Mr. Nganga has served on different occasions as the Permanent Secretary in the Ministry of Finance, Ministry of Foreign Affairs and the Ministry of Health. He has been extensively involved in the tea industry and was Chairman of the Tea Board of Kenya. He is a past Chairman of the National Bank of Kenya and is the current Chairman of G4S Security and Car & General Kenya Limited. He is also a member of the Board of Kakuzi PLC.
Vivek Badrinath (51) Non-Executive Director (Alternate to Francesco Bianco)	Vivek Badrinath joined Vodafone and the Executive Committee as CEO of AMAP in October 2016. He is responsible for Vodafone's operations in the Vodacom Group, India, Australia, Egypt, Ghana, Kenya and New Zealand. Previously, he was the Deputy Chief Executive at the international hospitality group AccorHotels where he was responsible for Marketing, Digital Solutions, Distribution and Information Systems. Also, he was previously Deputy Chief Executive with Orange and had a long career in telecommunications and technology. Prior roles include Executive Director responsible for Orange's Business Services division, leadership of Orange's global networks and operator's division and Chief Technology Officer for Orange's mobile activities. Vivek was appointed to the Vodacom Group Board in December 2016. He is a member of the Board of GSMA and Chairman of the GSMA Policy Group. He is also a Non-Executive Director of Atos.

APPENDICES TO THE ANNUAL REPORT

Board member profiles Continued

Non-Executive Directors

Name	Skills and experience
Mohamed Shameel Aziz Joosub (49) Non–Executive Director	Mohamed Shameel Aziz Joosub is the CEO of the Vodacom Group since September 2012. He is a former CEO of Vodafone Spain. He was previously the Managing Director of Vodacom South Africa from March 2005 to March 2011 prior to taking up the position as CEO of Vodafone Spain. Prior to that, he was the Managing Director of Vodacom Service Provider Company from September 2000 to February 2005 and Managing Director of Vodacom Equipment Company from 1998. Shameel served on the Vodacom Group Board from 2000 until March 2011, when he was seconded to Spain. He was reappointed to the Vodacom Group Board in September 2012 after his return from Spain.
Linda Watiri Muriuki (56) Non–Executive Director	Linda Watiri Muriuki serves as the Senior Partner at LJA Associates. She is a practising Advocate of the High Court of Kenya with over 28 years' experience and ranked by Chambers and Partners in 2015 and 2016. She has previously served as a Non-Executive Director of Old Mutual Life Assurance Company Limited and the Capital Markets Authority. She currently serves as a Non-Executive Director of East Africa Reinsurance Company Limited. Linda holds a BA Economics Degree from York University, Canada, an LLB (Honors) from the University of Leeds, United Kingdom and a Master's Degree as a Graduate of the Global Executive Masters of Business Administration from United States International University in collaboration with Columbia University New York, USA. Linda is a Commissioner for Oaths, Notary Public, Certified Public Secretary (Kenya) and a member of the Institute of Directors (K) and the Law Society of Kenya.
Till Streichert (46) Non-Executive Director	Till Streichert was appointed as the Chief Financial Officer and Executive Director of Vodacom Group in August 2015 after working as the Finance Director at Vodacom South Africa from February 2014. Till was also appointed as Non-Executive Director of Vodacom Tanzania, Non-Executive Director of Vodafone Kenya and as a Non-Executive Director of Safaricom respectively in August 2017. He has more than 15 years' experience supporting financial and operational transformations through expertise in financial strategy, business leadership, revenue and profit growth in international environments. Till has had a broad and successful career within large international corporations including various finance and commercial roles, including CFO and Head of Channel Marketing and Sales Operations at Vodafone Romania. He began his career at T-Mobile Germany before undertaking various roles at T-Mobile UK as well as serving as a Strategy Consultant at the Boston Consulting Group.
Francesco Bianco (48) Non–Executive Director	Francesco Bianco is the Global Talent, Capabilities and Organisational Development Director at Vodafone and an alternate Non-Executive Director in the Vodacom Group Board. Francesco has had a vast career in HR, spanning over 15 years. He originally joined Vodafone Italy in 2000 and has extended his career portfolio internationally in other Human Resources Director roles. Francesco holds a Bachelors' Degree in Law from Padova University and a Business Strategy Executive Program with Maastricht University. Francesco was appointed to the Vodacom Group Board as an alternate director to Mr Michael Joseph in January 2019 and also appointed as an alternate director to Ms Leanne Wood in July 2019.

Independent Non-Executive Directors

Name	Skills and experience
Prof. Bitange Ndemo (61) Independent Non-Executive Director	Prof. Bitange Ndemo is a notable ICT industry expert who currently lectures on entrepreneurship and research methods at the University of Nairobi's Business School. Most of his research centres on the link between ICT and small and medium enterprises in Kenya. He is also a former Permanent Secretary, Ministry of ICT, Government of Kenya. He is a Professor at the University of Nairobi, a senior advisor with UNCDF and is the current Chairman of the Task Force on Blockchain and Artificial Intelligence.
Rose Ogega (60) Independent Non-Executive Director	Ms. Rose Ogega has extensive experience spanning over 30 years advising and managing both large, complex organisations and emerging startup ventures and 17 years of board experience. In recognition of her contribution to the economic development of the country, she was awarded the Moran of the Burning Spear (MBS) in 2005. Ms. Ogega is the Managing Director of Bloom Consultancy Limited. She is currently a member of the Aspen Global Leadership Network, the Institute of Directors of Kenya, the African Leadership Initiative and a fellow of the Institute of Certified Public Accountants of Kenya. She is a Certified Hogan Lead Assessor, an Executive Coach and a Member of the Academy of Executive Coaches.

* The Company has two Independent Directors who duly represent the interests of the minority shareholders who hold 25% of the Company's shareholding.

APPENDICES TO THE ANNUAL REPORT

Senior management profiles

Name	Skills and experience
Joseph Ogutu Chief Special Projects Officer	Joseph Ogutu, is the Chief Special Projects Officer, Chairman of Safaricom Foundation as well as Chair of the Safaricom Staff Pension Scheme. He joined Safaricom in May 2005 as Chief Corporate Affairs Officer from Telkom Kenya, and later in 2008 was appointed to serve as Chief Human Resource Officer before taking on the role of Director, Resources Division following the company reorganisation in March 2011. In October 2012, he was appointed as the Director, Strategy & Innovation Division, where he worked closely with the CEO in formulating strategic direction for the business focusing on developing Safaricom' s position as an industry leader in driving innovation in products & services. In his current role as Chief/Special Projects, he is coordinating company efforts to bid for the second telecommunications license in Ethiopia. His experience in the communications industry spans more than 35years of which the last 20 have been at Executive Committee level. At Telkom he was the Principal Assistant to the Managing Director and Chief Strategy and Regulatory Officer. He was involved in the reform of the sector including the drafting of the Postal and Telecommunication Policy Paper that saw the restructuring of the defunct Kenya Posts and Telecommunications Corporation and subsequent establishment of the Communications Authority (CA), Telkom Kenya and Postal Corporation of Kenya. Joseph is passionate about working with communities and travels regularly around the 47 counties of the country to launch projects funded by the Foundation.
Stephen Chege Chief Corporate Affairs Officer	Stephen Chege is the Chief Corporate Affairs Officer at Safaricom, the leading communications company in Kenya and pioneer of M-PESA, the world's most widely used mobile payments system. With a deep background in regulatory and legal affairs, Stephen is responsible for the Corporate Affairs Division, which provides strategic support functions to Safaricom's operations. These functions include the Regulatory and Public Policy, Legal and Secretarial Services; Sustainable Business & Social Impact (incorporating the Safaricom and M-PESA Foundations as well as Sustainability Reporting); Corporate Communications and International Roaming functions. He has over 16 years' experience in the telecommunications industry with focus on public policy, regulatory, and industry legislation from various organisations, including Vodafone Group UK. He first joined Safaricom in 2006 as In-House Counsel, rising over the years to hold the position of Senior Manager, Public Policy & Market Regulation until 2011 when he was appointed Head of Regulatory and Public Policy. In April 2015, he became the Director, Corporate Affairs, a position which has since been renamed Chief Corporate Affairs Officer. An advocate of the High Court of Kenya, Stephen holds a Masters in Law (LL.M) in International Trade and Investment Law from the University of Nairobi and a Bachelor of Laws Degree (LL.B) from the same university. He is a Certified Public Secretary and a Trustee of the Safaricom Foundation.

Name	Skills and experience
Paul Kasimu Chief Human Resources Officer	Paul Kasimu is responsible for talent and organisational effectiveness. He is in charge of Talent Acquisition & Capability, Corporate Centres, Essential Services & Facilities, Health, Safety & Wellness and responsible for driving the corporate culture. Paul joined Safaricom in July 2017 from East African Breweries where he was the Group HR Director since May 2011. Paul is an Accredited Executive Coach and HR professional with distinct expertise in business partnering in the implementation of HR Strategy, Leadership and Talent Development and Employer Branding. One of his main achievements has been an award as the Manager of the Year at the Company of the Year Awards (COYA) in Kenya. A recent achievement for Paul has been the orchestration of an Amazing People Manager Program. Paul holds a first Degree in Economics and Sociology and a Master of Science in Management and Organisational Development. He is the immediate Chairman of the Institute of Human Resource Management, Kenya and a Board member of AMREF, Kenya.
Sylvia Mulinge Chief Customer Officer	Sylvia is currently the Chief Customer Officer, responsible for leading Safaricom's obsession on Customer Experience as a key differentiator of the overall company strategy. She is in charge of Consumer Business, Brand Marketing, Brand Experience, Digital Transformation, Sales & Distribution, Operations and Commercial Planning & Pricing. She joined Safaricom as the Prepay Product Manager in February 2006 from Unilever. Over the last 12 years she has risen through the ranks, holding various leadership roles from Head of Retail, Head of Safaricom Business – Sales, to General Manager -Enterprise Business before transitioning to manage the Consumer Business Unit as it's Director. In November 2018 she became the Chief Customer Officer. Sylvia is an accredited executive coach and a Bachelor of Science Degree alumni from the University of Nairobi where she graduated with the highest distinction of First-Class Honors. A mentor and a leader in both her private and professional life, Sylvia is the recipient of several awards, which include her appointment to the Presidential Award Scheme, and being named as one of Kenya's Top 25 Women In Digital in 2019. She has also been feted as one of Kenya's Top 40 under 40 Women for three consecutive years and a Young Global Leader (YGL) award recipient in 2015. She also sits on a number of local boards and is a Vice Chair of the UN Women Unstereotype Alliance.

APPENDICES TO THE ANNUAL REPORT

Senior management profiles Continued

Name	Skills and experience
Nicholas Mulila Chief Corporate Security Officer	Nicholas Mulila is the Chief Corporate Security Officer at Safaricom PLC responsible for the Company's Risk Management, Business Assurance, Customer Data Privacy, Cyber Security, AML/CTF Program and Physical Security. He joined Safaricom in 2001 as a Senior Management Accountant in the Finance Division and has risen steadily through the ranks to serve the company in various capacities including Business Planning & Forecasting, Head of Corporate Strategy, Head of Commercial Planning & Pricing, Executive Business Analyst, Director Risk Management and is currently Chief Corporate Security Officer. Nicholas has over 20 years' experience in strategy formulation and execution, financial management, business analysis, risk management and corporate governance. Prior to joining Safaricom, Nicholas had worked for General Motors (EA) and Eastern Produce (K) Ltd. where he held various positions in finance. Mr. Mulila holds a Master of Business Administration Degree in Strategy and a Bachelor of Commerce Degree (Accounting Option) from the University of Nairobi. He is a Certified Accountant and Company Secretary, a member of the Institute of Certified Public Accountants of Kenya (ICPAK) as well as the Institute of Certified Secretaries of Kenya (ICSK), American Society for Industrial Security International (ASIS) and a member of the Institute of Directors (Kenya).
Rita Okuthe Chief Enterprise Business Officer	Rita heads Safaricom's Enterprise Business Unit (EBU) and in her role she has transformed the division's focus from just selling Telco services to becoming a Digital Partner of Choice for Business enabling them to succeed in a Digital world. Rita is also a Trustee of the Safaricom Foundation, Kenya's largest Corporate Foundations in Kenya where she leads the foundation's Maternal and Child Health focus area. Rita is also part of the team that leads the Women in Leadership and Women in Technology programmes. The two programmes focus on how to bring more women into leadership and technology by offering on the job trainings and opportunities. Rita is also a board member of the Kenya Pipeline Company where she chairs the Board Audit Committee, DigiFarm (an integrated mobile platform that offers farmers convenient, one-stop access to a suite of information and financial services) and Mezanine (a company that specialises in developing mobile enabled solutions for businesses). She is also a member of the Women Corporate Directors – Kenya chapter and a Certified Executive Coach. Rita has a degree in Economics and an MSC in Marketing from the Business Faculty at London School of Economics. Besides her family and job, she has a passion for empowering women and children and enjoys reading as well as motivating people.

Name	Skills and experience
Sitoyo Lopokoiyit Chief Financial Services Officer at Safaricom PLC	Sitoyo Lopokoiyit is a mobile-financial services expert, who has managed mobile money in two of the largest markets in the world (Kenya & Tanzania). In his current role as Chief Financial Services Officer at Safaricom PLC, he is responsible for managing and growing M-PESA which has earned revenues of over $700 million, with the service growing at over 19% year on year. He is a passionate, energetic and easy-going leader, who has delivered major innovations that have revolutionised the global mobile money space and driven financial inclusion such as the world's first contextual over draft facility dubbed- Fuliza, Mshwari a savings and loan proposition, M-PESA Global Payments, and partnerships with PayPal and Ali Express. Prior to joining Safaricom PLC, he served as the M-Commerce Director at Vodacom Tanzania PLC, where he led the turnaround strategy for the adoption and execution of M-PESA which resulted in the accelerated growth of M-PESA in Tanzania. He also oversaw the delivery of several other transformative products and services like the delivery of Mobile Money G2 platform, M-PESA app, interoperable transactions for both peer to peer transfers and merchant payments, Business to Business payments, M-PESA CVM and Merchant Payments. He is currently the Chairman of M-PESA Limited (Tanzania) and CEO of Safaricom Money Transfer Services Limited. He is also the Interim Managing Director of M-PESA Africa. Sitoyo has over 15 years' senior managerial experience from different fields; oil & Gas (Chevron and Total Kenya Ltd) and in the Retail industry within Kenya. He has worked extensively in the East Africa Region as well as in Mauritius and Reunion. Sitoyo holds a Bachelor of Commerce (Hons) degree in Marketing from the University of Nairobi (2000) and an MSc in Information Technology Management and Organizational Change from Lancaster University in the UK.
Thibaud Rerolle Chief Technology Officer	Thibaud Rerolle is responsible for leading technology to deliver a digital network and connected services to ensure a superior customer experience. He is in charge of Network Planning & Design, Enterprise Technology, Digital IT, Converged Services and Home Solutions. He joined Safaricom in January 2012. Previously he was the Chief Technology Officer at Orange Dominicana in the Dominican Republic. Thibaud has a Bachelor of Science Degree in Telecommunications Engineering with a specialisation in Networks from the prestigious Telecom ParisTech (ENST) and has also attended Prytanée National Militaire Preparatory School in France. Thibaud is married with children. He is fluent in six languages.
Debora Mallowah Chief Development Officer	Debra Mallowah joined Safaricom PLC on 2 January 2019, having previously served at GlaxoSmithKline where she was the General Manager – Eastern Africa, responsible for eight markets in the region. She is a seasoned broad-based professional with roles that have included Vice President for Unilever for the Personal Care Division, Africa and Group Marketing & Innovations Director in Diageo East Africa. She has worked and lived in Kenya, the United Kingdom and South Africa during the span of her career. As the Chief Business Development Officer, she is responsible for preparing Safaricom for the future, harnessing new business opportunities and leading innovation. She is responsible for Safaricom's Innovation Unit and leads any geographical expansion opportunities including M&A activities. As the executive responsible for developing the Company's strategic direction, she also leads the Knowledge Management team comprising of Research as well as Insights and Big Data. Debra holds a B.Com (Hons) Degree from the University of Nairobi and completed an Advanced Management Program at IESE Business School, Spain. Her interests include community service, African art and the adventure of discovering and meeting new people and places. She is married with children.

APPENDICES TO THE ANNUAL REPORT

Our brand assets and sponsorships

Sports

Over the years we have become one of the biggest corporate supporters of sports in Kenya, investing close to 1 billion shillings in sports ranging from football, athletics, motorsport and rugby to golf and charity runs.

Through events such the Safaricom Athletics Series, Safaricom Marathon in Lewa and Chapa Dimba Na Safaricom, we have seen the transformative impact of sport in Kenya. Our deep involvement has helped us recognise the role that sports play in this country, and we remain committed to supporting our future stars right from the grassroots level to the international stage.

Supporting Grassroots Football Through Chapa Dimba Na Safaricom

Safaricom extended its partnership with LaLiga, the men's top professional football division of the Spanish League and Football Kenya Federation (FKF) for the third season of the Chapa Dimba na Safaricom youth tournament.

Chapa Dimba Na Safaricom is a national football tournament for male and female youth aged between 16-20 years. The aim of the tournament is to transform the lives of young people by giving them a platform to showcase their talent and an opportunity to earn from their passion.

The winning team, both boys and girls, each win KShs 1 million while La Liga and FKF scouts select 16 girls and 16 boys to form an all-star team.

The team attends a 10-day training camp in Spain during which they play friendly matches against top LaLiga youth sides.

Over 1,500 teams signed up for season 3 with over 33,000 players engaged. We also engaged with close to 20,000 fans at the various regional finals and over 500 players were taken through Life Skills Empowerment sessions.

In addition, 16 players from Season 2 and 3 were scouted for National team honors (5), scholarships abroad (1) and to Senior League teams in Kenya (10).

Pauline Awuor's story

Pauline Awuor was the only female coach in the third season of Chapa Dimba Na Safaricom. During season 2, her Nairobi based side, Acakoro Football Academy came very close to becoming national champions, managing to go all the way to the final before losing out on post-match penalties to winners Kitale Queens from Rift Valley.

Pauline who has been a coach for over 6 years, was one of the two coaches selected to go with season 2's all-star team to Spain for a 10-day training camp. For her, the trip to Spain and the chance to learn from some of the best coaches in the world was a dream come true. "We met some professional La Liga coaches from Atletico Madrid and Real Madrid. They were coaching our players and we, as coaches also learnt a lot. We were acting as assistant coaches for those coaches. Whenever we would enter the field, I would make sure I ask questions. I asked about everything they did that was not clear to me", says Pauline

The mother of three aims to one day take her skills to the international stage and adds that "Because I love coaching, I want to coach abroad. I want to work with academies abroad".

This year's Chapa Dimba Na Safaricom tournament featured coaching clinics which were conducted in partnership with LaLiga as part of efforts to upskill local football coaches. Over 100 grassroots coaches were trained on LaLiga football methodology as at February 20th, 2020.

Celebrating 20 Years of The Safaricom Marathon

Marking its 20th Anniversary, the 2019 Safaricom Marathon, hosted by Tusk and the Lewa Wildlife Conservancy, once again saw more than 1,400 runners from over 40 countries tackling the incredibly challenging yet breathtakingly beautiful course in northern Kenya.

Her Excellency the First Lady of Kenya, Margaret Kenyatta, ran the opening 5km run with the children, before visiting some of the important conservation and community work supported by the event.

The men's full marathon had a new winner, with Duncan Maiyo completing the course in just over 2 hours, 20 minutes, while Emmah Kilole won the women's marathon with a time of 2:50:31.

For the second year running, the half marathon was won by Moris Munene in 1:06:06. Paralympian World Champion Henry Wanyoike meanwhile recorded his Safaricom Marathon personal best in the half marathon with a time of 1:25:02.

The marathon is considered among the world's most iconic, and challenging, sporting events. Over 20,000 people have taken part, raising more than KShs 750 million for conservation and community development initiatives in Kenya.

John Ruengo's story

88-year-old John Ruengo was among more than 1,400 people who participated in the 20th edition of the Safaricom Lewa Marathon. The retired community development officer from Mutunyi Village in Meru County has now participated and completed in the 21km race in all 20 editions of the event.

Ruengo was the oldest runner in 2019 and successfully retained the half marathon title he won the previous year in the category of people aged above 52 years. Speaking to one of the local media houses, Ruengo who once represented Kenya in the full marathon in the 1962 Commonwealth Games explained why he has always enjoyed taking part in the Marathon in Lewa.

"I love running, it is my life. If I didn't embrace running, I would not have been as vibrant as I am at my age. Most of my age mates have passed away because of inactivity."

John Ruengo

APPENDICES TO THE ANNUAL REPORT

Our brand assets and sponsorships Continued

M-PESA Goes Global with International Sporting Events

Last Financial Year we were also part of the East African Safari Classic Rally and the Magical Kenya Ladies Open golf tournament which were both sponsored by our M-PESA brand. These two globally recognised events, gave us an opportunity to showcase Kenya as a sports destination capable of hosting international events.

We also used M-PESA to rally behind Eliud Kipchoge as he successfully became the first person to run 42 kilometers in under two hours and united Kenyans through a Digital campaign dubbed Eliud 159. We temporarily redesigned the M-PESA logo and replacing it with ELIUD for seven days to pay homage to marathon record holder.

M-PESA Tees Off Magical Kenya Ladies Open

The Magical Kenya Ladies Open took place from 5-8 December 2019 on Vipingo Ridge's Baobab Course – the only (UK) PGA accredited golf course on the continent. Not only did the event mark the very first time that professional lady golfers played competitively in the region but it also marked the first ranking tournament of the Ladies European Tour's 2020 season. The 72 hole "Tournament of Champions" was a significant milestone in the history of the sport in Kenya and in motivating the next generation of female golfers throughout the country.

Broadcasted live across the globe to millions of viewers, the event showcased Kenya as a unique golfing and holiday destination as well as elevated the country as an important player on the world's stage, not just in terms of golf but sports in general.

> "We are honoured to be a key sponsor of the first ever Ladies European Tour event in Kenya and the region. At Safaricom, we have always been keen at promoting the growth of sports and sporting talent in the country. The Magical Kenya Open presents an excellent opportunity to elevate Kenya as a golfing destination and to also encourage uptake of the sport among ladies in the country.
>
> **Michael Joseph**
> CEO, Safaricom (Outgoing)

M-PESA Global Powers East African Safari Classic Rally

Safaricom sponsored the ninth edition of the East African Safari Classic Rally under the M-PESA Global brand supporting operations, logistics and communication during the rally which took place between 27 November and 6 December, 2019. The rally covered more than 4,500 kilometers in Kenya and Tanzania over nine days.

The East African Classic Safari Rally has been running every two years since 2003 and is open to two-wheel drive, naturally aspirated rally cars built before 1985. The race showcases the beauty of the East African landscape with vehicles racing through world-famous game parks, with overnight stops at the region's finest lodges and hotels.

The rally began at Sarova Whitesands in Mombasa, Kenya and ran for four days in Kenya, before crossing over to Tanzania where stages ran across four days, finshing in Sarova Whitesands in Mombasa. Competitors covered approximately 500 kilometers every day in competitive stages of between 50 km and 160 km.

Some of the teams that participated include, Tuthill Porsche, Freestone Rally Services, Minti Motorsport Oman, Team Tido Race 4 Health, ALS Motorsport and Safari World Africa.

Nicola Bleicher recorded history as the first woman to navigate the winning car. Nicola, who was Kris Rosenberger's navigator finished ahead of 2015 Safari Classic champion Stig Blomqvist. Other than Nicola Bleicher other ladies who participated in the rally are the mother daughter duo Renee & Juliette Brinkerhoff who marveled the crowd in their Tuthill Porshe 356. Kate Hayes also from USA navigated her father Joe Hayes in their Tuthill Porsche 911.

> Our sponsorship of this ninth edition of the East African Safari Classic Rally underlines our continued commitment to support and nurture talent through sport. With races in Kenya and Tanzania and a roster of drivers from around the world, the rally provides an opportunity to empower more customers through our M-PESA Global service.
>
> **Michael Joseph**
> CEO, Safaricom (Outgoing)

APPENDICES TO THE ANNUAL REPORT

Our brand assets and sponsorships Continued

Music

We acknowledge the role which music plays in our daily lives. Science confirms that we are all hard-wired to respond to music and it can affect our emotional, social, cultural, and cognitive process.

At Safaricom, we understand the importance of music and that is why over the years we have continuously invested in projects such as the Safaricom Youth Orchestra, Safaricom Choir the Safaricom International Jazz Festival, and the Ghetto Classics music program.

Ghetto Classics; Empowering Youth Through Music

Established in 2008, Ghetto Classics (GC) is the flagship community musical programme that uses music education to provide the youth in Korogocho slum with opportunities to better themselves, instilling life skills and providing income generating opportunities.

The community program currently supports:

- 450 students from 2 Community Centre's in Korogocho and Reuben Centre in Mukuru.
- 900 Students in 5 primary schools in Nairobi and Mombasa through the Orchestra for Schools outreach (Link Up Programme).

GC programme is geared towards providing change for the community. The level of discipline in the members had significantly risen. This is attributed to the music training and mentorship programmes, to keep the children engaged and off the streets.

Collaborations and Partnerships with various individual and organisations like the Safaricom International Jazz Festival and the joint recording of a music album with American jazz saxophonist and songwriter, Kirk Whalum has led to the exposure of the GC members and nurtured them to be ambassadors beyond Korogocho where they come from.

Over the last 6 years the Safaricom International Jazz Festival has supported the Ghetto Classics Programme through the sale of tickets. All proceeds received have been channeled towards their yearly operation costs which include running expenses, paying staff resources, maintaining and purchasing new instruments, logistical and administrative costs.

Ghetto Classics has been a key partner in keeping Korogocho safe and fed during this Covid-19 Pandemic.

Future Outlook

Through the mentorship programme, Ghetto Classics seeks create outstanding adults who create a difference in the community.

- They seek to be present in many more schools across the country to reach more children and change more lives.
- Keeping more children in school and out of the streets.

Tracy Akinyi's story

Tracy Akinyi has been a member of the Ghetto classics from 2015 and plays the Clarinet. She is an assistant tutor for the clarinet section within Ghetto Classics. Tracy loves helping people around her. She is often seeing helping the young girls in the programme to navigate the intricate balance of education and their passion for music.

"GC has been more than a family to me. At GC we interact freely. This is an important element for learning and teaching music. My instrument is a good friend of mine. When look at it and play music I can see a future ahead of me".

The Covid-19 pandemic posed a great challenge to the old and sick members of the Korogocho community. They were unable to physically present themselves to the distribution centers. This sparked an idea in Tracy's mind, to step into the gap and offer delivery services to those in need. "Team Wazee" the brainchild of Tracy Akinyi was born. Team Waze comprises of 20 young men and women involved in the delivery of food to the old people. Besides the food, distribution, the team assist the old people to do their laundry and clean their houses.

Safaricom Choir; Empowering Staff Through Music

The Safaricom Choir was started in 2009 to provide an avenue for team building, boost morale among staff and provide a platform to engage in community service.

The Choir has grown into a Choral music choir whose main aim of coming together is to sharpen their music skills and use their passion in music to drive Kenyan-ness and patriotism through their performances and engagements.

At its formation, about 80% of the members had never sung in a choir or studied music before. However, since then, the choir has grown from strength to strength in their musical ability and variety of repertoire. They have provided entertainment at various corporate events like the Safaricom Annual General meeting, the Classical Fusion, The Voices for Hospices Charity Festival to name a few.

In 2019, the Choir was invited to grace auspicious occasions like the Jamuhuri Day State Luncheon at State House Gardens, the 1st anniversary celebration of our national carrier, Kenya Airways' inaugural flight to New York and at the Launch of Kenya's Bid for a seat at the United Nations Security Council in New York, America.

In partnership with colleagues in the regions, the members have been involved in various community initiatives. They have supported Likii School for Special needs in Nanyuki- Mt Kenya Region with educational material, equipped the library of the Likoni children's home and supported the eradication of bedbugs in Kiembeni estate within the Coast region.

The Choir strives to be the best Workplace choir in the region, to continually provide uplifting music to customers and showcase Safaricom's commitment towards our country and its citizens.

The story of Sam Munga

Samuel Munga commonly known as 'Sam' is a member of the customer organisation. He works within the email support team. Sam's musical journey started when he was 10 years old when he first learnt how to play the guitar. Sam sings Tenor in the Safaricom choir and you will often spot him in the second row during performances.

"The Safaricom Choir rehearsal sessions have really grown me into a great musician. The Music mentors have played a major role in boosting our courage especially in the preparation for stage performances. The confidence gained has opened other doors. I have been called upon to lead worship during the staff prayer sessions.

My desire is to grow more and have deep knowledge in music to be able to mentor others especially the Youth and to make music a way of life".

APPENDICES TO THE ANNUAL REPORT

Our brand assets and sponsorships Continued

East Africa's Got Talent

Safaricom was Kenya's title sponsor for the very first ever East Africa's Got Talent (EAGT) show while in the rest of East Africa, EAGT was presented as being "connected by M-PESA" to reaffirm M-PESA's position as a regional payments' platform provider.

The show, which is part of "Got Talent" franchise started in 2014 by Simon Cowell saw acts ranging from the sublime to the ridiculous battle it out for a chance to be crowned the most talented East African. The show was open to performers of any kind, including singers, dancers, instrumentalists, magicians, comedians and novelty acts.

Ugandan siblings Esther and Ezekiel Mutesasira were crowned the winners of the first edition. The singing duo won a cash prize of $50,000 in the finale that had six contestants. The other finalists were Comedic Dance Group (Uganda), Dance Alliance Network (Uganda), Jehovah Shalom Acapella (Uganda), Janella Tamara (Kenya), Spellcast (Kenya) and Inteyoberana cultural troupe (Rwanda).

The Safaricom Youth Orchestra

Empowering Kenya's next generation of professional musicians

The Orchestra was formed in 2014 with the aim of providing a platform for quality orchestral musical instruction to Kenyan school aged children aged 10-17 years drawn from different backgrounds. Over 65% of the members are from under-privileged backgrounds

The discipline instilled in the members during training has contributed to the emergent of leaders both in the programme and in their respective schools. There is positive social impact and personal development.

The members of the Safaricom Youth Orchestra have dominated the Kenya Music Festivals scene emerging top in their categories. In 2019, SYO produced the top player in the Alto Sax category in the Kenya Music Festivals. There is an increase in retention of children in school through the support of needy children health, medication and upkeep.

The SYO Alumni are involved in reigniting music programmes in schools, some have been absorbed as in- house assistant tutors for the orchestra whereas others are involved as key players in various orchestras countrywide. The orchestra strives to build meaningful collaborations and synergy with relevant stakeholders to nurture the youth.

The story of Mary Keni

Mary is a young ambitious girl. Her dream for the future is to make a difference in the human rights arena. Mary's Passion for music at SYO is also mirrored in her passion for society. She is an active member of the Model United Nations and the St. John Ambulance. Mary is a founder member of 'Mwangaza'. Mwangaza works with children in orphanages and foster homes, supporting them in their psychological needs. Offering a shoulder for fellow children to lean on.

Dmitri Shostakovich once said that "Art destroys silence". "I am extremely grateful that here at SYO we get to make art, together, that destroys the silence and paints stories on it like a canvas".

BLAZE, Be Your Own Boss

BLAZE, a youth network by Safaricom began in 2016 and was created to give youth aged 26 years and below products, services and benefits tailored specifically to meet their everyday needs.

The network is guided by the ambition to help the young people be successful—including in unconventional careers—by providing trainings, mentorship, funding, planning, and networking opportunities.

Be Your Own Boss (BYOB) is the BLAZE empowerment program for mentorship, networking and one-on-one training & skills development through: BYOB Summits, Creation camps, and TV shows.

In 2019, BYOB expanded its youth engagement programme to 18 summits with a target to empower 1.3 million youth.

Some of the featured mentors last year were Fundi Frank (fashion designer), Eric Musyoka (music producer), Nancie Mwai (fashion vlogger and retailer), Joanna Kinuthia (beauty content creator), Caleb Karuga (farmer and agribusiness consultant), among others.

As part of the efforts to build the capacity and to empower Kenyan youth for the future of work, BLAZE launched a new platform dubbed BLAZE LINK, an e-learning resources built to enable young people upgrade their skills through online courses and empower them to pursue success in their professions of interest.

The e-learning portal follows a partnership by BLAZE and Google, IBM, Wezesha, Cloud Factory and Brighter Monday. The free online courses, that target young adults under the age of 26, include sales and marketing, finance, agriculture, creative arts, programming and development. The platform also avails job opportunities to young people looking for employment and entrepreneurs will have visibility of market opportunities.

Courses are available based on someone's strength, skills, academic background and interest. The skills help the young people to become their own boss or get into employment. In addition, BLAZE LINK users have exclusive access to master class videos on agribusiness, creative arts, fashion, film & photography, music, technology and production and sales.

BLAZE also launched an e-sports tournament in partnership with Pro Series Gaming (PSG) and Standard Group, for youth aged between 18 and 26 who are looking at gaming as a career choice.

The e-sports tournament comprised of FIFA 19 and Tekken 7 knockouts running on Play Station 4 and was broken down into 10 grassroots knockouts and 5 regional finals.

The regional finals took place in the regional BYOB creation camps where champions from the knockouts battled it out for the regional title and prize money. A total of KShs 100,000 was up for grabs in each region with winners taking home KShs 50,000 second position KShs 30,000 and third position KShs 20,000.

In the coming year, plans are underway to remodel the asset to be a strong driver of our digital channels. This will see BYOB become a digital-led platform that provides a connection point to Empowerment, Education, Music and Gaming.

Shirley Kigotho's story

My name is Shirley Kigotho, I am 26 years old and I am a farmer. For the last three days, I have been in the agribusiness pod of the BLAZE creation camp here in Eldoret where I have learnt so much about agribusiness.

The mentor, Caleb Karuga, has taught us that traditional farming and agribusiness are two very different things. I have also learnt that the problems I have been facing in farming and in my entrepreneurial journey are not unique to me, they cut across other entrepreneurs as well. I have been in the agribusiness pod and I have emerged the winner from the pod. I have won KShs 50,000 and I intend to use the money to set up my own Farming School in Kitale, Trans Nzoia County, where youth can come and be equipped with knowledge on modern, resilient and sustainable agricultural production. Thank you BLAZE for helping me launch my idea.