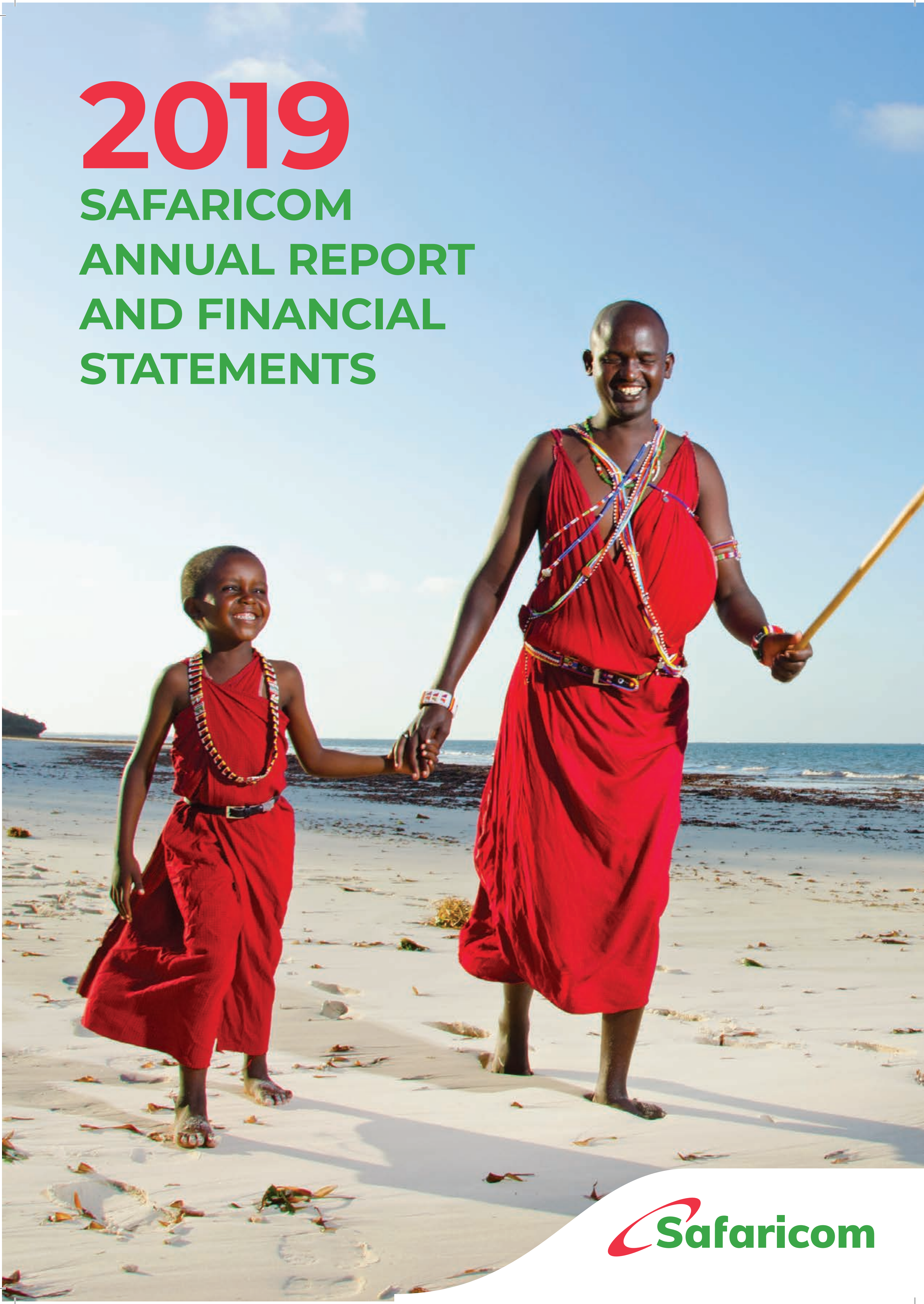
# 2019
# SAFARICOM ANNUAL REPORT AND FINANCIAL STATEMENTS



Safaricom

# WHO WE ARE

Safaricom PLC is a leading Kenyan communications company and a leading digital innovator providing a wide range of communication services, including mobile voice, messaging, data, financial and converged services with a vision to empower a connected society.

## Our Purpose
**Why we exist**

**To transform lives**

## Our Vision
**Where we are going**

**To be a leading digital services provider that empowers a connected society**

## Our Way
**How we need to do it**

**Speed, Simplicity, and Trust**

Read more on who we are in the appendices

# OUR STRATEGIC PILLARS

## Putting the Customer First
We are progressively providing a seamless, frictionless and personalised digital experience to our customers.

## Relevant Products
We are developing a deep insight of our customers' needs, wants and behaviors and providing propositions to lead in chosen segments.

## Operational Excellence
***Technology Enabling a Digital Society***

It's not just about providing the bare minimum in voice, messaging and data services; it's about investing in enablers that allow our customers to stay connected to each other and to the world around them.

***Digital First***

Rethinking and digitising our operations, products and services to become more agile in order to enable the digital lifestyles of our customers.

***Cost Transformation***

Structurally transform our operating model and fundamentally reshape our cost base, while also improving the overall experience for our customers and generating incremental value.

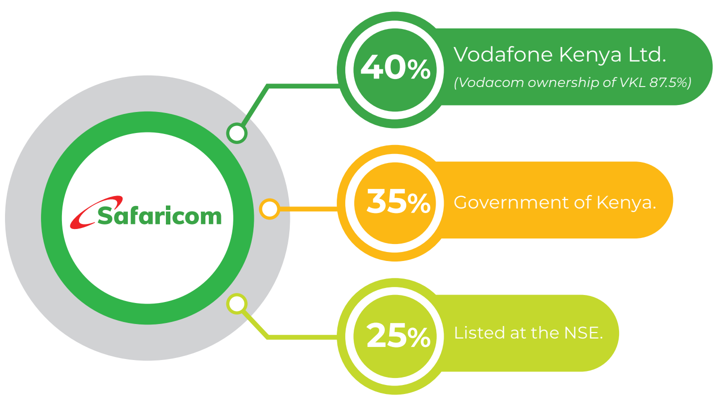
***Our People and Culture***

People with the right culture are fundamental to every aspect of our ambition to be a purpose led, digital solutions provider. We are bringing together the right people and skills to scale up and accelerate our digital transformation.

***Our Sustainable Business***

We are a purpose driven brand with a deserved reputation for leadership in driving social progress through sustainable transformational solutions.

# THE COMPANY SHAREHOLDING STRUCTURE:



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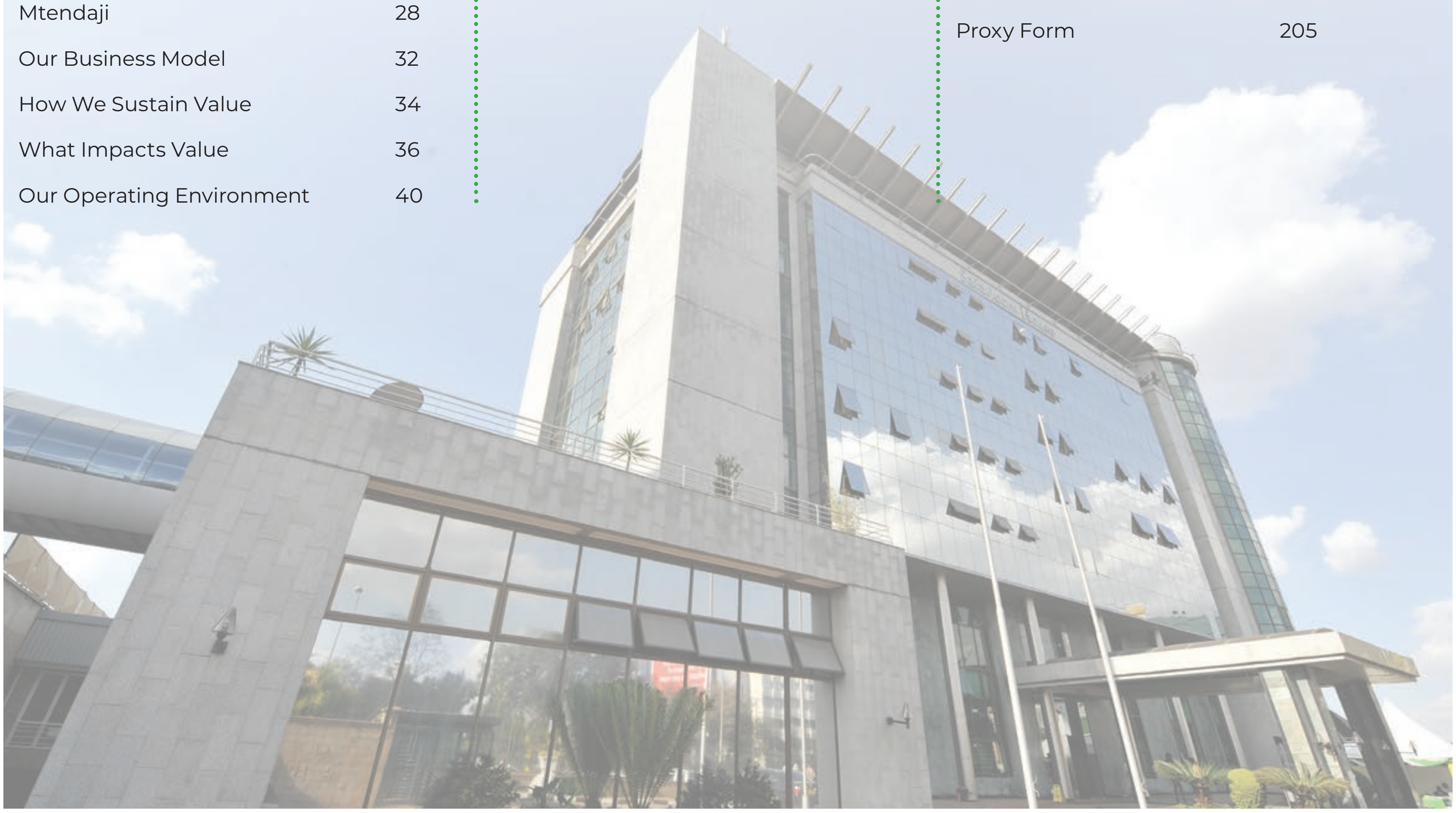


# A Letter to Investors and Stakeholders

## To Our Investors and Stakeholders

This Safaricom PLC annual report is prepared in accordance with the International Financial Reporting Standards (IFRS) Framework and the International Integrated Reporting Framework.

The report aims to provide our stakeholders with a concise, material and frank assessment of how we create value over time.

### Report boundary and scope

This report reviews Safaricom's strategy and business model, risks and opportunities and operational and governance performance, for the financial year 1 April 2018 to 31 March 2019. The report covers the activities of the Safaricom PLC. Financial and non-financial data from our divisions are fully 'consolidated'.

In assessing the risks, opportunities and outcomes that materially impact value creation, we have looked beyond the financial reporting boundary to provide for the material interests of relevant stakeholders and to address the significant risks, opportunities and impacts associated with our activities over the short-term (less than 12 months), medium-term (one to five years) and long-term (beyond five years.)

### Reporting frameworks

Our reporting process has been guided by the principles and requirements contained in the International Financial Reporting Standards (IFRS), the NSE Listings Requirements and the Kenyan Companies Act.

### Materiality

This report provides information on all those matters that we believe could substantively affect value creation at Safaricom PLC. Written primarily for current and prospective investors, the report is of interest to any stakeholder who wishes to make an informed assessment of Safaricom's ability to create value over time. To identify and prioritise the material matters for inclusion in this report, we undertook a structured process involving senior decisions makers from across the group.

The process involved a considered review of Safaricom's business model: our interaction with the strategic pillars (Customer First, Operational Excellence and Relevant Products and Services); Financial Review, our operating environment and the interests of our key stakeholders as expressed by them during our normal business engagements with them.

The outcomes of this process were reviewed and signed off by our Board Committees: they are composed of the Audit, Nominations and Remuneration Committees. This report presents the identified material information through a clearly structured narrative. Additional information not material for this report, but of interest for other purposes, is provided in our other reports and on our website.

### Integrated thinking

Integrated thinking is intrinsic to how we manage our business and to our internal strategy development and reporting practices. Our strategy and three strategic pillars have been developed to ensure that we manage the resources and relationships needed to create value over time. A considered assessment of the three strategic pillars inform both our strategy and the internal materiality process used to determine the content and structure of this report. A review of our interaction with the key resources and relationships influencing value is presented on pages 6-7.

### Assurance

Our Board Audit, Nomination and Remuneration Committee provide internal assurance to the Board on an annual basis on the execution of our three strategic priorities. The Company's financial, operating, compliance and risk management controls are assessed by the Company's internal audit function, which is overseen by the Audit committee.

### Board approval

The Board has applied its collective mind to the preparation and presentation of the information in this report, which has been guided by International Financial Reporting Standards (IFRS) and IIRC's International Reporting <IR> Framework. The Board believes that this report addresses all material issues and presents a balanced and fair account of the Company performance for the reporting period, as well as an accurate reflection of our core strategic commitments for the short, medium and long-term.

The Directors have applied their judgement regarding the disclosure of

Safaricom's strategic plans and have ensured that these disclosures do not place Safaricom at a competitive disadvantage.

On the recommendation of the Board Audit and Nomination and Remuneration Committees, the Board approved the Safaricom PLC Consolidated Audited Financial Statements (AFS) on 2 May 2019.

***Signed on the Board's behalf:***

Nicholas Nganga | **Chairman**

Michael Joseph | **Chief Executive Officer (Interim)**

# 01

# OUR BUSINESS

# How We Created Value In 2019

## For our Customers

**57%**
Proportion of the population covered by our 4G network.

**167k+**
Number of M-PESA agents.

**10.6%**
Reduction on the average rate per P2P transaction.

**123k+**
Number of active Lipa Na M-PESA merchants.

**93%**
Proportion of the population covered by our 3G network.

**41.9%**
Reduction on the average rate per megabite.

**2.0%**
Reduction on the average rate per SMS.

**6,700kms**
Length of metro fiber optic cables deployed.

**c300k**
Homes passed by fiber.

## For our Shareholders

**50.08bn**
Amount in shillings of proposed dividend payment for full year 2019 plus special dividend of KShs 24.84bn.

**14.9%**
Safaricom's capex intensity is higher than benchmark rates of most of the global telcos of scale, resulting in superior shareholder returns.

**601%**
Total Shareholder return on stock since listing.

**c49%**
Percentage of Safaricom market cap to total NSE market cap.

**37.3bn**
Amount in Shillings of effective and efficient capex investment which is complimented by successful commercial monetisation and revenue growth. Most of this investment was made to increase capacity to serve the demand for high-speed data, which is growing rapidly.

**FY 20**
In FY 20, we look to drive long-term shareholder value by deploying next-generation network services, leveraging data analytics and segmentation. In doing so, we will be guided by our purpose of transforming lives.

## For our Employees

### We Introduced:

100% human at work in alignment with the Sustainable Development Goals Strategy and the mission of the B Team which is a not for profit alliance of business leaders who are committed to responsible and sustainable business practices for the well-being of people and the planet.

**6,323**

Number of staff composed of permanent and contractors with those in their 20s and 30s making up 21% and 64% respectively of the company's age bracket of our skilled manpower.

**2.1%**

Total population of differently abled employees.

**50%**

Proportion of women staff members working at Safaricom.

**34%**

Percentage of women in senior management.

**900k+**

Direct and indirect jobs sustained in entire economy.

## For our Society

**601bn**

Amount in Shillings of value added to the economy.

**500**

Community dreams fulfilled through 'Ndoto Zetu' initiative.

**60%**

Percentage of children immunised up from FY18 49% through the support of Safaricom Foundation initiatives such as 'Uzazi Salama' (safe pregnancy).

**22.6m**

Enhancing financial inclusion through active M-PESA users.

**29k+**

Youth empowered through training and access to loans, enterprise skills, job opportunities and income generating activities in the last financial year.

Mobile money has increased access to essential government services from 20% to 90% (GSMA Study 2017).

### Our Contribution to GDP

GDP **6.3%**

The Group continues to be a major contributor to the revenues of the Government and remitted KShs 98.13bn in duties, taxes and license fees for the period ended 31 March 2019. This increased the total duties, taxes and fees paid since inception to KShs 698.52bn.

**300,000**

Tonnes of carbon, expected to be offset over 5 years by a forest of one million indigineous trees planted in Marmanet in partnership with the Kenya Forest Service.

# Financial Highlights

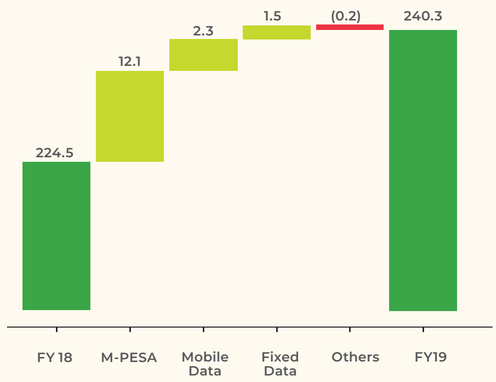
| Income Statement - KShs 'm | FY16 IAS 18 | FY17 IAS 18 | FY18 IAS 18 | FY19 IAS 18 | FY19 IFRS 15 |
|---|---|---|---|---|---|
| Voice revenue | 90,802 | 93,459 | 95,639 | 95,938 | 95,798 |
| M-PESA revenue | 41,500 | 55,084 | 62,907 | 74,990 | 74,990 |
| Mobile data revenue | 21,154 | 29,328 | 36,357 | 38,687 | 36,265 |
| Fixed data revenue | 3,815 | 5,242 | 6,673 | 8,191 | 8,101 |
| Messaging revenue | 17,328 | 16,679 | 17,721 | 17,496 | 19,612 |
| Other service revenue | 3,185 | 4,317 | 5,237 | 5,001 | 5,001 |
| **Service revenue** | **177,784** | **204,109** | **224,535** | **240,303** | **239,767** |
| Handset and other revenue | 8,621 | 8,700 | 8,980 | 9,584 | 9,448 |
| Construction revenue | 9,280 | 76 | 202 | 603 | 603 |
| Other income | 232 | 2,511 | 510 | 464 | 464 |
| **Total revenue** | **195,917** | **215,396** | **234,227** | **250,955** | **250,283** |
| Direct costs | (62,310) | (66,781) | (70,555) | (71,818) | (71,786) |
| Construction costs | (9,280) | (76) | (202) | (603) | (603) |
| **Contribution Margin** | **124,327** | **148,539** | **163,470** | **178,534** | **177,893** |
| Operating expenses | (41,261) | (44,929) | (50,636) | (53,590) | (53,590) |
| **EBITDA** | **83,066** | **103,610** | **112,834** | **124,944** | **124,304** |
| Depreciation & amortisation costs | (27,943) | (33,234) | (33,568) | (35,331) | (35,331) |
| **EBIT** | **55,124** | **70,375** | **79,266** | **89,613** | **88,973** |
| Net finance costs | 504 | 297 | 659 | 2,251 | 2,251 |
| Net forex gain/(loss) | 398 | (59) | 26 | (11) | (11) |
| Share of associate profit/(loss) | 104 | 19 | 10 | 5 | 5 |
| Assets purchase bargain gain | - | - | - | - | - |
| Fair value loss on investment property | (367) | - | - | - | - |
| **EBT** | **55,763** | **70,632** | **79,909** | **91,859** | **91,218** |
| Taxation | (17,658) | (22,188) | (24,620) | (28,460) | (28,727) |
| **Net Income** | **38,104** | **48,444** | **55,289** | **63,399** | **62,491** |
| | | | | | |
| **Earnings per share (KShs)** | **0.95** | **1.21** | **1.38** | **1.58** | **1.56** |
| Free cash flow (KShs m) | 30,360 | 43,515 | 55,387 | 63,105 | 63,105 |
| **Ordinary dividend (paid/ proposed) (KShs 'm)** | **30,483** | **38,863** | **44,071** | **-** | **50,082** |
| Ordinary dividend per share (KShs) | 0.76 | 0.97 | 1.10 | - | 1.25 |
| **Special dividend (paid/proposed) (KShs 'm)** | **27,244** | | | **-** | **24,841** |
| Special dividend per share (KShs) | 0.68 | | | - | 0.62 |

**"My focus for the foreseeable future will be to rally the team and guide the various business divisions in the execution of our business strategy."**

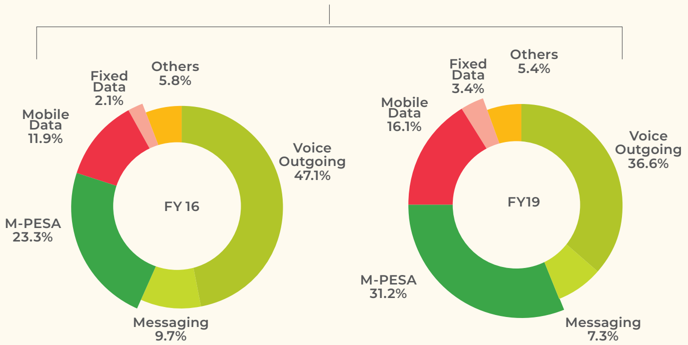
**Michael Joseph**
**Chief Executive Officer (Interim)**

# Financial Highlights (continued)

## SERVICE REVENUE

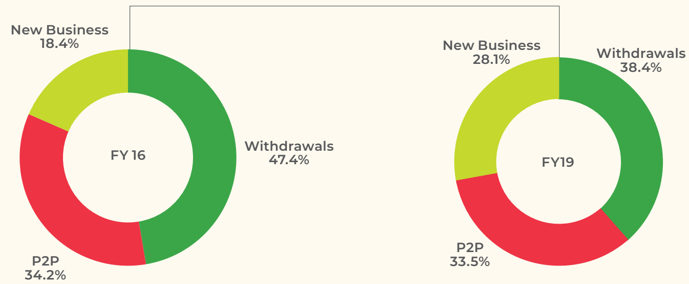



## Evolution of Service Revenue Profile




## M-PESA

### Evolution of the Revenue Profile




Value of M-PESA Transactions +27.9% YoY
Volume of M-PESA Transactions +22.1% YoY
M-PESA 30-day Active Tills +21.6% YoY
M-PESA Agents +6.7% YoY

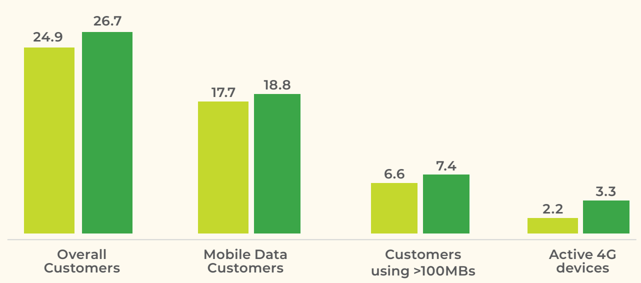
**31.8m**
Total customers

**22.6m**
M-PESA customers

**18.8m**
Mobile data customers

## MOBILE DATA

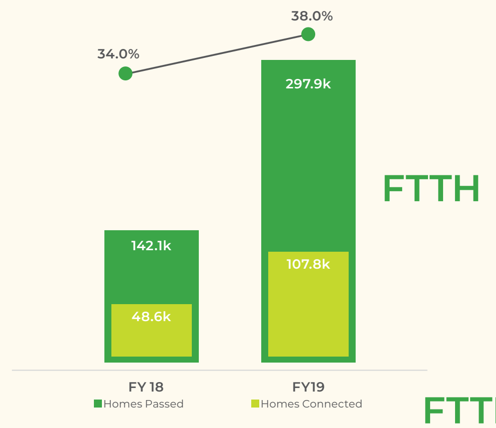
### Potential for Significant Usage Growth (m)

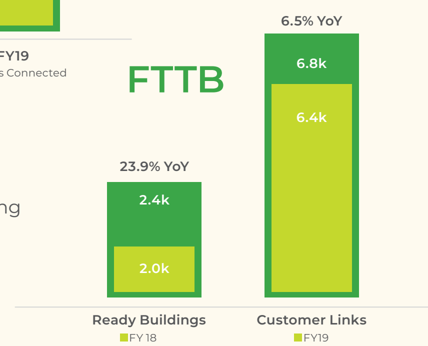



- 70.5% of overall customers using mobile data
- 39.2% of mobile data customers using >100MBs
- Effective rate per MB down 41.9% YoY
- ARPU +1.6% YoY
- 4G handsets up 49.0% YoY to 3.3m

## FIXED SERVICE

### Connections Drive Revenue




FTTH ARPU 2.7k (1.8%) YoY
FTTB ARPU 24.0k (14.1%) YoY
FTTH/B: Fibre To The Home/Building


"M-PESA has performed strongly this year, growing at 19.2%, driven by an increased number of users, higher velocity of funds within the ecosystem and adoption of new use cases."
Sateesh Kamath
Chief Financial Officer

# Chairman's Statement

## Regulate, Don't Stifle Growth

We remain confident that if we stick to our strategy, we will continue to generate considerable shareholder wealth and deliver shared value to a broader stakeholder base.

### Overview

Last year was a challenging one for businesses around the country. Despite reported positive economic growth, consumer wallets remained under pressure, forcing Kenyans to make tougher spending decisions every day.

This lower discretionary spending, coupled with increased tax demands as the Government sought to raise more funds from the ICT sub-sector, contributed towards the plateauing in growth of a number of services including voice and messaging. Despite this, the service industry continued to register sturdy performance, supported by the growth of businesses such as ours in ICT, as well as wholesale and retail trade, transport, tourism and real estate.

### Sustaining Growth Through Supportive Regulation

As mobile penetration has deepened to reach close to 51 million subscribers in a country of about 52 million, so has the need to find alternative means of sustaining growth. Traditional growth drivers (voice and messaging) continue plateauing, pointing to the urgency of reinventing our business to meet changing consumer needs. This will require more calculated investment and innovation, both of which can only succeed in a supportive regulatory environment. We have noted with concern, attempts to regulate the industry through proposed legislation and regulations that seek to forcefully reorganise the operating structure of companies such as ours, whose growth has been the result of well-executed business strategy.

Such actions would severely limit the ability of businesses to invest, innovate and transform lives, which is what Safaricom exists to do. It is our hope that this matter will be handled in a more consultative manner, including meaningful discussions between all concerned parties in order to come to a more considered outcome, that's beneficial to all stakeholders.

### Welcoming Competition

Kenya is a dynamic market, with enough room for multiple players to compete fairly in the pursuit of business growth and brand love.

It is therefore encouraging to see the competition landscape changing, owing to the ongoing merger between two market players. We believe this will result in greater innovation and efficiencies for the benefit of customers. Safaricom welcomes fair competition on a fair playing ground, where investment, strategy, innovation and brand promise are the true differentiators; as opposed to the use of regulatory support as a means to success.

Kenya is a dynamic market, with enough room for multiple players to compete fairly in the pursuit of business growth and brand love.

### Connecting People, Transforming Lives

Over the last 18 years, Safaricom has built a business founded on our innate desire to transform lives using mobile technology. We have been able to do this by focusing on our strategy, continuously anticipating the needs of our customers and innovating to meet them and staying true to our purpose.

However, none of this would have been possible without your unwavering belief in our vision.

So on behalf of the Board of Directors, I would like to say, thank you. Your patience, loyalty and support inspire us to do more: to seek out new growth opportunities that will generate considerable shareholder wealth, and deliver shared value to a broader stakeholder base.

## In Closing

We began Q2 FY2020 on a sad note following the passing of our CEO, Mr. Bob Collymore, on 1st July, 2019 after a long battle with cancer. He was a remarkable man who had an extraordinary dream for the world and for Safaricom.

For nine years, Mr. Collymore led our business to achieve notable milestones, including significantly increasing shareholder value and instilling in us a sense of purpose that has become the hallmark of what we do at Safaricom. This purpose, to transform lives, is the reason we exist today. To honour his legacy, we will remain committed to completing the work he began. We will stay true to our purpose and to using mobile technology to make life better for Kenyans and as many people as we can reach across the world.

Although our business is up against a number of challenges, we are confident in our ability to manage these risks and ensure continued growth, guided by a very able Executive Committee now headed by Mr. Michael Joseph, who was appointed as the interim CEO by the Board of Directors.

Looking ahead, we will continue to reinvent our business, invest in new areas of growth and realign our priorities to position Safaricom as a business that is fit for the future.

Nicholas Nganga | **Chairman**

# Chief Executive Officer's (Interim) Statement

## A Period of Transition

We see a number of opportunities that have the potential to lead our business to greater heights. I am particularly keen to work closely with the team to deliver the regional expansion strategy.

### Overview

The last month has been a difficult one for the Safaricom family, including our partners, following the passing of Bob Collymore. He was a great man, not just because he was a dear friend of mine, but because of what he was able to achieve in the nine years he spent at the helm of Safaricom. While we are still trying to come to terms with this loss, I believe that focusing on preserving and honouring Bob's legacy will help us to eventually heal.

To guide the business through this transition, I have been appointed by the Board of Directors as Interim CEO. In this role, I will be taking care of the business to ensure that we stay on course with our strategy while the Board identifies a suitable candidate to lead this great company.

Until then, my focus for the foreseeable future will be to rally the team and guide the various business divisions in the execution of our business strategy, which will mean continued focus on putting the customer first, delivering relevant products and services and enhancing our operational efficiency.

We see a number of viable opportunities that have the potential to lead our business to greater heights. As a member of the Board, I am aware that the business has already outlined a number of focus areas for the current financial year, including providing additional support to the business units that are emerging as key revenue drivers, such as Financial Services.

I am particularly keen to work closely with the team to deliver the regional expansion strategy, something I know Bob wanted to achieve this year.

Data also remains a key priority for the business, which needs to find a way to create balance between growth of data consumption and revenue growth.

So far, we have been making significant investments in this area and have a vision to become the best 4G+ network for everything from gaming and entertainment to social networking and I look forward to collaborating with a cross-functional team to make this happen.

Growth in this area will support our evolution into a digital lifestyle enabler, which will position us favourably to grow new revenue streams from non-traditional products and services such as DigiFarm, Masoko and other innovations in the pipeline.

We believe that these initiatives, together with the investments we're making in our network, will enable us to maintain our industry position, defend our market share and increase our Net Promoter Score not just based on the variety and quality of the products and services we sell, but on what our customers feel and say about us, because our business exists to transform their lives.

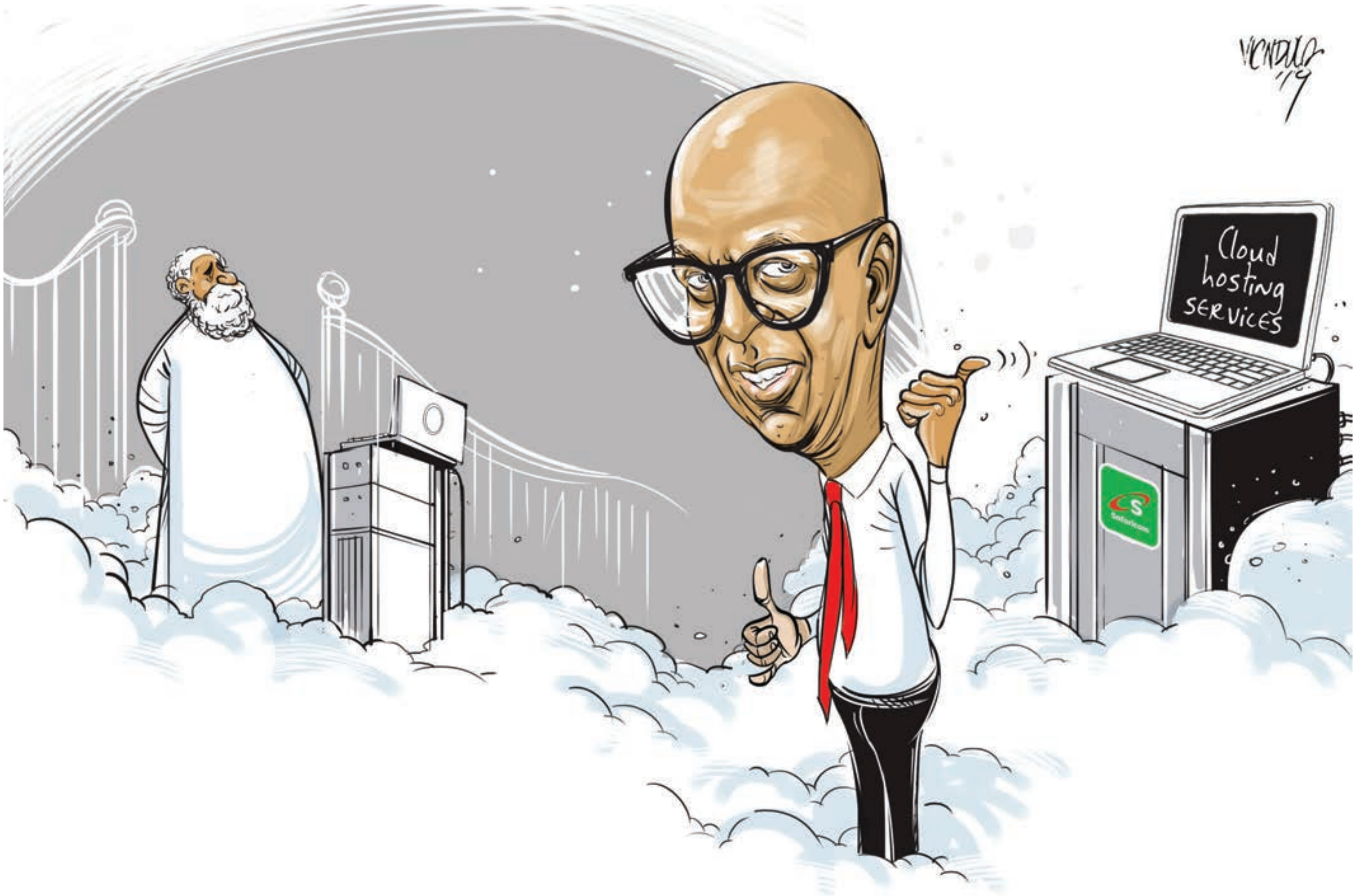
We have a vision to become the best 4G+ network for everything from gaming and entertainment to social networking.

This purpose is in our DNA, it's what makes Safaricom great and I look forward to working with all our stakeholders to bring it to life, while at the same time delivering enhanced value for our shareholders.

Michael Joseph | **Chief Executive Officer (Interim)**

**"Data remains a key priority. It's a balance between growth of consumption and revenue."**

# Tribute To Bob Collymore




Courtesy of the Daily Nation

*"Death is innevitable and I have made the decision not to cling on the thought of it because it will eventually come. I just do not know when. I have chosen to focus on the things that are more important to me. Now I know it's kind of impossible for somebody to live for 200 years. But something very important is that when you have cancer, the idea of death is near and so it doesn't surprise, unlike you who is healthy but death could be coming in the next minute or tomorrow morning."*

***Bob Collymore***

# Chief Executive Officer's Statement

## Staying True to Our Purpose

The success of our business is heavily dependent on our ability to connect people to people, to knowledge and to opportunities – wherever they are in Kenya and the world.

### Staying True to Our Purpose

One of the most important lessons to learn in business is that no business can succeed when the community around it is struggling. Despite sustained growth within the ICT sector in the last financial year, our business was not spared the impact of drought and the resultant food-driven inflation, which limited the ability of lower and middle income customers to spend more on our products and services.

In response to this, we adjusted our strategy to enhance the delivery of services in finance, agriculture, healthcare and education, creating greater value for our customers, shareholders and the communities we operate in. This approach, which is in line with our purpose of transforming lives, saw us invest more in our communities, using mobile technology to empower millions of Kenyans across the country.

Beyond enabling communication, we deepened our community engagements through campaigns such as ‘Ndoto Zetu’ (Swahili for ‘Our Dreams’), which allowed us to invest in the dreams of ordinary Kenyans trying to make a difference by doing extraordinary things. We also partnered with Generation Kenya to equip young people with the skills required to secure employment, an initiative which, coupled with our own day-to-day operations and Women In Business programme, enabled us support more than 900,000 jobs both directly and indirectly.

### Sustaining Customer Growth

Our business is where it is today because of those who have supported us over the years. Men and women who aside from enjoying our products and services, also believe in our purpose. To show our appreciation to our customers for their loyalty, we celebrated our 18th anniversary in October of 2018 by renewing our promise to them. This commitment, Nawe Kila Wakati (meaning Always With You), is our way of saying that we understand the daily challenges our customers face and are willing to do something to ease their burden.

During this period, we made the bold decision to absorb additional taxes charged on our data bundles, complementing reduced average rate of voice and data to ensure access and affordability for all.

This allowed us to regain our leadership as Kenya’s most trusted company and propelled us to over 31 million customers – a major feat for a relatively young company – sacrificing short-term gains for the long-term sustainability of our business.

### Innovating in the Present, for the Future

As customer needs evolve, so does our strategy and we continued to innovate and invest in M-PESA, including upgrading our core platform to support 1,200 transactions per second – in order to meet these needs.

Encouraged by the growth in customer numbers and usage following the scrapping of M-PESA fees for transactions below KShs 100 and reduction of Lipa Na M-PESA merchant fees in FY18 and armed with valuable lessons from 12 years of providing Kenyans with safe, reliable and affordable mobile money transfer and payments services, we sought to enrich our ecosystem further by adding more use cases.

This saw us embark on a journey to take M-PESA to the world with M-PESA Global, which allows customers to send and receive money, make payments and participate in international e-commerce through partnerships with Western Union, PayPal and AliExpress. This was followed by the launch of the world’s first contextual mobile money overdraft facility – Fuliza. The facility has been a resounding success, pointing to the power of data driven, insights-led innovation. One month after its launch in January 2019, over four million customers had transacted more than KShs 6.2billion. By May, that number had grown to over KShs 45billion and continues to grow and as more customers turn to it, it enables the smooth completion of transactions. In addition to that, we are positioning M-PESA as an enabler of business, going beyond private enterprise solutions to supporting cash-lite revenue collection in the counties. These partnerships have resulted in up to 30% more revenue collected, making the case for the use of technology to seal revenue leakages in both the public and private sectors.

## Empowering Businesses

We operate in a fast-changing world, where consumers are not only knowledgeable, but also demanding and more connected to the world around them. This means it's no longer business as usual. Businesses must constantly reinvent themselves to remain relevant and a key component of this relevance is the ability to create and adopt new technologies as rapidly as our customers do. In that regard, we have set our sights on transforming our business into a digital lifestyle enabler, which means looking for opportunities to apply more advanced mobile technology to every changing consumer context. We are challenging ourselves to understand more intimately what each customer needs through segmentation and then seeing how we can deliver innovative solutions to meet each unique need.

This means seeing how we can apply mobile technology in agriculture through DigiFarm for example, our m-agriculture platform, or through e-commerce, which we are still trying to figure out with Masoko, the online shopping website we launched in late 2017. A lot of these solutions will rely

# Chief Executive Officer's Statement (continued)

**ONE MILLION**

NUMBER OF FARMERS SIGNED UP IN LESS THAN TWO YEARS AFTER LAUNCH.

**144**

DIGIFARM DEPOTS OPENED AROUND THE COUNTRY

**KShs 2.5 TRILLION**

TRANSACTIONS GENERATED BY THE AGRICULTURE SECTOR EVERY YEAR

**"NDOTO ZETU"**

NATIONWIDE CAMPAIGN AIMED AT FULFILLING DREAMS OF 500 KENYANS WHO WOULD LIKE TO MAKE A DIFERENCE IN THEIR COMMUNITIES.

on faster, higher quality internet, which is why we are also investing in nearly doubling our 4G sites to about 5,000 by December 2019. This investment will effectively increase our 4G footprint to more than 600 Kenyan towns, supporting deeper smartphone penetration and connecting more Kenyans to opportunities presented by seamless and affordable internet access.

## Looking Ahead

The success of our business will depend heavily on our ability to connect people to people, to knowledge and to opportunities – wherever they are in Kenya and the world. While we continue to create impressive returns for our shareholders and delight our customers with relevant products and services, we are not satisfied. There is an opportunity to do more, to provide more than the bare minimum in voice messaging and data and position our business to be the best 4G+ network for social networking, gaming, entertainment and enterprise, among other things including financial services. Our focus therefore remains on executing our strategy with precision, while never losing sight of our vision, which is to transform lives in Kenya and now, beyond our borders.

Bob Collymore | **CEO**

WE ARE POSITIONING M-PESA AS AN ENABLER OF BUSINESS, TO SUPPORT CASH-LITE REVENUE COLLECTION IN THE COUNTIES. THESE PARTNERSHIPS HAVE RESULTED IN UP TO 30% MORE REVENUE COLLECTED.

This commitment, Nawe Kila Wakati, is our way of saying that we understand the daily challenges our customers face and are willing to do something to ease their burden.

**Kenya is a dynamic market, with enough room for multiple players to compete fairly in the pursuit of business growth and brand love.**

"We expect our DigiFarm model to generate greater returns for everyone within the value chain and increase our revenues by positioning us to take a larger slice of the KShs 2.5trillion worth of transactions generated by the agriculture sector each year."

**Bob Collymore**
**Chief Executive Officer**

# Taarifa Ya Mwenyekiti

## Thibiti, Sio Kukandamiza Ukuaji

Tunaendelea kuamini kuwa iwapo tutashikilia mkakati wetu basi tutazidi kuzalisha faida kubwa, na kuwasilisha thamani bora kwa wadau wetu wa msingi.

### Maelezo Kwa Ujumla

Mwaka jana ulikuwa na changamoto kwa biashara duniani kote. Licha ya ukuaji wa kiuchumi uliokuwa na matumaini, uwezo wa kununua wa watumiaji ulibakia chini ya shinikizo kubwa, na kulazimisha Wakenya kufanya maamuzi magumu zaidi ya kila siku. Kudorora huko kwa uwezo wa kununua, pamoja na mahitaji ya kodi yanayoongezeka huku Serikali ikifuatilia kuongeza fedha zaidi kutoka kwa sekta hii ndogo ya ICT, kulichangia kutuwama kwa ukuaji wa huduma kama vile za kauli na za ujumbe. Licha ya haya, sekta ya utoaji huduma iliendelea kusajili utendaji thabiti, ikiungwa mkono na ukuaji wa biashara kama hii yetu zilizo katika ICT, pamoja na biashara ya jumla na ya rejareja, usafiri, utalii na ujenzi wa nyumba.

### Kuendeleza Ukuaji Kupitia Udhibiti unaosaidia

Huku upenyaji wa kasi wa huduma za simu ukikaribia kufukia wateja milioni 50 katika nchi hii yenye watu takriban milioni 52, hivyo basi kuna haja ya kutafuta njia mbadala za kuendeleza ukuaji. Vichocheo vya ukuaji vya jadi (kauli na ujumbe) vinaendelea kudhihirisha ukuaji duni wa tarakimu moja, hii ikiashiria umuhimu wa kuimarisha biashara hii yetu ili kufikia mahitaji ya watumiaji. Hii itahitaji uwekezaji zaidi na wa makini katika uvumbuzi, yote haya yakihitaji kuwepo kwa mazingira ya udhibiti kanuni unaosaidia ili kufanikiwa. Tumebainisha kwa wasiwasi mkubwa kuweko kwa majaribio ya kusimamia sekta hii kupitia sheria na kanuni zinazopendekezwa ambazo zinataka kulazimisha kupangwa upya kwa muundo wa uendeshaji wa makampuni kama hii yetu, ambayo ukuaji wake umetokana na utekelezaji kwa njia bora wa mkakati wa biashara. Hatua kama hizi zinaweza kupunguza pakubwa uwezo wa biashara hizi wa kuwekeza, kubuni na kubadilisha maisha, jambo ambalo ndio undani hasa wa shughuli za Safaricom. Ni matumaini yetu kuwa suala hili litashughulikiwa kwa njia ya ushauri zaidi, ikiwa ni pamoja na kuwepo majadiliano ya kufaa baina ya wahusika wote ili kuja na suluhu bora zaidi ya kuleta manufaa kwa wadau wote.

### Kukaribisha Ushindani

Kenya ni soko lenye nguvu, lilio na nafasi ya kutosha kwa wahusika wengi kuingia na kushindana kwa njia ya haki katika kufuatilia ukuaji wa biashara na upendo wa chapa. Kwa hiyo jambo kuhimiza kuona hali ya ushindani ikibadilika kutokana na kuungana kunakoendelea kati ya wahusika wawili katika soko letu. Tunaamini hii itasababisha kuweko kwa uvumbuzi na ufanisi zaidi kwa manufaa ya wateja. Safaricom wanakaribisha ushindani wa haki katika mazingira yaliyo na usawa, ambapo uwekezaji, mkakati, uvumbuzi na ahadi ya chapa ziwe ndio ufafanuzi wa kweli; kinyume na kutegemea kutumia udhibiti kanuni kama njia ya kutarajia mafanikio.

Kenya ni soko lenye nguvu, lilio na nafasi ya kutosha kwa wahusika wengi kuingia na kushindana kwa haki katika kufuatilia ukuaji wa biashara na upendo wa chapa.

### Kuunganisha Watu, Kubadilisha Maisha

Zaidi ya miaka 18 iliyopita, Safaricom imejenga biashara iliyoanzishwa kwenye nia yetu ya kutaka kubadili maisha kwa kutumia teknolojia ya simu. Tumeweza kufanya hivyo kwa kuzingatia mkakati wetu, kuendelea kutambua vyema mahitaji ya wateja wetu na kuzidi kubuni ili kuwashughulikia, na kusisitiza ufuatiliaji wa madhumuni yetu. Hata hivyo hakuna hata moja ya haya yangeweza kufanikiwa bila ya imani yenu isiyotikisika katika maono yetu. Kwa niaba ya Bodi ya Wakurugenzi, ningependa kusema asanteni. Uvumilivu wenu, uaminifu na usaidizi unatupa moyo wa kutekeleza mengi zaidi: kutafuta fursa mpya za ukuaji ambazo zitazalisha faida kubwa kwa wanahisa, na kuwasilisha thamani kwa wadau wetu wa msingi.

## Kutamatisha

Tulianza robo ya 2 ya 2020 kwa masikitiko kufuatia kufariki kwa Mkurugenzi Mkuu Mtendaji wetu, Bw. Bob Collymore, tarehe 1 Julai 2019 baada ya kupambana na ugonjwa wa kansa. Alikuwa mtu mwenye busara ambaye alikuwa na maono ya ajabu kwa ulimwengu, na kwa Safaricom. Kwa miaka tisa Bw. Collymore aliongoza biashara hii yetu hadi kuweza kufikia hatua muhimu tajika, ikiwa ni pamoja na kuongeza zaidi thamani kwa wanahisa na kuimarisha ndani yetu hisia ya kusudi ambayo imekuwa kiashiria cha undani wa shughuli zetu hapa Safaricom. Dhamira hii, ya kubadilisha maisha, ndiyo sababu kuwepo kweti leo. Kuheshimu urithi wake tutaendelea kujitolea kumaliza kazi aliyoanza. Tutaendelea kuzingatia kwa haki madhumuni yetu, na kutumia teknolojia ya simu za mkononi kuzidi kuboresha maisha ya Wakenya, na watu wengi wengine tunaoweza kuwafikia kote ulimwenguni.

Ingawa biashara yetu inakabiliwa na changamoto kadhaa, tuna imani katika uwezo wetu wa kusimamia mashaka hayo na kuhakikisha kuwepo kwa ukuaji endelevu, unaongozwa na Kamati ya Utendaji yenye uwezo zaidi sasa ikiwa inaongozwa na Bw. Michael Joseph, aliyechaguliwa na Bodi ya Wakurugenzi kuwa Mkurugenzi Mtendaji wa muda mfupi wa mpito. Tukitazama mbele, tutaendelea kuimarisha upya biashara yetu, kuwekeza katika maeneo mapya ya ukuaji, na kuimarisha vipaumbele vya kuiweka Safaricom katika nafasi ya biashara inayofaa hadi katika siku zijazo.

Nicholas Nganga | **Mwenyekiti**

# Taarifa Ya Mkurugenzi Mkuu Mtendaji (Wa Muda)

## Kipindi Cha Mpito

> Tunashuhudia fursa kadhaa ambazo zina uwezo wa kuongoza biashara hii yetu hadi kwa ukuaji wa tarakimu mbili. Nina nia ya kufanya kazi kwa ushirikiano na timu hii ili kuipeleka M-PESA mbele hadi nje ya Kenya.

### Maelezo Kwa Ujumla

Mwezi uliopita umekuwa mgumu kwa familia ya Safaricom, ikijumuisha pia washirika wetu, kufuatia kufariki kwa Bob Collymore. Alikuwa mtu mzuri, si tu kwa ajili alikuwa rafiki yangu mpendwa, lakini kwa sababu ya yale aliyoweza kutimiza katika miaka tisa aliyohudumu katika Safaricom. Wakati tukiwa bado tunatafakari na majonzi ya kumpoteza, naamini kuwa kuzingatia katika kuhifadhi na kuheshimu urithi wa Bob kutatusaidia kufarijika hatimaye.

Ili kuongoza biashara katika kipindi hiki cha mpito, Bodi ya Wakurugenzi imeniteua mimi kama Mkurugenzi Mkuu Mtendaji wa Muda. Katika jukumu hili, nitakuwa nasimamia biashara hii ili kuhakikisha kwamba tunafuatilia vyema mkakati wetu huku tukisubiri Bodi ipate mgombea anayefaa kuongoza kampuni hii adhimu. Hadi wakati huo, mtazamo wangu wa siku za baadaye ni kuhimiza timu na kuongoza vitengo mbali mbali vya biashara katika utekelezaji wa mkakati wa biashara yetu, ambayo itamaanisha kuzingatia kuendelea kumpa nafasi ya mbele mteja, kutoa bidhaa na huduma zifaazo, na kuimarisha ufanisi wa shughuli zetu. Tunaona fursa nyingi zinazoweza zenye uwezo wa kuongoza biashara yetu na kuirudisha kwa ukuaji wa tarakimu mbili.

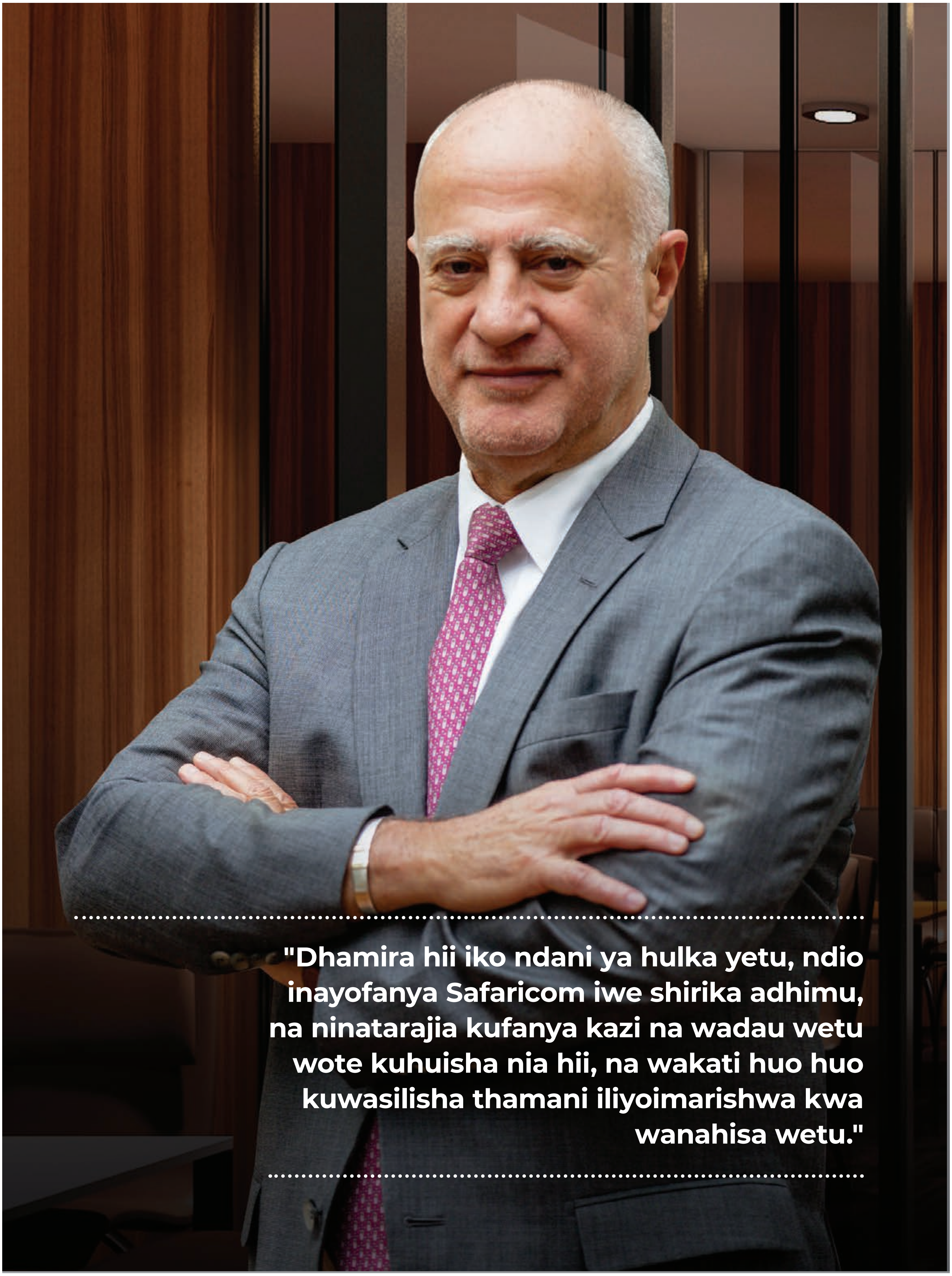
Kama mwanachama wa Bodi, natambua kwamba biashara tayari imeonyesha maeneo kadhaa ya kuzingatiwa mwaka huu wa kifedha, ikiwa ni pamoja na kutoa msaada wa ziada kwa vitengo vya biashara vinavyoibuka kama vichocheo muhimu vya mapato, kama vile huduma za kifedha na Vitengo vya huduma kwa wateja. Nina nia hasa ya kufanya kazi kwa ushirikiano na timu hii ili kuipeleka M-PESA mbele hadi nje ya Kenya, kitu ambacho ninajua Bob alikuwa na nia kutimiza mwaka huu.

Data pia inabakia zingatio muhimu kwa biashara hii, ambayo inahitaji kutafuta njia ya kusawazisha baina ya ukuaji wa matumizi ya data na ukuaji wa mapato. Hadi sasa, tumekuwa na uwekezaji mkubwa katika eneo hili na kuwa na tuna maono ya kuwa mtandao bora zaidi wa 4G+ kwa kila kitu kutoka michezo ya kubahatisha na burudani hadi kwenye mitandao ya kijamii, na ninatarajia kushirikiana na timu katika maeneo yote ili kufanikisha matarajio haya. Ukuaji katika eneo hili utasaidia mageuzi yetu ya kuwa mwezesha wa maisha ya dijitali, ambayo yatatuwezesha kujiweka katika nafasi ya kupata mapato mapya kutokana na bidhaa zisizo za jadi na huduma zingine kama vile DigiFarm, Masoko na ubunifu unaotarajiwa kupatikana. Tunaamini kuwa mipango hii, pamoja na uwekezaji tunayofanya kwenye mtandao wetu, itatuwezesha kudumisha nafasi yetu kwenye sekta hii, kutetea mgao wetu katika soko na kuongeza alama yetu ya Net Promoter sio tu kulingana na aina au ubora wa bidhaa na huduma zetu tunazouza, lakini kuhusu kile wateja wetu wanachofikiria kutuhusu, kwa sababu biashara yetu ipo hapa kubadilisha maisha yao.

> Tuko na maono ya kuwa mtandao bora zaidi wa 4G+ kwa matumizi yote kuanzia michezo ya bahati, burudani hadi kwenye mitandao ya kijamii

Dhamira hii iko ndani ya hulka yetu, ndio inayofanya Safaricom iwe shirika adhimu, na ninatarajia kufanya kazi na wadau wetu wote kuhuisha nia hii, na wakati huo huo kuwasilisha thamani iliyoimarishwa kwa wanahisa wetu.

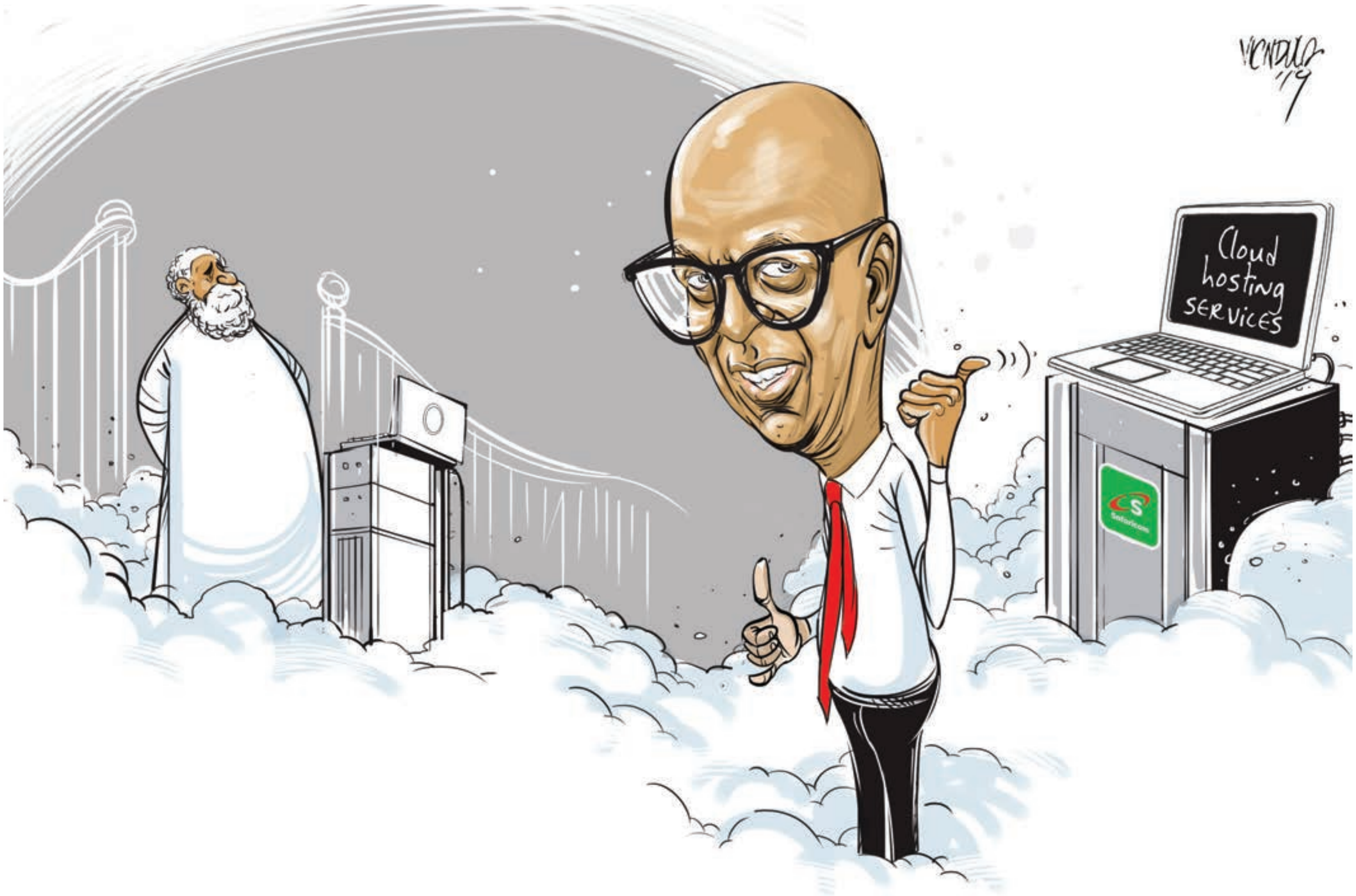
Michael Joseph | **Mkurugenzi Mkuu (Mtendaji wa Muda)**



**"Dhamira hii iko ndani ya hulka yetu, ndio inayofanya Safaricom iwe shirika adhimu, na ninatarajia kufanya kazi na wadau wetu wote kuhuisha nia hii, na wakati huo huo kuwasilisha thamani iliyoimarishwa kwa wanahisa wetu."**

BIASHARA YETU

# Wasifu Wa Bob Collymore




Courtesy of the Daily Nation

*"Kifo hakiwezi kuhepukwa na nimeamua kutofikiria sana kuhusu kifo kwa vile kitakuja tu hatimaye. Japo mimi sijui kitakuja wakati gani. Nimechagua kuzingatia mambo yaliyo muhimu zaidi kwangu. Sasa nimejuwa ni jambo lisilowezekana kwa mtu kuishi kwa miaka 200. Lakini kitu muhimu sana ni kwamba unapokuwa na kansa wazo la kifo huwa liko karibu, na hivyo basi haifai kuwa kitu cha kushangaza, kinyume na wewe uliye na afya nzuri lakini kifo kinaweza kukujia dakika yoyote au hata kesho asubuhi."*

***Bob Collymore***

# Taarifa Ya Mkurugenzi Mkuu Mtendaji

## Kuzingatia Kwa Dhati Dhamira Yetu

Mafanikio ya biashara yetu yanategemea pakubwa uwezo wetu wa kuunganisha watu na watu, kwa ujuzi, na fursa - popote walipo hapa Kenya, na ulimwenguni.

### Kuzingatia Kwa Dhati Dhamira Yetu

Moja ya mafunzo muhimu zaidi kujifunza katika biashara ni kwamba hakuna biashara yoyote inayoweza kufanikiwa katika jumuiya iliyo na matatizo ya kimaisha. Licha ya ukuaji endelevu kwenye sekta ya ICT katika mwaka wa kifedha uliopita, biashara yetu haikuepukana na athari za ukame na mfumuko wa bei za chakula uliofuatia, ambao ulipunguza uwezo wa wateja wa chini na wa kati kununua bidhaa zetu na huduma. Hili lilikuwa jambo la kweli kwa Safaricom mwaka jana.

Ili kukabiliana na hili, tulirekebisha mkakati kwa kuboresha uwasilishaji wa huduma za kifedha, kilimo huduma za afya na elimu, kuwezesha kuweko thamani kubwa zaidi kwa wateja wetu, wanahisa na miongoni mwa jamii tunakoendesha shughuli.

Njia hii, ambayo inakwenda sambamba na madhumuni yetu ya kubadilisha maisha, ilitufanya kuwekeza zaidi katika jamii zetu, kwa kutumia teknolojia ya simu ya kuwawezesha mamilioni ya Wakenya nchini kote.

Zaidi ya kuwezesha mawasiliano, pia tuliongeza ushiriki kwenye jamii zetu kupitia kampeni kama ile ya 'Ndoto Zetu' ambayo ilituwezesha kuwekeza katika ndoto za Wakenya wa kawaida na kujaribu kuwaletea mabadiliko maishani mwao kwa kutekeleza mambo ya ajabu. Pia tulishirikiana na Generation Kenya katika mpango wa kuwahami vijana kwa ujuzi unaohitajika wa kuwawezesha kupata ajira, mpango ambao, pamoja wenyewe ukijumuisha shughuli za kila siku na programu za Wanawake walio katika Biashara, hili limetuwezesha kuauni ajira za kazi karibu 900,000 za moja kwa moja na zisizo za moja kwa moja.

### Kudumisha Ukuaji Wa Wateja Ukuaji

Biashara yetu ipo ilipo hivi leo kwa sababu ya wale ambao wametuunga mkono kwa miaka sasa. Wanaume na wanawake ambao mbali na kufurahia bidhaa na huduma zetu, pia wana imani na kusudi letu. Ili kuonyesha shukrani zetu kwa wateja wetu kwa uaminifu wao, tuliadhimisha sherehe za miaka yetu 18 mnamo Oktoba 2018 kwa kufanyiza upya ahadi yetu kwao. Dhamira hii, ya Nawe Kila wakati, ni njia yetu ya kusema kwamba tunatambua changamoto zinazowakabili wateja wetu kila siku, na tuko tayari kufanya juhudi zote ili kuwasaidia kupunguza mzigo wao.

Katika kipindi hicho, tuliamua kwa ujasiri kuuchukua mzigo wa kodi ya ziada iliyotozwa kwa vifurushi vyetu vya data, ongezeko la bei ya huduma za maongezi na data ili kuhakikisha upatikanaji na uwezekano wa unafuu kwa wote. Hii ilituwezesha kurejea katika haadhi yetu ya uongozi kama shirika linaloaminiwa na wengi hapa Kenya na kutusogeza mbele kuwa na wateja zaidi ya milioni 31 – jambao linalostahili sifa kwa kampuni changa sana kama hii - kuamua kuachilia mapato ya muda mfupi ili kupata ustawi wa muda mrefu wa biashara yetu.

### Ubunifu Wa Sasa, Kwa Manufaa Ya Siku Zijazo

Kwa vile mahitaji ya mteja yanahitaji kubadilika, hivyo ndivyo ilivyo na mkakati wetu, na ndio maana tuliendelea kuwa wabunifu na kuwekeza katika M-PESA, ikiwa ni pamoja na kuboresha jukwaa la msingi ili kuweza kuhimili shughuli 1,200 kwa kila sekundi - ili kukidhi mahitaji haya. Himizo lilitokana na kuongezeka kwa idadi ya wateja na matumizi baada ya kuondolewa kwa ada ya shughuli katika M-PESA kwa shughuli za chini ya KShs 100 na kupunguzwa kwa ada ya Lipa Na M-PESA kwa wafanyibiashara katika mwaka wa kifedha wa 2018, pamaoja na kujihami na uzoefu muhimu katika miaka hiyo 12 ya kutoa kwa Wakenya huduma iliyo salama, ya kuaminika, nafuu ya uhamisho wa fedha kupitia simu na huduma za malipo, tulinuia kuimarisha mazingira haya yetu zaidi kwa kuongeza njia zaidi za matumizi. Hii ilitufanya tuanzishe hatua za kuipeleka M-PESA ulimwenguni kupitia M-PESA Global, ambayo inawawezesha wateja kutuma na kupokea fedha, kufanya malipo na kushiriki katika biashara za kimataifa kupitia ushirikiano na Western Union, PayPal na AliExpress. Hii ikifuatiwa na uzinduzi wa kwanza ulimwenguni wa utoaji mkopo wa ovadrafti kupitia simu - Fuliza. Huduma hii imekuwa na mafanikio makubwa zaidi, ikiashiria uwezo wa uvumbuzi unaoongozwa na data. Mwezi mmoja baada ya uzinduzi wake mnamo Januari 2019, zaidi ya wateja milioni nne walikuwa tayari wametekeleza muamala wa gharama ya zaidi ya KShs bilioni 6.2. Ilipofika mwezi wa Mei, idadi hiyo ilikuwa imeongezeka kwa zaidi ya KShs bilioni 45, na inaendelea kukua huku wateja zaidi wakiitumia ili kuweza kukamilisha kwa urahisi shughuli. Mbali na hayo, tuna nafasi nzuri ya kuiweka M-PESA kama msaidizi wa biashara, kwenda zaidi ya ufumbuzi binafsi wa kibiashara hadi kufikia kusaidia ukusanyaji mwepesi wa fedha kwa serikali za kaunti. Ubia huu umesababisha kuweko kwa ukusanyaji mapato wa zaidi ya hadi asilimia 30, hii ikisaidia kuthibitisha kuwa matumizi ya teknolojia hii yaweza kuziba mapengo ya kupoteza mapato kwa sekta za umma na za kibinafsi.

## Uwezeshaji wa Biashara

Tunafanya shughuli zetu katika dunia inayobadilika kwa kasi, ambapo watumaiji sio tu waliyo ujuzi zaidi; bali wana mahitaji zaidi, na wanautambua kwa kina zaidi ulimwengu unaowazunguka. Hii ina maana kwamba biashara sio ya kuchukuliwa tena kama kawaida. Daima biashara sharti zizidi kujibuni upya zenyewe ili kuendelea kuwa za maana, na sehemu muhimu ya kuzifanya zitiliwe maanani ni uwezo wa kupitisha

**"Biashara yetu imefika mahali ilipo leo sababu ya wale walotuunga mkono miaka hiyo yote."**

# Taarifa Ya Mkurugenzi Mkuu Mtendaji (ikiendelea)

**MILIONI MOJA**

IDADI YA WAKULIMA WALIOSAJILIWA KATIKA KIPINDI CHA MUDA WA CHINI YA MIAKA MIWILI TANGU KUZINDULIWA.

**144**

DEPO ZA DIGIFARM ZILIZOANZISHWA KOTE NCHINI

**TRILIONI KShs 2.5**

SHUGHULI ZINAZOTEKELEZWA NA SEKTA YA KILIMO KILA MWAKA

**“NDOTO ZETU”**

KAMPENI TULIYOFANYA KOTE KWA DHAMIRA YA KUTIMIZA NDOTO ZA WAKENYA 500 AMBAO WALIKUWA NA NIA KULETA MABADILIKO KATIKA MAISHA YA JAMII ZAO.

knolojia mpya kwa haraka kama wateja wetu walivyo. Kwa suala hilo, tumeweka mazingatio yetu katika kubadilisha biashara yetu kuwa ya kuwezesha maisha ya kidijitali, ambayo inamaanisha kutafuta fursa za kutumia teknolojia za kisasa za simu kwa muktadha kila watumiaji wetu wanavyobadilika. Tunajitahidi sisi wenyewe kuelewa kwa undani zaidi mahitaji ya kila mteja kupitia ubainishaji huo, na halafu kujuwa jinsi tunavyoweza kuwasilisha ufumbuzi bunifu wa kukidhi kila mahitaji ya kipekee. Hii inamaanisha kutambua jinsi tunavyoweza kutumia teknolojia ya simu katika kilimo kupitia DigiFarm kwa mfano, jukwaa letu la m-kilimo, au kwa njia ya biashara kupitia internet, ambayo bado tunajaribu kuitathmini na Masoko, tovuti ya ununuzi mtandaoni ambayo tulizindua mwishoni mwa 2017.

Kwa pakubwa ufumbuzi huu utategemea internet ya kasi, ya ubora wa hali ya juu, ndiyo maana pia tunawekeza takriban mara mbili katika mfumo wetu wa 4G hadi kufikia vituo 5,000 ifikapo Disemba ya 2019. Uwekezaji huu utafanikiwa kuongeza uwepo wa mfumo wetu wa 4G hadi zaidi ya miji 600 hapa Kenya, itakayosaidia upenyaji wa simu za smartphone zaidi na kuunganisha Wakenya zaidi na fursa zinazowajia kwa urahisi, kupitia upatikanaji wa internet nafuu.

## Tukitazama Mbele

Mafanikio ya biashara yetu yatategemea sana uwezo wetu wa kuunganisha watu kwa watu, kwa ujuzi, na kwa fursa - popote walipo nchini Kenya, na duniani kote. Wakati tunapoendelea kuwasilisha matokeo ya kuvutia kwa wanahisa wetu na kufurahisha wateja wetu kwa kuwatolea bidhaa zinazofaa na huduma, bado hatujaridhika. Kuna fursa ya kufanya mengi zaidi, kutoa huduma zaidi kulikoa za kiwango cha chini katika maongezi, SMS na data, na kuiweka biashara hii yetu katika nafasi ya kuwa mtandao bora wa 4G+ wa kijamii, michezo ya kubahatisha, burudani na biashara, kati ya mambo mengine ikiwa ni pamoja na huduma za kifedha. Lengo letu kwa hivyo linabaki katika kutekeleza mkakati wetu kwa usahihi, na huku bila kupoteza kamwe maono yetu, ambayo ni kubadilisha maisha ya watu nchini Kenya kwa sasa, na kwenda zaidi hata nje ya mipaka yetu.

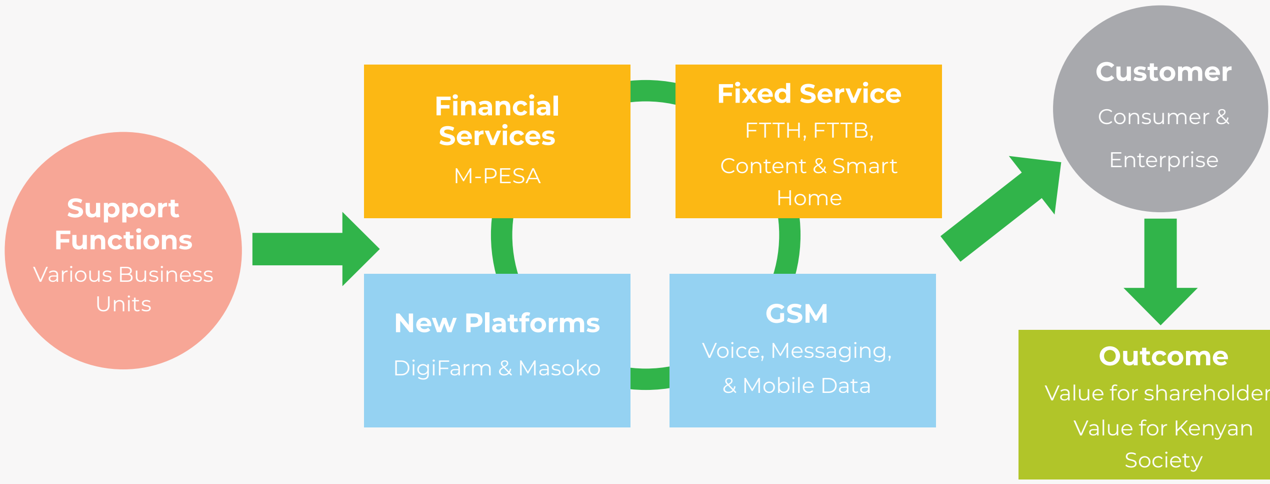
> Dhamira hii, ya Nawe Kila wakati, ni njia yetu ya kusema kwamba tunatambua changamoto zinazowakabili wateja wetu kila siku, na tuko tayari kufanya juhudi zote ili kuawasaidia kupunguza mzigo wao.

Bob Collymore | **Mkurugenzi Mkuu Mtendaji**

"Tunatarajia kielelezo hiki chetu cha DigiFarm kuzalisha faida zaidi kwa kila mtu aliye ndani ya duara la thamani, na kuongeza mapato yetu kwa kutuweka katika nafasi muafaka ya kuchukua fungu kubwa la thamani ya trilioni KShs 2.5 ya shughuli zinazozalishwa na sekta ya kilimo kila mwaka."

**Bob Collymore**
**Mkurugenzi Mkuu Mtendaji**

# Our Business Model




## Services to Customer

**GSM:** We focus on providing customers with affordable segmented offerings on voice, messaging and mobile data by progressing the use of CVM and data analytics. We are providing enablers for our customers' digital lifestyles including: enhancing our 3G and 4G coverage currently at 93% and 57% respectively; providing the market with affordable 4G smartphones and other use cases such as Cloud, Self Service Channels, Internet of Things and VoLTE.

**Financial Services:** M-PESA not only allows for P2P transfers and withdrawal but also payment options, connectivity to formal banking and credit access. It has also facilitated international transactions and deepened financial inclusion in the country.

**Fixed Service:** As we drive digitisation for our consumer and enterprise customers, we have laid more than 6,700 kilometers of fibre and connected close to 300,000 homes and 2,400 businesses. We continue to increase usage through affordable tiered pricing. We see future opportunity in converged service of data, content, smart home and fixed mobile.

**New Platforms:** In line with our purpose to transform lives, we continue to leverage in the power of mobile technology to deliver on shared value propositions that disrupt inefficiencies and impact lives positively and we have launched two platforms to achieve this. The platforms include; our E-Commerce platform 'Masoko' that has the ambition of taking Africa to the world and DigiFarm a platform connecting farmers to knowledge, quality and affordable inputs, credit and insurance and market opportunities

Masoko's vision is to take Africa to the world.

## Support Functions

These are the various business units that offer the strategic support needed to deliver and offer customers a truly differentiated experience and satisfaction within the network including: Regional Sales; Customer Experience; Product and Service Development; Sales and Distribution; Strategy and Innovation; Finance; IT; Risk and Corporate Affairs and Regulatory.

## Outcome

**Value for shareholders**: EPS up 14.7% to KShs 1.58 in the year 2019.

**Value for Kenyan society**

- True value is 9.6 x profit (KShs 62.5billion)
- Contribution to GDP is 6.3%
- 979,000 jobs in 2019

The foundation of our growth is the sustained investment we make centered around customer experience. We have continued investing heavily and strategically in 4G and now have more than 5,000 sites. Our fibre roll out now covers more than 6,700kms opening up opportunities for content, smart home and enterprise propositions in the medium term.

We strive to complement the quality of network experience with personalised products and pricing offers resulting in customers getting much more to use by paying a little more.

These personalised offers drove reduction of our average rate for data and voice (outgoing) by 42% and 10% respectively. Average rate per megabyte is down 67% over the last four years as we focus on improving the value we offer to our customers. Our overall customer growth momentum remained solid, with close to 2.3 million more subscribers joining Safaricom in the year.

## Our Revenue Drivers

M-PESA now contributes 31.2% of service revenue while mobile data is now contributing 16% there by reducing the reliance on voice and messaging revenues. Fixed data contributed 0.7ppts of the 7% service revenue growth. Though a relatively new line of business, fixed data is now contributing 3.4% of service revenue.

We have over the years successfully managed to expand the portfolio which builds resilience and strength to our business model.

## Our Costs

We have achieved significant results in limiting cost growth by focusing on digitising and driving efficiencies. The company now has a cost culture which helps maximise returns.

Thanks to some strong cost controls and capex monetisation, underlying EBIT margin improved by 1.9ppts and capex intensity improved by 0.7ppts respectively on an underlying basis.

Effective and efficient capex investment has been complimented by successful commercial monetisation and revenue growth. As a result, despite increasing capex investments, capex intensity has reduced. This has resulted in superior shareholder returns.

Our resulting strong cash flow helps us to maintain a high level of capital re-investment, primarily in our network infrastructure to maintain a leading position in network coverage, call quality and data speed in the market. We have also focused capital spend on our new billing system as we look forward to a transformative digital company.

In addition to investing in the future prosperity of the business, cash generated from our business allows us to maintain our progressive shareholder returns, guided by our dividend policy of paying dividends each year out of net income reported in that specific year.

We have achieved significant results in limiting cost growth by focusing on digitising and driving efficiencies. The company now has a cost culture which helps maximise the returns.

## Our Investment Case

### The 'Bulls' - upside in our performance

- Strong management execution
- Adoption of 9 SDGs
- Diversified portfolio that does not over index on one revenue stream
- Solid capital allocation and improving capital intensity
- Strong network investment
- Pipeline of new revenue streams including new M-PESA use cases, E-Commerce, DigiFarm and regional expansion
- Sustained data growth potential, indicating future growth opportunities
- Significant fibre and enterprise opportunity realised over the past year to supplement growth
- Strong balance sheet capacity and cash flow generation, to support both dividend and future acquisitions

### The 'Bears' - downside risk to our performance

- Concerns on implementation of the competition study remedies
- Government fiscal deficit and tax agenda
- Enhanced competition in the market targeting mobile data

# How We Sustain Value

## Key Resources

### Human and intellectual capital

**(People, culture and governance)**

The technical and managerial skills, productivity and wellbeing of our people – coupled with a company culture and governance systems that foster innovation and compliance – are critical to our long-term success. Investing in our people is one of the most significant costs to our business, impacting short-term financial capital, but generating longer term returns in all capital stocks. The anticipated changing nature of work and the increasing role of digital and Artificial Intelligence may result in some pressure on certain traditional job functions.

**Key Inputs**

- 6,323 employees
- Trusted employee relations
- Sound compliance and governance systems
- Technical and managerial skills
- Invested in wages and benefits
- Invested in employee training

**Outcomes (2019)**

- 66% male and 34% female representation in senior management
- Ratio of total workforce is 50% male and 50% female
- Differentiating our customer offering through network quality, positive customer experience and tailored products and services
- Engaging actively with regulators, pursuing full compliance and driving a societal contribution
- Ensuring transparent investor engagement and communication
- Delivering social value through enhanced connectivity and services in inclusive finance, education and health

### Social and relationship capital

**(Quality relationships with key stakeholders)**

A positive brand and quality relationships with customers, regulators, investors, suppliers and communities is the foundation of our ability to generate revenue. We believe in maintaining strong partnerships with all our stakeholders. We see our role in society as positively contributing to a sustainable future with a focus on education, health and security. Investing in social capital often requires short and medium-term financial capital inputs, but generally generates positive returns across most capitals.

**Key Inputs**

- 31.8 million customers
- Informed engagement with regulators
- Investor confidence
- Long standing positive supplier partnerships
- Trusted brand

**Outcomes (2019)**

- Continuing engagement with government and regulators on regulatory and policy issues
- Maintaining our network leadership through targeted investment
- Enabling 2G, 3G and 4G sites coverage on same network equipment through radio access network modernisation programmes
- Progressing with customer billing transformation and migration to our new M-PESA ecosystem
- Developing systems and processes to enable big data analytics
- Maintaining strong corporate governance

Read more on Human and intellectual capital and Social and relationship capital available on the link: https://www.safaricom.co.ke/about/transforming-lives/sustainability/sustainability-reports

## Manufactured capital

**(Network and IT infrastructure)**

Our network infrastructure, data centres, distribution infrastructure and software applications are an important source of competitive differentiation. Investing in building and maintaining this infrastructure requires significant financial capital and appropriate levels of human and intellectual capital, as well as certain natural capital inputs and outcomes. Over the long term, the investments in manufactured capital typically generate net positive outcomes.

**Key Inputs**

- KShs 6,700kms fibre footprint
- KShs 62.5billion net income (IFRS 15)
- KShs 37.3billion capital expenditure for the year

**Outcomes (2019)**

- Rated as the leading network quality in the market
- 4,949 2G base stations
- 4,907 3G base stations
- 2,791 4G base stations
- 6,700kms of fibre footprint achieved
- Optimising capital allocation
- Diversifying revenue growth areas
- Purchasing power on network equipment, devices and operating expenditure through Safaricom Procurement division

## Financial capital

**(Financial capital)**

Which includes shareholders' equity, debt and reinvested capital – is a critical input in executing our business activities and in generating, accessing and deploying other forms of capital.

Balancing the short-term interests of investors with longer-term growth objectives and with some of the interests of other stakeholder groups, remains a critical objective and often involves balancing certain trade offs.

**Key Inputs**

- 62.4% percent market share
- 0.03 times, net debt to EBITDA ratio to execute growth
- KShs 63.1billion free cash flow
- KShs 2.12billion net interest earned

**Outcomes (2019)**

- Service revenue up 7% to KShs 240.30billion
- EBITDA up 10.7% to KShs 124.94billion
- Operating free cash flow generated KShs 88.45billion
- Proposed dividend payout of KShs 50.08billion and special dividend of KShs 24.84billion
- Total dividend per share declared: KShs 1.25 cents
- Strong focus on energy efficiency of our network
- Identify opportunities to use communications technology in enabling a low carbon economy
- Recycling handsets and network equipment

## Natural capital

**(Natural resources)**

We require natural capital such as land and energy to deploy and operate our manufactured capital. Accessing these inputs diminishes financial and natural capital, the impact of which is lowered through energy efficiency initiatives and site sharing.

**Key inputs**

- 159,295 MWh of electricity consumption up 13% YoY
- Water consumption up 9.2% to 99,826 $m^3$
- Fuel consumption down 2.7% to 8,946,718 litres

**Outcome (2019)**

- 1,072 tonnes of e-waste collected
- KShs 46,649 cost of energy consumption by site
- KShs 397.7million of value eroded in water usage and carbon emission

# What Impacts Value

In this section, we briefly outline those stakeholder groups who have a substantive impact on our ability to create value, outlining how they impact on value and identifying some of their primary interests relating to our business activities.

## Government and Regulators

### Material relationships

Provide access to spectrum and operating licenses, the basis for creating value.

Impose fair regulatory measures with potential cost implications.

### Means of engagement

- Participation in consultations and public forums
- Submission and engagement on draft regulations and bills
- Engagement through industry consultative bodies
- Publication of policies and research engagement papers
- Partnering on key areas including education, health and gender based programmes

### Material interests

Ensuring this wide spectrum of interests is managed as a strategic resource, contributing to national broadband access and the digital economy, especially in underserviced and rural markets. Others include:

- Promoting opportunities for job creation and socioeconomic development
- Protecting consumer interests on service quality, costs and privacy
- Regulatory compliance on issues such as mobile termination rates, price, security, safety, health and environmental performance
- Contribution to the tax base

## Customers

### Material relationships

Investing in tools and products that are designed to give our customers variety and control through relevant products and services.

### Means of engagement

- Call centers, retail outlets and online
- mySafaricom App, messaging and USSD channels
- Net Promoter Score (NPS) feedback
- Facebook and Twitter platforms
- Safaricom PLC website
- Open days offering customers affordable deals on products

### Material interests

- Better value offerings
- Faster data networks and wider coverage
- Making it simpler and quicker to deal and connect with us by using Safaricom self-care services
- Converged solutions for business customers
- Managing the challenge of data-usage transparency by using tools like My Data Manager and Subscription Manager
- Privacy of information; simple tools like Jitambulishe help to minimise fraud and theft cases
- Feedback on service-related issues via CARE

## Investors and Shareholders

### Material relationships

Provide sustainable financial capital required to grow.

### Means of engagement

- Investor engagements that include roadshows, conferences and meetings
- Annual and interim results announcements
- Annual General Meetings with shareholders to update them on our business strategy
- Investor relations section on our main website

### Material interests

Sound investment to ensure sustainable growth and risk management and to ensure that we take advantage of the opportunities that arise. Others include:

- Responsible allocation of capital
- Sound corporate governance practices
- Transparent executive remuneration
- Stable dividend policy

## Employees

### Material relationships

Our employees' involvement and determination compounded with their skills, drive our ability to realise our vision of becoming a leading transformative digital company.

### Means of engagement

- Internal website
- Newsletters, internal magazine and electronic platform communication
- Employee surveys
- Employee hotline
- Leadership coaching and mentorship forums
- CEO mailbox

### Material interests

- Clear career paths through individual development plans and performance reviews to assist in career development
- Improved knowledge sharing across the company
- Simplicity, agility and engagement
- Building the coaching and mentoring capability of leaders
- Better understanding of reward structures
- Competitive remuneration

# What Impacts Value (continued)

## Suppliers

**Material relationships**

Impact on our ability to offer quality and cost-effective products and services and to provide cutting-edge technology.

**Means of engagement**

- Supplier engagement forums
- Ongoing site visits
- Audits

**Material interests**

- Timely payment and fair agreement terms
- Occupational Safety and Health Act compliance
- Improving health and safety standards
- Partnering on environmental solutions

## Communities

**Material relationships**

Transforming lives through sustainable development initiatives that strengthen the socioeconomic context, in which we operate.

**Means of engagement**

- Safaricom Foundation partnering with communities
- M-PESA Foundation investing in projects with Corporate Social Investment
- Public participation in projects and initiatives that give back to the society such as the Safaricom Marathon geared towards the Lewa Wildlife Conservancy

**Material interests**

- Access to mobile voice and data services
- Access to basic services such as finance, health and education
- Investment in infrastructure
- Responsible expansion of infrastructure

## Business Partners

**Material relationships**

A key interface with our customers; they are custodians of our brand and reputation and critical to ensuring effective delivery of our strategy of delivering the best customer experience. They include financial services partnerships e.g. Fuliza and content providers.

**Means of engagement**

- One-on-one business meetings
- Training sessions on new products and services
- Market visits

**Material interests**

- Making it simpler and quicker to deal with us
- Fair treatment
- Involvement of top management with customers

## Media

**Material relationships**

Critical role as the contact person with external stakeholders and keeping them informed of the facts, business developments, new products, services and the impact of our business operations.

**Means of engagement**

- Media releases and product-related publicity
- Roundtables
- Product launches
- Face-to-face and telephonic engagements
- Interviews with the CEO and key executives

**Material interests**

- Updated on key activities and offerings by the business
- Transparency

# Our Operating Environment

## Key Trends Shaping our Industry

In Sub-Saharan Africa, mobile money continues to play a key role in extending financial services to people with limited access to traditional financial institutions, particularly women and rural populations.

*Source GSMA*

### Overview

Our industry is witnessing enhanced volatility. This trend is similar across Sub-Saharan Africa as the market confronts challenges of affordability. Other detractors specific to the Kenyan market include delayed rains causing inflationary pressure on our consumers' wallet, tax revisions and regulatory risk.

Opportunities that continue to support our growth include forecast of high single-digit GDP growth, stable currency, political environment and growth in smart phone penetration. These opportunities and risks are reflected in our strategy.

### Regulatory Environment

The regulatory landscape has been a changing topography over the past year. Key issues that have shaped the regulatory environment include:

#### *Data Protection and Privacy*

The Kenyan lawmakers are currently discussing two Data Protection Bills; one is at the Senate House and the other is at a Ministerial Taskforce on Privacy and Data Protection.

The Senate Bill proposes that the Kenyan National Commission of Human Rights oversees data protection enforcement while the Ministerial Taskforce, proposes the establishment of a new institution to oversee data protection in Kenya.

Possible impacts to the industry include:

- Limitation on usage of customer personal and sensitive information
- Costs of implementing data protection mechanisms
- New license fees for data controllers

#### *Competition Study*

A competition study was commissioned by the Communications Authority in 2015 and in 2018 the Communications Authority engaged the market on the initial findings and proposed recommendations from the draft report. On 5th March 2019, the Parliamentary Departmental Committee on Communication tabled its report on 'Legislative and Regulatory Gaps Affecting Competition in the Telecommunications sub-sector in Kenya'.

The following amendments were adopted on 3rd April 2019: Parliament tasked CA to conduct a study on Mobile Money Termination Rates with a view of lowering the cost to mobile subscribers and to review the market every 2 years for the existent of a dominant player and to utilise the universal service fund to build base transmission stations for access by all mobile operators in the underserved counties. CA and CBK were tasked with formulating regulations on mobile money transactions and ensuring lending rates conform to those of banks. We look forward to being actively engaged in the formulation of the policies and await the final outcome of the Communications Authority competition study.

#### *Taxation*

In FY19, the National Treasury introduced tax revisions that included: Excise duty on telephone and internet data services from 10% to 15% - GSM & 0%- 15% on fixed solutions Excise Duty on money transfer services by cellular phone service providers from 10% to 12%. VAT Base for taxable value of a supply of mobile cellular services to include Excise Duty Tax on winnings-expanded definition to cover all winnings including prize competition and promotional winnings at 20% of the amount.

Contribution by employers & employees to the National Housing Development Fund at 1.5% of the employee's gross monthly earnings up to a maximum of KShs 5,000. Excise Duty on fees charged for money transfer services by banks, money transfer agencies & other financial service providers from 10% to 20%. As affordability is already a key concern for our consumers, we opted to absorb the Excise Duty revisions for data bundles as this threatened to slow down digital transformation. The result of this was short-term impact on our revenue, but it allowed us to regain our leadership as a trusted company. We also saw our brand consideration, usage and Net Promoter Scores increase, tripling our customer growth rate between H1 and H2 to propel us to over 31 million customers growth in the long run. This action also supported the strong increase in mobile data usage per subscriber per month, which has grown by 73% year on year from 421 MBs to 728 MBs. This usage increase offset the reduction in rate thus minimising the impact to average revenue per user.

## Evolving Competitive Landscape

On 12th February 2019, Telkom Kenya Ltd. and Airtel Kenya Networks Ltd. announced the signing of an agreement to merge and operate under a joint venture.

The merger is subject to approval from various regulators and if approved, this will significantly alter the industry profile, giving customers a stronger player.

FY19 witnessed a heightened competitive environment with price being the key proposition to customers. The industry witnessed an increase in dual SIM usage. The increased competitive intensity slowed down our GSM business as our Net Promoter Score and brand consideration parameters came under pressure. Initiatives such as "Nawe Kila Wakati" enabled us win back trust and consideration and remain the force that propels Safaricom as the industry thought leader.

## Going Live with Wallet Interoperability

Interoperability continues to be a strategic priority for the industry, to increase velocity of transactions within the ecosystem.

In FY19, we implemented mobile money wallet interoperability and have connected two players in the industry, improving transactions in terms of customers getting a choice to move money around.

We have remained net receivers due to the expansive agent network and use cases available within our ecosystem.

## Reaching the Underserved through Innovation

In Sub-Saharan Africa, mobile money continues to play a key role in extending financial services to people with limited access to traditional financial institutions, particularly women and rural populations. There are approximately 135 live mobile money services across the region, with 122 million active accounts. Mobile money and billing platforms, are enabling the implementation of sustainable business models for key services across verticals.

M-PESA has proved that the most basic feature phone can be turned into a lifeline; a device that can keep you connected in more ways than we ever thought possible just over a decade ago. Increased mobile money transactions have brought the need of more innovation in M-PESA.

Our platform and strategy has evolved to meet changing customer needs. Armed with valuable lessons from twelve years of providing Kenyans with safe, reliable and affordable mobile money transfer and payments services, we sought to enrich our ecosystem further by adding more use cases including:

- Partnering with a number of global players to facilitate international money transfer, payments and e-commerce. M-PESA is now open to the world through M-PESA Global. Our customers can send money and make purchases far beyond our Kenyan borders. Some of our partners include AliExpress and Western Union
- Launch of Fuliza, the world's first contextual mobile money overdraft facility. Fuliza is a result of data driven and insight led innovations
- Positioning M-PESA as an enabler of business, selling it as a reliable solution for cash-lite revenue collection

## Rise in Smartphone Adoption

Two main factors are behind the rise in mobile internet in emerging markets; the continued decline in prices of smartphones and a affordability of mobile data plans as a result of reduced average rate per megabyte.

Smartphones becoming more affordable has increased their uptake in Kenya significantly. Increasingly, people want to stay connected on social media platforms to keep up with global and local trends. Sub-Saharan Africa continues to be the largest non-internet population in the world, with rural coverage still a major challenge along with other barriers.

We, being at the forefront of the digital transformation in Kenya, have been powering the digital lifestyle through offering affordable 4G smartphones like Neon Kicka and growing our 4G sites with a plan to nearly double them in FY20.

# 02

# OUR PERFORMANCE

# Chief Financial Officer's Statement

**31.2%**

**M-PESA contribution to service revenue**

Revenue growth for the year was driven by strong M-PESA performance, contributing 76.6% of service revenue growth.

## FY19 performance and influence of taxation and competition

In a year that macro weighed on customer choice, we continued to generate positive momentum resulting in strong performance in the year.

Service revenue grew at a strong rate of 7%, with 5% of the growth coming from increased customer support and overall customer growth momentum remaining solid, pushing the subscriber base to 31.8 million, with 2% of the uptick coming from Average Rate Per User (ARPU) growth. Customer growth was driven largely by an effort to regain our customer trust leading to an improvement in our NPS.

M-PESA grew 19.2% contributing to 76.6% of service revenue growth and offsetting a decline in legacy voice and messaging as these businesses face competitive pressures and migration to newer technologies. M-PESA now accounts for 31.2% of service revenue, indicating the resilience in our business model vis a vis a traditional telco. Voice and messaging now contribute 39.9% and 7.3% to service revenue respectively.

Mobile data experienced slow growth at 6.4% contributing 1% to service revenue growth. It accounts for 16.1% of service revenue. Mobile data performance reflects both competitive conditions in the market and increased taxation that was absorbed for in-bundle customers.

Fixed data grew at 22.7% contributing to 0.7% of service revenue growth and is now 3.4% of service revenue.

We delivered an EBIT of KShs 89.6b which is higher than our guidance of KShs 85billion - KShs 89billion improving by 13.1%. Earnings per share improved by 14.7% and free cash flow improved by 13.9%.

## Sustained margin improvement

EBIT margins improved by 1.9ppts supported by higher revenue, an improved contribution margin, prudent spend and capex investments leading to increased efficiencies and improved bottom line. Contribution margin reflects decreasing airtime commission driven by more M-PESA top-ups, M-PESA mix benefit as M-PESA commission grows at a slower rate to M-PESA revenue and other costs benefits.

## Investment guidance for the short to medium term

We sustained our level of investment in FY19, with capital expenditure totaling KShs 37.25billion for the year. This enabled us to expand our network to ensure the widest reach. Our capital additions of KShs 37.25billion expressed as a percentage of our revenues remained in the 'mid-teens', driven by our focus on enhancing monetisation and cost savings opportunities upon deployment. We expect similar levels of capex investment in FY 2020 in the range of KShs 36-39billion. This will go into strengthening our mobile network and supporting our growth in fixed line as we look to further grow our Fibre To The Home and Fibre To The Buisness revenue streams.

## Innovation and partnerships

Innovation and partnerships continue to define our approach to revenue diversification and growth. This year, we made good progress by securing key partnerships for our M-PESA business including AliExpress to drive our payments business, Western Union to drive remittances and "Fuliza", our overdraft product, to drive lending.

## Special dividend and sustaining shareholder returns

The Board remains committed to investing in the business and continuing our strong record for paying progressive dividends each year. The proposed dividend for FY19 is KShs 50.08billion, an increase of 13.6% year on year. Given the strong position

**"My efforts are to guide the business into a sustainable economic model by sweating the assets and focusing on digitalisation. This is resulting in development of new use cases which ride on existing infrastructure thus maximising returns for shareholdrs. As a business, this has enabled us to free up cash to be deployed in developing future revenue streams."**

# Chief Financial Officer's Statement (continued)

of the balance sheet, we proposed a special dividend for this year of KShs 24.84billion .

## Adoption of IFRS 15/16 standards

During FY19, we have adopted the IFRS 15 accounting standard (which primarily relates to revenue recognition) for our statutory reporting, but our management reporting remained on an IAS 18 basis, reflecting our internal budgeting process. For FY20, we shall adopt IFRS 15 for our management reporting.

Adoption of IFRS 16 in this financial year will have a material impact on EBITDA, mainly due to the leases we hold. However, the upside on EBITDA is negated by an increase in both depreciation and interest expenses, hence we expect the impact to net income to be immaterial.

## Looking ahead, what does the future for Safaricom look like?

We remain committed to our purpose of transforming lives. Our latest True Value Report indicates that Safaricom's value to the Kenyan society increased by 11% to KShs 601 billion and contributed 6.3% to the GDP.

We are excited about the future of M-PESA expansion and initiatives such as bringing the IP to Africa, innovations such as Fuliza, opportunities around Fibre including surveillance and content, E-commerce, DigiFarm and Enterprise solutions including IoT (Internet of Things). We continue to leverage the power of mobile technology to deliver on shared value propositions that disrupt inefficiencies and impact lives positively in the health, agriculture and education sectors, such as M-Tiba, DigiFarm, Shupavu and M-Salama. We continued to enhance customer engagement through capacity upgrade of our transactions, agents and merchants in our network. We remain focused on enhancing our customer experience to maintain leadership as the most trusted company and grow our customer base.

We are pleased with the strong results we have delivered for the year, building on our long track record of consistent delivery, protecting shareholder wealth and putting the customer first and we foresee continued growth in the future.

Looking ahead, the business will sustain its momentum of investing in the quality of our service and diversification of our revenue portfolio to ensure sustained returns to shareholders.

Our financial outlook for 2020 reflects the adoption of the IFRS 15 and IFRS 16 accounting standards. Guidance on EBIT is in the KShs 93-97billion range for FY20 up from KShs 89billion, with capex guidance remaining within the KShs 36-39billion range.

Sateesh Kamath | **Chief Financial Officer**

Priority Areas:

- Digitisation
- Reshaping our business model to be fit for future
- Optimising resources to maximise returns

**We addressed the mobile data affordability issues in the second half of the year resulting in an easing of growth. Mobile data revenue grew 6.4% year on year and contributed 1ppt to the total growth.**

We added 2.3 million customers this year to the Safaricom family, a 58% increase compared to the 1.4 million added the previous year.

## OUR STRATEGIC PILLARS AT A GLANCE

### Putting the Customer First

***Best Customer Experience***

We are progressively providing a seamless, frictionless, personalised and digital experience to our customers.

### Relevant Products

We are developing a deep insight of our customers' needs, wants and behaviors and providing propositions to lead in chosen segments.

### Operational Excellence

***Technology Enabling a Digital Society***

It's not just about providing the bare minimum in voice, messaging and data services; it's about investing in enablers that allow our customers to stay connected to each other and to the world around them.

***Digital First***

Rethinking and digitising our operations, products and services to become more agile in order to enable the digital lifestyles our customers.

***Business Model Transformation***

Structurally transform our operating model and fundamentally reshape our cost base, while also improving the overall experience for our customers and generating incremental value.

***Our People and Culture***

People with the right culture are fundamental to every aspect of our ambition to be a purpose led, digital solutions provider. We are bringing together the right people and skills to scale up and accelerate our digital transformation.

***Our Sustainable Business***

We are a purpose driven brand with a deserved reputation for leadership in driving social progress through sustainable transformational solutions.

# Putting the Customer First

**Strategic Pillar: Putting the Customer First**

| Strategic Objective | Short - Medium Term Measure of Sucess |
|---|---|
| 1. Sustaining customer growth through segmentation | Grow 30-day active customers by mid-single digit ppts |
| 2. Enhancing digital experience and driving efficiency | Number 1 Overall NPS<br>Reduce churn by mid-single digit NPS |
| 3. Our brand and reputation "Nawe Kila Wakati" | Number 1 Overall NPS<br>Reduce churn by mid-single digit NPS |

## 1. Sustaining Customer Growth through Segmentation

Mobile subscriber growth in Sub-Saharan Africa has slowed in recent years as the industry confronts the challenges of affordability and a youthful population. This was mirrored in Kenya as well.

Due to the heavy economic burden on our customer and stiff competition for a share of their wallet, we had to make smart choices to continue generating positive momentum.

We achieved this by focusing on the customer, investing in the quality of our service, the performance of our network and creating differentiated customer experiences. Our actions were guided by our purpose of transforming lives.

We increased the use of data analytics to provide predictive, proactive and personalised offers to our customers, driving down the average rate of our offering.

This translated to an accelerated growth in customers from 0.4 million in the first half of the year to 1.9 million in the second half of the year.

Future growth opportunities are projected to be increasingly concentrated in rural and low-ARPU markets, as well as younger demographic groups.

In order to sustain our growth curve, we personalised our products in order to give a diverse offering to our different segments. The propositions included:

### Tunukiwa – Mass

Tunukiwa caters to the mass segment to derive the best value for every coin they spend by giving them a variety of options to chose from in relation to the amount they are willing to spend. We matched our customers' historical spend and gave them control over what they spend, with a plan that perfectly suits them.

### Blaze – Youth

Blaze is a platform that empowers the largest demographic in the country; youth 18 – 26. Not only does the platform offer tariffs and products but it also opens doors for them to get mentorship programs and become entrepreneurs in summits such as BYOB – Be Your Own Boss.

### Flex – Hustler

FLEX allows customers to choose how they allocate airtime for calls, messaging or data services, a convenient bundle offering 35% more value of resources.

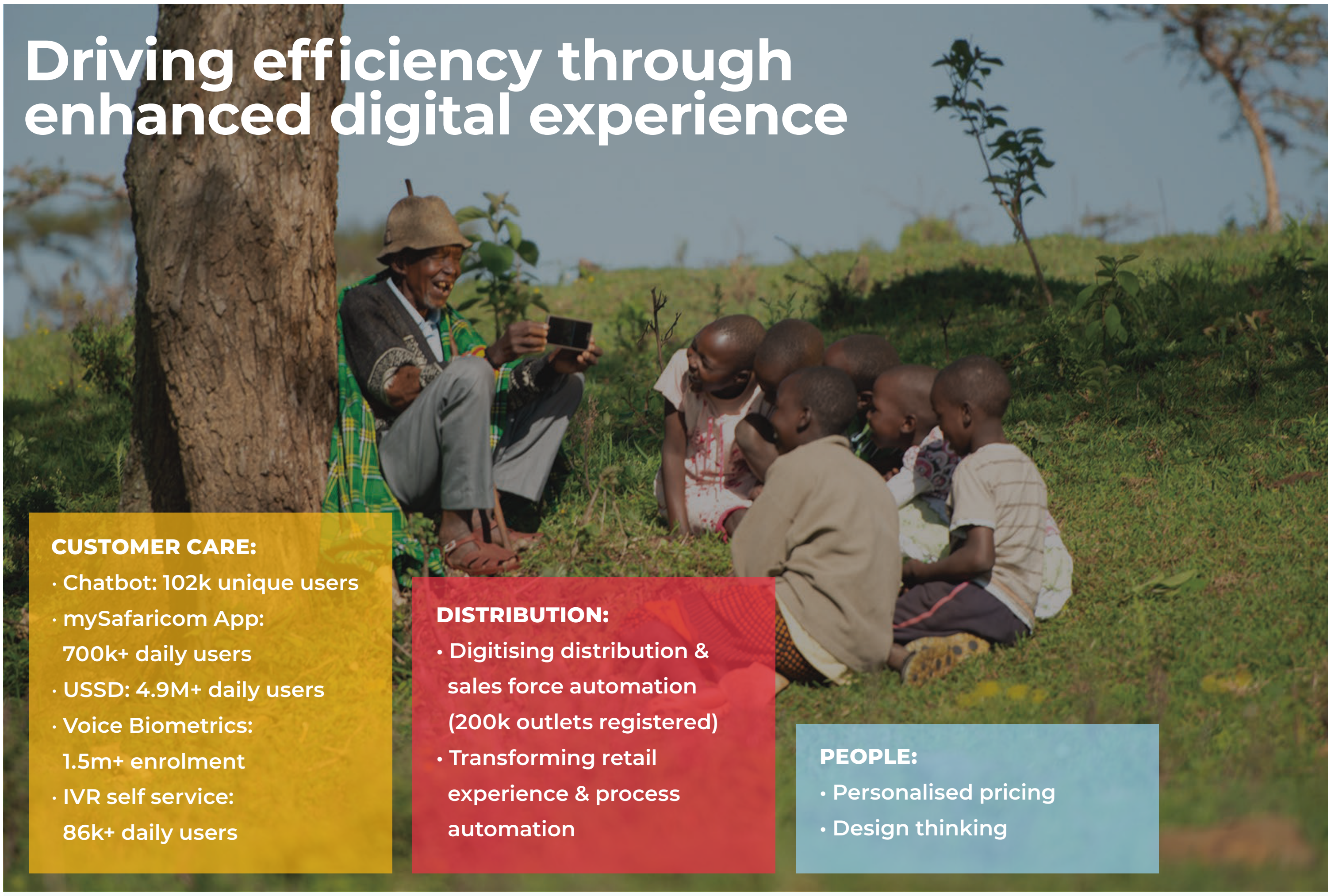
### SAFARICOM PLATINUM – Discerning Professional

Safaricom Platinum offers customers a range of monthly plans with voice, messaging and data services. It also provides access to lifestyle-friendly offers in partnership with brands such as Shell, Eat Out and Ticketsasa. Safaricom Platinum caters for subscribers looking to fit their plans into their lifestyle.

**We opened a new call centre in Eldoret and employed over 800 people to help meet our customers' demands.**

We increased the use of data analytics to provide predictive, proactive and personalised offers to our customers, driving down the average rate of our offering.

# Driving efficiency through enhanced digital experience



**CUSTOMER CARE:**

- Chatbot: 102k unique users
- mySafaricom App: 700k+ daily users
- USSD: 4.9M+ daily users
- Voice Biometrics: 1.5m+ enrolment
- IVR self service: 86k+ daily users

**DISTRIBUTION:**

- Digitising distribution & sales force automation (200k outlets registered)
- Transforming retail experience & process automation

**PEOPLE:**

- Personalised pricing
- Design thinking

## 2. Enhancing Digital Experience and Driving Efficiency

The GSMA Intelligence Consumer Survey recognises a lack of digital literacy and skills as one of the major barriers to mobile internet adoption in Sub-Saharan Africa.

This needs to be curbed quickly since for many consumers across the region, mobiles are not just communication devices but also the primary channel for getting online and a vital tool to access life enhancing services.

Our top priority for FY19 was to focus on the customer. This helped us improve our products and services leading to better customer sentiment, through measures such as NPS and brand consideration. We opened a new call centre in Eldoret and employed over 800 people to help meet our customers' demands.

We continue to accelerate our digital transformation and agile agenda. Our continued focus on digital engagement with customers enabled us to launch 'Zuri' (which means Good) in FY18, an Artificial Intelligence (AI) chatbot assistant, to meet our customer requests through automated digital support. Zuri enables our mobile data users to perform a wide range of tasks saving on costs and driving efficiencies. Currently there are 102K unique users on the chatbot.

Progression in the digital sector calls for tighter security measures. We enhanced mobile security using state of art technology including voice biometrics, PSP self-reversal, withdrawal vicinity checks and Hakikisha (meaning confirm) for M-PESA services. This was in a bid to protect our customers from possible hacking threats. Since we rolled out our voice biometrics system, we have over 1.5 million enrollments.

In line with our agenda of digitising Kenya, we launched mySafaricom App and added FAQs to customer care on USSD to digitise the customer care process. mySafaricom App has over 700k daily users and USSD has 4.9 million daily users. Our M-PESA Interactive Voice Response (IVR) self-service has over 86K daily users.

On our distribution network, we have digitised our distribution and sales force automation and we currently have 200K outlets registered.

> Zuri enables our mobile data users to perform a wide range of tasks saving on costs and driving efficiencies.

# Putting the Customer First (continued)


## 3. Sustaining Customer Growth "Nawe Kila Wakati"

On our 18th anniversary celebrations, we unveiled a new brand campaign 'Nawe Kila Wakati' (meaning Always With You) aimed at reinforcing our commitment to customers.

Our goal was to deepen customer engagement by giving access to affordable voice, data and messaging services. Safaricom hopes to endear itself to Kenyans as an enabler, a brand that allows customers to communicate, socialise and do business.

In FY19, we made some customer focused decisions in order to share the cost of their shrinking wallet. Our average rate per megabyte dropped so as to give our customers greater value for the coin they spend; we shielded our customers from the government imposed Excise Duty on data bundles we started Just4U initiatives aimed at voice affordability; and through Fuliza we gave our M-PESA customers an overdraft service which allowed them to complete transactions with insufficient funds.

Our initiatives to show our customers that we're in this together, ended up giving them more control on their choice of data speed and premium rate services, driving affordability, more-for-more bundles and introducing data freeze and rollover of MBs. This resulted in us regaining our leadership as the most trusted company and tripling our customer growth in H2 FY19 to 31.8 million customers.

Nawe Kila Wakati is our way of showing Kenyans that we understand their challenges and we are here to share the load and ease the burden.

Last year, we launched a Maternal and Newborn Health Programme seeking to reduce maternal and newborn deaths. In order to strengthen our bond with communities, we had a laser focus goal of fulfilling the dreams of 500 Kenyans who want to make a difference in their communities through a campaign named 'Ndoto Zetu'.

**Future growth opportunities are projected to be increasingly concentrated in rural and low-ARPU markets, as well as younger demographic groups.**

*Source GSMA*

# Relevant Products

## Strategic Pillar: Relevant Products

| Strategic Objective | Short to Medium Term Measure of Success |
|---|---|
| 1. Progress the use of CVM and data analytics to drive core products and meet segment needs i.e. voice, messaging, mobile data and financial services | Grow mobile data from mid-single digit to double digit<br>Grow contribution of M-PESA "New Business" revenue and transaction volume |
| 2. Grow fibre monetisation to core business | Enhance growth in homes connected and enterprise links, grow content patnerships, fixed mobile convergence and smart home proposition |

## 1. Increased use of CVM and Data Analytics to Drive Core Products

In the Sub-Saharan Africa region, customers' needs within the telecommunication industry have been constantly evolving driving demand for more affordable digital products and services. The trend holds true for our customers in Kenya.

In FY19, we continued to put our customers first by investing in Customer Value Management (CVM) informing our products and services and ensuring that we remain relevant across customer profiles.

### A) Voice and Messaging

There is a slowdown of mobile subscription across Sub-Saharan Africa as affordability is a major issue in a region that's highly populated by the youth who have a high unemployment rate.

The same trend was reflected in our business, with voice growing by 0.3% and messaging declining by 1.3% mainly driven by competitive pressure focused on pricing and migration to newer technologies, with 20% of our customers using WhatsApp. We continued the use of Customer Value Management (CVM) to drive customer retention and acquisition.

CVM delivered 7% contribution to service revenue.

Growth in voice was supported by 'Just4U' initiatives including: Tunukiwa (meaning get rewarded) and Stori Ibambe (meaning keep talking). These are personalised products meant to push voice and data to sustain the growth momentum.

Tunukiwa gives the customer a variety of options to choose from in relation to the amount willing to be spent. It offers the customer double value of the purchase price on minutes, enabling them to talk twice as much with double airtime, internet and Bonga over a period of 24 hours.

Stori Ibambe started about 3 years ago as a promotion that was turned to a tariff after 90 days due to the great reception it received.

It was a first in the world voice based campaign that stimulated voice usage by giving customers daily call targets to reach and earn an equivalent voice currency as a reward.

Voice and messaging still have a lot of opportunity to be explored despite stiff competition from both direct competitors and cannibalisation from IP messaging platforms such as WhatsApp.

### B) Mobile Data

#### *Price rationalisation impacts growth*

We currently have 26.7 million 30-day active subscribers in our network amongst whom 18.8 million are mobile data customers. Only 7.4 million of the 18.8 million mobile data customers are actively using more than 100MBs/30 days. This shows there is still a huge opportunity of converting more mobile data users to use more than 100 MBs/30day and convert the 7.9 million non-data users to low-data users and increase our active 4G users.

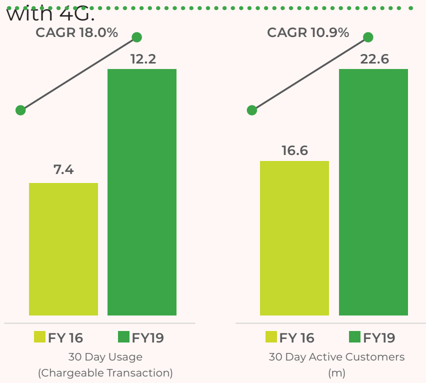
In FY19, mobile data revenue increased by KShs 2.33billion a +6.4% growth in the year and is now 16.1% of service revenue. The mid-single digit growth rate was a slowdown in comparison to the double digit growth rate witnessed in prior years.

The slow-down in growth rate was a reflection of both the competitive landscape focused on pricing and increased taxation that was absorbed for bundle products.

Looking forward, key enablers that will drive us back to double-digit growth include: enhanced customer trust, mobile data relevant use cases including; social, education, gaming, video, entertainment, HD video calls through reduced average rate per megabyte; affordable smartphones; enhanced 4G coverage; launch of VoLTE and using the power of trade recommendations to drive uptake of CVM offerings amongst Mass & Youth (16k driving agents boarded on this initiative).

### *Enhancing 4G Reach*

In the bid to be the leaders in Kenya's digital migration and mobile internet uptake, we aim to double our 4G sites to almost 5,000 sites, covering every town in Kenya with 4G and facilitating 80% of the population with 4G.




Only 7.4 million of 18.8 million mobile data customers are actively using more than 100MBs/30 days.

### *Affordable Smartphones*

The rise in smartphone uptake is due to the continued decline in prices. This has led to increased mobile internet connectivity in emerging markets.

To ensure that Kenyans from all walks of life enjoy 4G, we launched the 'Maisha ni Digital' (meaning life is digital) campaign with the most affordable 4G Smartphones: Neon Kicka with a retail price of US$ 39. We currently have more than 3.5 million 4G handsets in our network.

## C) M-PESA

### *P2P and new business drives growth*

Telcos the world over have barely scratched the surface of mobile money. With only 866 million registered accounts in 90 countries and US$1.3 billion transacted every day, there is still an opportunity to achieve more.

M-PESA, our mobile money platform grew by 19.2% in FY19. The growth can be attributed to an increased number of users, higher velocity of funds within the ecosystem and adoption of new use cases. In FY19, we added 2.1 million active M-PESA customers. M-PESA now accounts for 31.2% of service revenue, further accelerating displacement of our legacy business.

### *Partnerships*

Keeping M-PESA dynamic and revolutionary has brought the need for innovation and partnerships in order to raise the mobile money bar M-PESA has set over the years. We sought to open the world to our customers thus M-PESA Global. Giving our customers the ability to send money and make purchases far beyond the Kenyan borders.

To facilitate M-PESA Global, we partnered with PayPal, Google Playstore, Western Union and AliExpress. Through PayPal, our customers make +11K transactions monthly, +5.2k monthly apps purchase through Google Playstore and through Western Union our customers can send money to +500k cash agents and +3b bank accounts worldwide.

M-PESA Global brought in (KShs 101 billion) 33.7% of all diaspora remittances transacted through M- PESA.

### Fuliza

We noticed that our customers were cancelling M-PESA transactions valued on average at KShs 50billion per month due to insufficient funds.

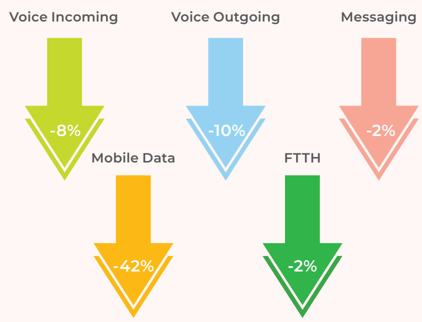
This gave us the opportunity to allow customers to complete their transactions through Fuliza; the world's first money overdraft facility in partnership with two local banks KCB Group PLC and Commercial Bank of Africa.

Fuliza, 12 overdrafts processed per second.

Fuliza revolutionised financial crediting at the point of transacting. Nearly 9 million customers have opted in to Fuliza with KShs 29bn value of completed transactions in just under 3 months. Fuliza is a prime example of how using data to tailor make innovations can help the customer.

M-PESA has been transforming lives not just for individuals but also for enterprises. We have extended our value chain to over 130k enterprises. To businesses, M-PESA has proved to be a reliable solution for cash-lite revenue collection. We are already positioning M-PESA as an enabler of business, selling it as a reliable solution for cash-lite revenue collection. We've partnered with county governments to introduce cashless payments, helping them to seal leakages and increase accountability, boosting revenue collection by up to 30%.

DROP IN AVERAGE RATES



# Relevant Products (continued)

## 2. Growing Fibre Monetisation to Core Business

High deployment costs and low consumer spending power means that fibre expansion into the wider Sub-Saharan Africa region will be a long-term investment for operators, with mobile broadband set to remain the key driver of internet penetration in the region.

In line with our mission to digitise Kenya, our fixed infrastructure strategy aims to increase partnerships to achieve the widest coverage at the most attractive economic cost for our customers.

The business continues to extend the reach of fibre now passing nearly 300k homes and more than 2k buildings.

### A) Fibre To The Business (FTTB)

In FY19, we achieved 2.4k fibre ready buildings, a +24% growth in the year with 6.8k enterprises enjoying FTTB across 19 towns. We have established tiered pricing for the different customer profiles. For small and medium enterprises, the entry price is KShs 5,000 while for large enterprises, the entry price is KShs 15,000.

### B) Fibre To The Home (FTTH) Tiered pricing for FTTH customers:

In FY19, we more than doubled the number of houses passed and connected in FY18 from 141,700 to 297,885 (houses passed) and from 48,600 to 107,762 (houses connected), increasing our penetration from 34.0% in FY18 to 38.0% in FY19.

Part of our growth came with challenges including lower speeds due to large downloads and introduction of Excise Duty tax to FTTH which necessitated a change in our pricing.

We had infrastructure upgrades done in September and October of 2018 to provide additional capacity and address the challenges our home customers experienced.

We keep monitoring our customers' data usage and keep advising them when they need to upgrade to a higher bandwidth package to accommodate their needs and have a seamless experience.

We see future opportunity in converged service of data, content, smart home and fixed mobile.

### *Content:*

In line with giving our customers a smooth enjoyable internet experience, we have made a bouquet of partnerships so as to expand their content choices. We've partnered with Kwesé, iflix, Showmax and StarTimes, giving us 72k distinct customers on the platforms.

### *Set Top Boxes:*

We have been able to sell 28k set top boxes to our customers enabling them to stream games, including last year's world cup and other content on their mobile phones and at home.

### *Fibre Plus Proposition:*

Our customer is ever dynamic. We therefore launched a Fibre Plus proposition that offers our home customers mobile resources in addition to the fixed connection. We currently have 1.5k customers on the platform with an ARPA of KShs 3,333 being 20% higher than non-converged customers.

### *Home Insurance and Parental Control:*

We recently launched home insurance; the proposition is in its early stages. We are testing Parental Control, a product that will be under smart home and we are in the works of launching Surveillance in Q2 of FY2020.

Connections drive revenue in FTTH and FTTB.

| PACKAGE | SPEED | PRICE |
|---|---|---|
| Bronze | 5MBPS | KShs 2,900/30 days |
| Silver | 10MBPS | KShs 3,999/30 days |
| Gold | 20MBPS | KShs 5,699/30 days |

## PLATFORMS TO TRANSFORM LIVES

"We have set our sights on transforming our business into a digital lifestyle enabler, which means looking for opportunities to apply more advanced mobile technology to every changing consumer context. We are challenging ourselves to understand more intimately what each customer needs through segmentation and then seeing how we can deliver innovative solutions to meet each unique need.

This means seeing how we can apply mobile technology in agriculture through DigiFarm for example, our m-agriculture platform, or through E-commerce, which are still trying to figure out with Masoko, the online shopping website we launched in late 2017."

**Bob Collymore,**
**Chief Executive Officer**

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### DIGIFARM MODEL

Access to:
- Knowledge
- Quality and affordable inputs
- Credit and insurance
- Market place

**FOCUS:**
- Buyer-led model
- Access to market

75% of projected revenue contribution

KShs 2.5t value of agriculture transactions

**DRIVERS:**
- Traceability of produce
- Partnerships with financial institutions
- DigiFarm village advisors model

**PERFORMANCE:**
- 1m+ registered farmers
- 300k+ active users
- 52k approved loans
- KShs 4.6b pipeline value
- 300k+ active learners
- 50k farmers purchasing input

# Operational Excellence

## Strategic Pillar: Operational Excellence

| Strategic Objective | Short Medium Term Measure of Success |
|---|---|
| 1. Technology Enabling a Digital Society | • Grow Fibre and 4G coverage to 80% by end of FY20<br>• Service availability at 99.9% |
| 2. Digital First | 60 staff trained on digital skills at the Digital Academy and digitisation of customer engagement through the mySafaricom app and Zuri |
| 3. Business Model Transformation | Maintain mid-teen level capex intensity |
| 4. Our People and Culture | 90% employee engagement index |
| 5. Our Sustainable Business | Uniting our sustainability vision, corporate strategy and the UN Sustainable Development Goals (SDGs) |

## 1. Technology Enabling a Digital Society

Our business is about more than just providing the bare minimum in voice, messaging and data services. It's about investing in enablers that eventually transform the lives of our customers through making meaningful connections.

The success of our business is heavily dependent on our ability to connect people to people, to knowledge and to opportunities – wherever they are in Kenya and beyond our boarders.

### *Investing in the Network*

We sustained our level of investment in FY19, with capital expenditure totaling KShs 37.25billion for the year, enabling us to expand our network and ensuring the widest reach to our customer base.

We increased our sites by 9% year on year and our 3G and 4G coverage to 93% and 57% respectively. For us to back our claim of being Kenya's best 4G+ network, we plan to accelerate our 4G roll out this coming year to cover every town in the country.

Our fibre footprint grew from 5,000kms in FY18 to 6,700kms in FY19. In order to continue to enhance the M-PESA experience, we invested in network quality including rolling out a capacity upgrade on the M-PESA platform to support 1,200 TPS (Transactions Per Second) up from 900 TPS.

In FY19, we also invested in upgrading our network from 100G to 400G, providing us with a network solution that focuses on providing the largest bandwidth and highest spectral efficiency, whilst reducing transmission costs and bandwith resources used.

### *Accelerating Access to 3G and 4G*

Sub-Saharan Africa is seeing an accelerating migration to mobile broadband capable connections. The next couple of years are a key tipping point, as 2G connections become a minority of the region's total connections base.

Despite the number of 4G network launches, 3G still is the dominant technology in the region, accounting for 60% of Sub-Saharan Africa's connections. A number of operators in the region are continuing to invest in expanding 3G network coverage and launching new 3G networks.

As Safaricom, we increased the number of sites to widen the reach of our 3G and 4G coverage. Sustained investment in our network means we now have over 2,700 4G sites across the country.

An acceleration of our 4G roll-out puts us in the driving seat to undisputedly be Kenya's best 4G+ network and make Safaricom the best network for social networking, videos and entertainment, among other things.

Our aim is to add over 2,000 new 4G sites by December 2019, which will nearly double our 4G sites to about 5,000 sites countrywide. This will effectively increase our 4G footprints to cover 80% of Kenyan population, ensuring that more people from all over Kenya i.e. from Loiya in Turkana, to Tula in Tana River County, can enjoy faster, more reliable connectivity. The expansion will also widen our 4G coverage to 80% of the population, supporting deeper smartphone penetration through provision of more affordable devices; enabling high definition voice and video calls through VoLTE and allowing us to connect more Kenyans to the opportunities presented by internet access through partnerships with, for example, Google and Facebook.

### *Growth of LTE*

It has been forecasted that LTE is and will be the foundation for operators in many parts of the world for at least the next 10 years.

The growth of LTE will be modest globally in respect to a slow unique subscriber growth regulatory intervention and increased competition.

So far at Safaricom, we have over 1 million VoLTE enabled phones in the system and we aim to increase these over the coming years.

### *Cloud Services for Enterprises*

Cloud computing has become the catalyst for digital transformations and modernising IT portfolios. Companies are increasingly making their businesses more agile and cuttings cost by renting software.

We launched our cloud business in 2011 and currently have a 10% market share.

There are three opportunities around cloud for Safaricom:

1. Leverage opportunity in private cloud for FSI;
2. Re-sell 3rd party cloud; or
3. Professional services e.g. remote hands migration, back-up & monitoring.

Cloud services will bring innovative development services to enterprise applications. This innovation-seeking approach will boost enterprise adoption and spending, as companies modernise core business applications with analytics, Machine Learning (ML), IoT, messaging and database services created in the cloud.

### *The Future is 5G*

GSMA Intelligence forecasts indicate the commercial 5G services will be launched in the region by 2021, with the number of 5G connections set to grow from 400k at the end of 2021 to almost 12million by 2025 (2.6% of the total connection base).

Sub-Saharan Africa will be the last region to see 5G services as operators see little incentive to participate in the race for being leaders in the 5G technology. This is because it will take time for the technology to mature and for costs to fall.

5G is likely to have use cases in providing both enhanced mobile broadband services and fixed wireless access in the region, with the latter likely to dominate in earlier phases of deployment.

Safaricom is already undertaking 5G evaluations in a lab environment.

We increased our sites by 9% year on year, and our 3G and 4G coverage to 93% and 57% respectively.

We have over 1million VoLTE enabled phones.

**Our fibre footprint extended its footprint from 5,000kms last year to 6,700kms.**

**The expansion will also widen our 4G coverage to 80% of the population, supporting deeper smartphone penetration through provision of more affordable devices; enabling high definition voice and video calls.**

# Operational Excellence (continued)

## 2. Digital First

In order to enable the digital lifestyles of our customers, we embarked on a digital transformation journey, rethinking and digitising our operations, products and services. We relied on over eight weeks of analysis, input and design consultations to develop an operating model that will facilitate this transformation.

The key areas of focus for Tech 3.0 are:

- Analytics and automation
- Application Programming Interfaces (APIs) in networks and IT
- Embedding customer security in our products and technologies
- Fostering a data-driven and innovative collaborative culture

Beginning in 2019, 60 members of staff attended our Digital Academy, undergoing six months of full-time digital skills training at Strathmore University.

The operations that we have embarked on digitising include: marketing, customer care and sales which have been aligned to new digital models. Some of the outcomes include more emphasise on online marketing as more and more of our customers are online; enhanced usage of self-service channels including mySafaricom App (+700k daily users), Voice Biometrics (+1.5m enrollment), Chatbot (102k unique users) and launch of sales force automation in over 200k outlets. All these have ensured agile ways of working.

We are in the business of transforming lives by providing customers with end to end digital solutions from when they wake up to when they go to bed through enriching our ecosystem with platforms such as Masoko, DigiFarm, M-PESA, Home Solutions, mySafaricom App and partnerships with taxis.

### *Enablers of Digital Transformation*

To execute this strategy, we came up with our 4Ps – Platform, People, Process and Performance. To enable automation we are working with the following platforms: Digital Experience Layer – for mining of big data; Data Management Platform – for digitising the marketing, customer care and sales operations and robotic process automation. People play a key role in enabling digital transformation. We have executed the agile way of working by growing our squads from 5 to 34. A squad is a cross-functional, self-managed and empowered team working within 2-week sprints. This has effectively improved the workflow within Safaricom.

We have simplified our existing processes through automation. In the case of customer service, this has enabled response to and resolving customer queries faster, freeing up our agents for higher value engagements including cross selling of products to customers. Automation has also led to enhanced cost optimisation and profit maximisation through improved performance, increasing our customer base and delivering value to our shareholders.

## 3. Business Model Transformation

### *Capex Intensity*

Our continued focus on enhancing monetisation has enabled us achieve mid-teens capex intensity.

While this continues to reduce each year, it remains above industry standards as we strive to provide the best technology to our customers.

We experienced greater monetisation of capital expenditure increasing revenue year on year. Our capital additions of KShs 37.25billion, expressed as a percentage of our revenues remained in the 'mid-teens', driven by our focus on enhancing monetisation and cost savings opportunities upon deployment.

### *Opex Intensity*

Benefits of cost optimisation also trickled down operating costs, with opex intensity improving by 0.2ppts in FY19.

> People play a key role in enabling of digital transformation. We have executed the agile way of working by growing our squads from 5 to 34.

## 4. Our People and Culture

### *Diversity and Inclusion*

Diversity and inclusion continue to be key differentiators positioning Safaricom as a purpose led and admired brand in the continent. As a company, we strongly anchor on diversity and inclusion, striving to be reflective of the communities we serve. To eliminate communication barriers, we conducted basic sign language training to 100 staff across the business, a course that we remain committed to. In addition, regular D&I inductions were conducted, to embed the right culture to our staff in a bid to eliminate stigma and discrimination. This has ensured that we remain an inclusive company and has accelerated our innovation agenda leading to the creation of relevant products and services that meet the needs of our diverse customers enabling us to fulfil our vision of transforming lives. Gender parity and differently abled persons remained our key focus areas.

### *Gender*

In FY19, we maintained an overall gender-balanced workforce of 50%:50% (male/female). We are happy to report a 2% growth of women in senior management level from 32% to 34% with an ambitious plan to achieve 50:50 by FY 2020/1. We have put in place robust interventions to ensure that we realise this goal. In addition, we held various gender themed empowerment forums for all staff with an aim to educate, grow and develop them holistically - enhancing a balanced wheel of life.

### *Differently-abled Persons*

As a humane organisation, we are value driven because we believe that this is the only way to make meaningful impact on people's lives. Our value proposition articulates our intentional effort to remain an inclusive and equal opportunity employer, not because we are required to, but because it is the right thing to do. Our differently-abled staff have increased from 1.7% to 2.1% and we are still on our trajectory to realising a target of 5% by March 2021. This translates to 121 staff who are differently abled including paraplegics, persons of short stature, persons with albinism, visual and hearing impairment, among others. Last year saw us venture into onboarding staff differently abled intellectually, i.e. persons with autism and dyslexia. In addition to our staff who are differently-abled, we also have a vibrant staff community of over 40 parents of children with special needs. This has continued to provide much needed support and group therapy to our staff. As an organisation, we believe this enhances a sense of belonging. In line with SDG 10 – Reduced inequalities – we continue to create a conducive environment where all our staff are able to thrive and realise their full potential.

Our determination to leave no one behind made Safaricom recognise the need and take the lead in creating a platform to collectively mainstream differently-abled persons to scale. This was inspired by the commitments made during first ever Global Disability Summit (GDS) that took place in London in 2018 and is dubbed 'Forum for GDS 2018'. As we partner for this collaborative approach geared towards advancing the inclusion of differently-abled persons, so far over 30 organisations within its few months of formation have joined in.

Our differently-abled staff have increased from 1.7% to 2.1%.

### *Rewarding Our People*

As we transform to a digital company, on the reward element we have made strides towards digitisation of employee experience in the organisation. In the last financial year, we have made improvements and introduced "on-demand" reward statements that employees can run for any particular period of interest. In addition, we have automated various reward requests to empower employees manage their finances. We have also partnered with several of our suppliers to extend company discounts to our employees aligned to our purpose to transform lives.

### *Coaching*

During this period, we continued to entrench a coaching culture within the organisation's teams. This is in line with the leadership shift paradigm that emphasises on empowering employees at the point of engagement. Coaching has been instrumental in anchoring agile ways of working, inspiring innovation and continuous bar raising which maintains our momentum.

70 certified coaches are already in place and 15 EXCO Members and Heads of Departments have so far been certified as Executive Coaches.

Over and above the 70 certified coaches already in place, 15 EXCO Members and Heads of Departments have so far been certified as Executive Coaches. In addition, over 600 line managers have been upskilled on coaching through our in-house 'Amazing Line Manager' Program. This has helped leaders to transform themselves and the people around them by

# Operational Excellence (continued)

enhancing self awareness, the quality of engagement, performance and ultimately business results. Our SEMA survey results based on the feedback given by employees at all levels have shown that the level of employee engagement and managerial effectiveness continue to improve.

### *Talent Management*

People are at the heart of any transformation. As Safaricom evolves to be a digital solutions provider, we are empowering our staff by reinforcing the right mindset, skillset development and providing the right toolsets for current and future possibilities in the exciting digital world. Safaricom is and will continue to inspire potential in our staff, as we grow our engagement and improve in productivity. Our Safaricom culture inspires partnership for success and hence we will continue to invest in our staff employability as a commitment to our talent philosophy ''we hire for fit and develop for the world''.

### *Women In Leadership Programme*

There is no tool for development more effective than the empowerment of women. Safaricom is betting on women to win. Through our Safaricom Mentorship Program, we are empowering women leaders to drive organisational success. The program's aim is to develop the leadership capabilities of the women mentors and mentees unlocking their personal and professional potential as the leaders of tomorrow hence embedding a purpose and growth culture within Safaricom.

Through the program, 77% of the women being mentored have achieved increased confidence in addressing doubts about their careers and family. 92% have increased their confidence in key areas of leadership development , 78% have improved their work life balance and 77% have started mentoring other women out of Safaricom truly embedding our key purpose of transforming lives. We have also grown our women coaching pool to 40.

### *Culture*

Our people are fundamental to every aspect of our ambition to be a purpose led, digital solutions provider. Our culture journey has begun bearing fruit and the leadership team remains committed to deepening our cultural elements of purpose, humanness, growth and trust within the organisation. In our endeavor to create an inspiring work environment, we have embraced thrive and other work-life balance programs.

This has resulted in an engaged workforce as evidenced by the rating given by the Forbes magazine. Safaricom was rated as the best company to work for in Africa and position 67 globally.

We continue to bring to life our culture through our language, rituals, symbols and stories. "Twaweza" reminds us that we are here to create value for our customers and other stakeholders. Staff have been continually engaged in our company wide rituals including our annual sports day.

To ensure close collaboration and a harmonious environment, we intentionally have a week of appreciating our support staff. Employees have taken up the challenge of transforming lives at individual and departmental level thus making our purpose (Transforming Lives) our DNA.

The digital agenda is core to how we all work and think at Safaricom. As a high performing organisation, we have incorporated agile ways of working. Under this model of working, teams are organised in self-managed squads and tribes, which allow for right skills from different parts of the organisation.

These teams are focused on key business outcomes that are designed around our customer lifecycle, to deliver more for our customers. The model has the advantage of removing identified complexities, increasing collaboration and allowing for simple and faster decision-making processes.

ON CULTURE

**We maintained an overall gender balanced workforce of 50%:50% (male/female). We are happy to report a 2% growth at the senior management level of women from 32% to 34%.**

## 5. Our Sustainable Business

This section of the annual report contains selected excerpts from the Safaricom 2019 Sustainability Report.

Read more on our sustainable business available on the link: https://www.safaricom.co.ke/about/transforming-lives/sustainability/sustainability-reports

# Environmental Social Governance Queries

### People, Purpose and Impact on Society

Our commitment to transforming lives has seen us invest in our communities, empowering millions of Kenyans and creating the kind of impact that is only possible when you put purpose and people first, because only then does profit follow. This section responds to some of the questions by investors on Safaricom's ESG.

## Q. Does the company have a formal policy designed to encourage employees to report instances of bribery, corruption, money laundering and other corporate wrongdoing? If so, does the policy make it clear that there will be no adverse consequences for employees who make a whistleblower report?

**Whistleblowing**

We have a Whistleblowing Policy that encourages employees who suspect wrongdoing at work to raise their concern as described in the whistleblowing policy available to all staff on the intranet. The policy is designed to offer protection to those employees of Safaricom who disclose such concerns provided the disclosure is made:

- In good faith
- In the reasonable belief of the individual making the disclosure that it tends to show malpractice or impropriety and if they make the disclosure to an appropriate person

The policy makes it clear that "any form of reprisal against anyone who in good faith has raised a concern is forbidden and will itself be regarded as a serious offence to be dealt with under the Disciplinary Procedure"

**Anti-bribery**

We have an anti-bribery policy that prohibits Safaricom's employees and agents from giving or receiving bribes (directly or indirectly) and any attempts to influence or induce favours by way of bribes. They are encouraged to report the same via the Ethics hotline.

## Q. Environmental and Social ("E&S") - Does the company have an E&S policy in place?

Yes. The company has different policies that address environmental and social impact aspects of the business including:

- Environmental Management Policy
- Children's Rights Policy

We are also in compliance with the ISO 26000 guidelines on CSR.

## Q. What environmental impact does the company monitor and who does it report this information to?

Under environment impact, we monitor:

- Carbon emissions
- Normal waste– plastic, organic and affluent
- Electronic waste
- Water and energy consumption
- Material footprint such as paper
- Noise
- Air emissions
- Electromagnetic Frequency radiations

Air emissions, noise and electro-magnetic frequency radiations are reported to the National Environmental Management Authority (NEMA).

## Q. Do you report publicly on your greenhouse gas emissions? Do you report to the Carbon Disclosure Project (CDP)? What are the biggest challenges that you see when it comes to climate change and do you have a carbon reduction strategy?

We report our carbon footprint in our sustainability report annually. We have set for ourselves an ambitious target to be a carbon neutral company by 2050. We have broken this target into science based targets for carbon reduction which we have registered with the Science Based Targets initiative (SBTi). Using our FY17 footprint as the baseline, we have adopted an ambitious decarbonisation scenario that will lead to acceleration of reductions and ensure the lowest possible emissions using the Organisation for Economic Cooperation and Development (OECD) and pathway Compound Annual Growth Rate (CAGR) interpolation method.

## Q. Do you have an ESG Strategy and do you see any areas for potential improvement in your sustainability/ESG strategy?

We have a strategy which outlines our vision and aspirations for long term success as a business, as well as how we continue to contribute to the well-being of the society in which we operate. The following are the areas for potential improvement:

- Reduction of our carbon footprint, towards our aspiration of being carbon neutral by 2050
- Increasing the amount of procurement spend going to women in business – we have a target to grow this from the current 3% to 10% by end of FY20
- Increasing the number of women in senior management/executive leadership – our target is to grow this to 50% women by end of FY20, from the current 34%
- Increase the number of employees comprising differenly abled people from the current 1.7% to 5% of the total workforce by end of FY20
- Enhancing online safety for our data products

## Q. What are the key messages in your sustainability strategy or in your sustainability related efforts?

We are purpose driven and our mission is to transform the lives of our customers. Our approach to running a sustainable business can be summed up using the 3 Ps - Purpose, People and Profit. To achieve this, we need to deliver transformational products and services. while at the same time minimising the impact on the environment. To ensure our long term existence, it is vital that we remain committed to running an ethical and responsible business.

## Q. Have you signed up to support the 10 principles of the UN Global Compact?

We have signed up to support the 10 principles of the UN Global Compact and we have gone ahead to make it compuslory for all our suppliers to sign up starting from 2016. So far 98% of suppliers have signed up.

## Q. ESG Targets - Are there specific E&S performance targets? If so, how are they identified and who monitors progress in achieving them? What consequences exist if targets are not met?

The long-term aspiration on carbon emissions is to be a Net Zero emitting company by 2050. This will entail a move towards clean sources of energy and offsetting the remaining emissions. Currently, we are recycling 97% of all the waste generated from our administrative buildings, with a target of rolling out the waste management programme to all premises by 2020. Our data goes through limited assurance as part of our sustainability report. Where targets are not met we come up with action plans to correct the situation.

## Q. Have you integrated the UN Sustainable Development Goals? If not, why?

We have integrated selected SDGs into our strategy and operations. In FY19, we integrated SDGs into Goals setting process, where all staff members are required to link their annual performance goals to our 9 SDGs.

## Q. In what way do your sustainability related efforts influence shareholder value in your opinion?

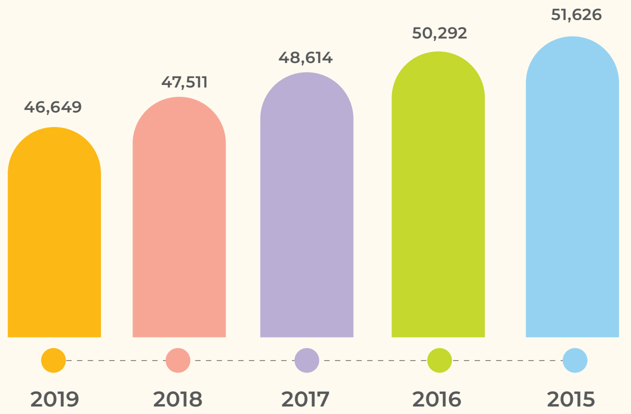
Impact investing has become a key consideration for the majority of investors. Institutional investors have become keen on long-term success of the businesses they invest in and the social impact they are creating.

## Q. What key business opportunities and risks related to sustainability do you face?

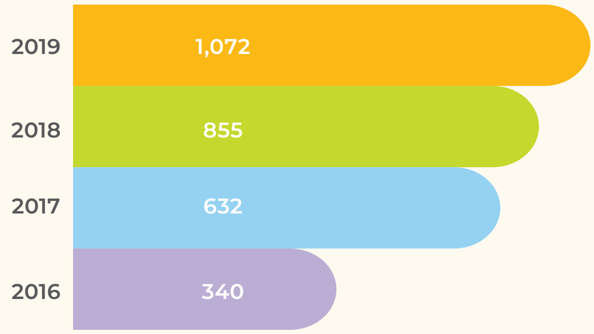
Running a sustainable business is a sure strategy to future-proof it. Sustainability entails developing innovative ways to address societal challenges, which translate into new business opportunities. Sustainability also serves as a risk management strategy, where businesses that have embraced sustainability have a lesser risk of running into challenges associated with reputation.

# Highlights On Sustainability

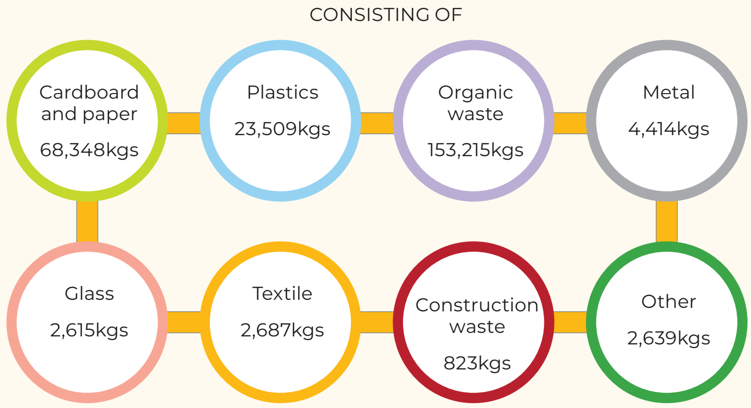
## COST OF ENERGY PER SITE IN SHILLINGS




## AMOUNT OF E-WASTE COLLECTED (TONNES)




## WASTE MANAGEMENT

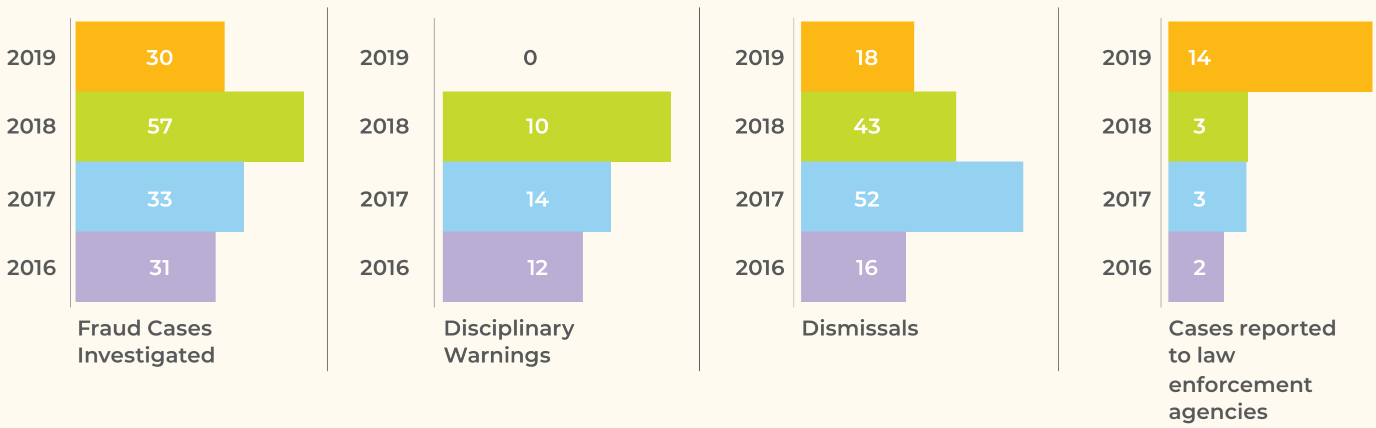




## ENVIRONMENT

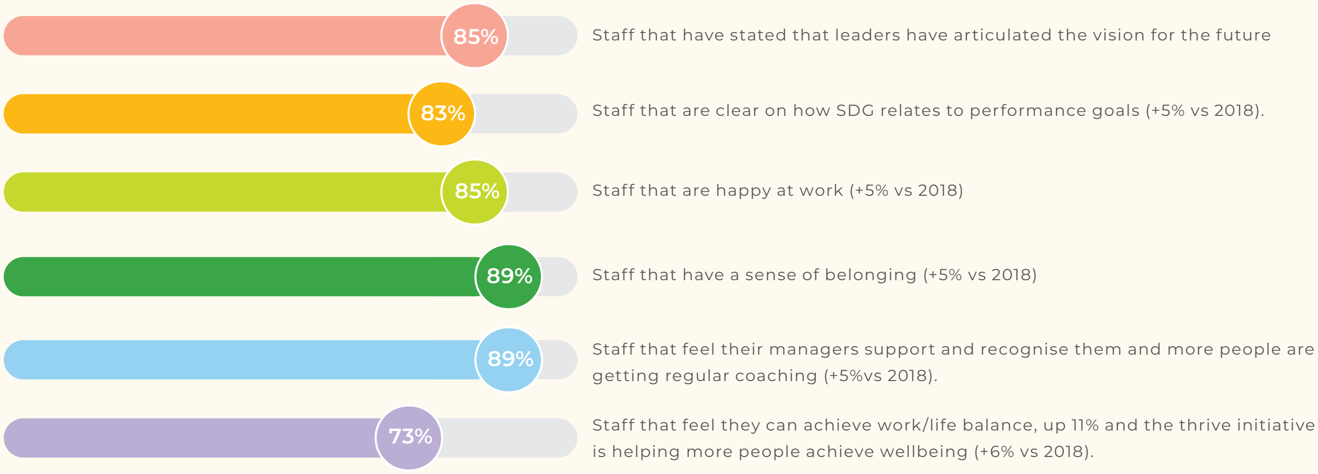

- Water consumption: 88,287 litres
- Carbon footprint: 65,708 $tCO^2e$ (up by 2,024 $tCO^2e$ from FY18)
- Clean power: solar and hybrid rolled out at 91 sites (out of 100 planned)
- Recyclable/organic waste collected: 258 250 kg
- Cumulative E-waste collected to date: 1 072tonnes (217tonnes collected in FY19)

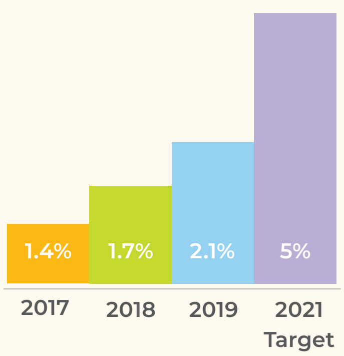
## WATER CONSUMPTION (L)


## ADDRESSING FRAUD AND CORRUPTION




## EMPLOYEE ENGAGEMENT



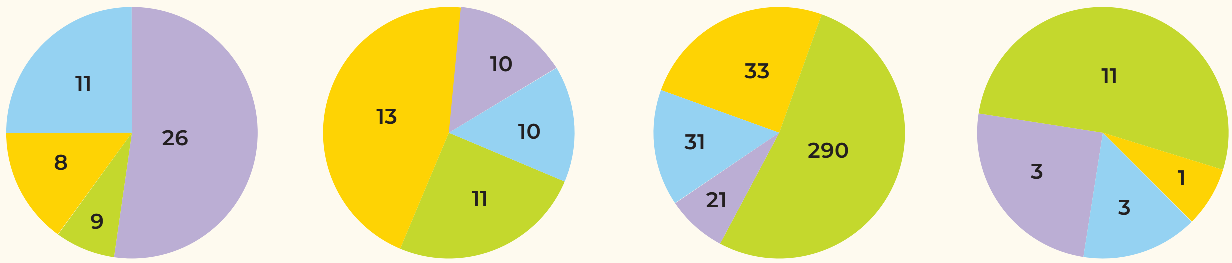

NUMBER OF DIFFERENTLY-ABLED PERSONS

**96%** NO. OF STAFF TRAINED ON ETHICS

**2** NO. OF FATALITIES IN FY19

# Highlights on Sustainability (continued)

## ANTI-CORRUPTION MONITORING MEASURES




**Risk Assessments**
Comprehensive evaluations of a range of risks, from operational and strategic to ethical

**Fraud Reviews**
Conducted on specific areas/ processes which may have become compromised

**Audit Reviews**
In-depth reviews that evaluate specific internal controls and processes

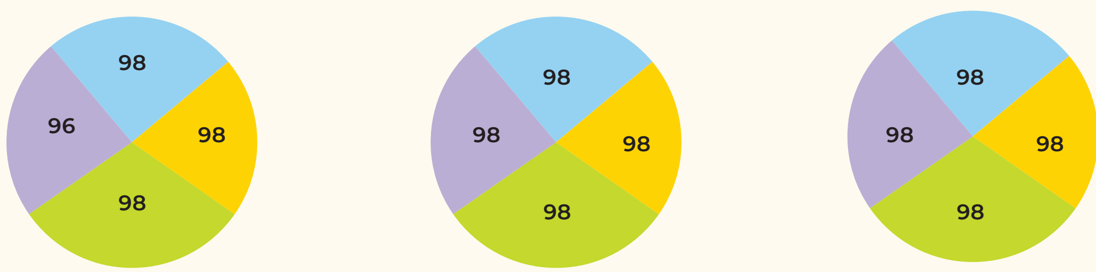
**Special Request Reviews**
Reviews of special areas/processes requested by management

2019 2018 2017 2016

## CUSTOMER FRAUD AWARENESS IN NUMBERS

- 22 Frequency Modulation (FM) Stations
- 2 Live Chats via Social Media
- 1 opinion piece in daily news papers
- 1 expert opinion interview on national television
- Coverage during activities such as rig activations
- Estimated total population coverage: 6 million

## ANTI-CORRUPTION PREVENTIVE MEASURES




**Ethics and anti-corruption staff training (% of total staff)**

**In high-risk departments**

**In medium-risk departments**

2019 2018 2017 2016

## KYC TRAINING FOR OUR BUSINESS PARTNERS AND SUPPLIERS

- 282 dealers trained through dealer forums (64% attendance)
- 61,567 M-PESA agents trained
- 37 awareness broadcasts covering all M-PESA agents
- 248 suppliers trained via supplier forums

## IMPACT OF SAFARICOM AND M-PESA FOUNDATIONS

| Focus Area | FY19 | | FY 18 | | FY 17 | | FY 16 | |
|---|---|---|---|---|---|---|---|---|
| | Spend | Lives | Spend | Lives | Spend | Lives | Spend | Lives |
| Disaster Response | 2% | 5,000 | 1.3% | 300 | 3% | 1,500 | 2% | 2,100 |
| Education | 52% | 51,413 | 28% | 46,076 | 33% | 43,622 | 24% | 76,255 |
| Environment | 0% | 5,000 | 2% | 72,500 | 0% | 65,350 | 2% | 1,000 |
| Health | 27% | 88,246 | 24% | 245,507 | 21% | 140,768 | 22% | 17t8 |
| Water | 6% | 30,439 | 9% | 64,150 | 5% | 47,000 | N/A | 40,500 |
| Economic Empowerment | 14% | 5,415 | 36% | - | 38% | - | 52% | - |

## EQUAL OPPORTUNITIES

| Workforce Demographics | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Number of permanent male employees | 2,251 | 2,190 | 2,080 | 2,131 |
| Number of permanent female employees | 2,252 | 2,186 | 2,165 | 2,153 |
| Total number of permanent employees* | 4,503 | 4,376 | 4,245 | 4,284 |

* excludes temporary employees

| Employees by gender and diversity (%) | 2019 | | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|---|---|
| | M | F | M | F | M | F | M | F |
| Permanent staff (overall) | 50% | 50% | 50% | 50% | 49% | 51% | 50% | 50% |
| Executive leadership | 73% | 27% | 75% | 25% | 75% | 25% | 57% | 43% |
| Senior management* | 66% | 34% | 68% | 32% | 69% | 32% | 67% | 33% |

* target is 50% by 2021

## AGENTS AND OUR NETWORK

28 Biannual Principal Forums Held

Communication With Our Agents

Quarterly agent assistant training on M-PESA innovations, fraud trends, KYC and AML held in all sales areas

# Our Contribution to the Sustainable Development Goals

In making the SDGs a central pillar of our business, we have made sustainable development a part of the culture at Safaricom. We have identified 9 of the 17 SDGs that best represent our dedication to sustainability and incorporated them into our business strategy.


*Visit https://www.safaricom.co.ke/sdgs/ and learn more about our Sustainable Development Goals.*

### 3. Good Health and Well-being

“Ensure healthy lives and promote well-being for all at all ages.”

Our contribution is to leverge our mobile technologies to transform lives by improving access to quality and affordable healthcare services and by promoting well-being for all. Our award winning M-TIBA- a health payments solution with an e-wallet, which enables the users to save towards healthcare expenses from as little as KShs 10 and now have over 4.5 million users and 1,405 approved health facilities countrywide.

### 4. Quality Education

“Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.”

Our commitment is to increase access to educational opportunities through innovation, products and services including Shupavu (“studious”) 291 and our M-PESA Foundation Academy.

### 7. Affordable and Clean Energy

“Ensure access to affordable, reliable, sustainable and modern energy for all.”

Our commitment is to transition our network sites to clean energy, roll out new green/hybrid sites and find innovative ways to provide and promote clean energy solutions throughout Kenya.

### 8. Decent Work and Economic Growth

“Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.”

Our commitment is to be a creator of jobs within and around our company, empower our employees and enable them to thrive. This is possible through BLAZE Summits and Creation Camps for empowering young entrepreneurs, Wezesha in creating entry-level and digital jobs for marginalised youth through Safaricom Foundation, supporting our diverse workforce, regardless of race, age, gender or differently abled and the dealer network which grew 8.3% in FY19.

### 9. Industry, Innovation and Infrastructure

“Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.”

Our contribution is to provide quality connectivity and innovative, relevant products and services, to serve the needs of society. We focus on delivery of Universal Service Fund (USF) projects to grow the network in remote areas in Kenya, expansion of the fibre-optic network and growth of Alpha Innovation, our innovation team hub dedicated to building global-focused, human-centred products.

### 10. Reducing Inequality

“Reduce inequality within (and among) countries.”

Our commitment is to leverage our leadership, network, technology and solutions to enable all our stakeholders to gain equal access to opportunities to succeed, especially those who face disadvantages and obstacles. This will be achieved through maintaining and expanding our diversity policy in the workplace, our Women In Business programme, making 3G and 4G devices more affordable, providing affordable and accessible products and services that add value to the lives of our customers and protecting and promoting the rights of marginalised communities.

### 12. Responsible Consumption and Production

“Ensure sustainable consumption and production patterns.”

Our commitment: embracing accountability in everything we do to mitigate and decrease any negative impact we have on the environment and encourage all our stakeholders to do the same. Our focus is on becoming a plastic-free environment, digitising practices and processes across the business to reduce waste and eliminate inefficiencies and supporting global advocacy initiatives, such as the Climate Change Forum and International E-Waste Day.

### 16. Peace, Justice and Strong Institutions

“Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.”

Our commitment is to operate responsibly in everything we do, practice and uphold ethical standards and combat corruption.

### 17. Partnerships for the Goals

“Strengthen the means of implementation and revitalise the global partnership for sustainable development.”

Our commitment is to work together with individuals, organisations and countries toward supporting and sustaining the SDGs. We collaborate with organisations that share our vision of transforming lives to create partnerships that deliver financial inclusion, education, health, agriculture and empowerment initiatives expressing and acting on, a preference for partners who share our values in regard to ethics, diversity and inclusion and environmental responsibility.

# Our Four Sustainability Material Matters

## 1. Governance Business Ethics, Risk and Regulation

We continuously assesses our governance operating model to ensure that robust internal governing bodies and proper systems/processes are in place to support the leadership team to drive change, set strategic direction and formulate high-level goals and policies, centred around creating equal opportunities for economic advancement that are accessible to all levels of society.

### Risk Management

Safaricom has undertaken key initiatives to enhance internal systems to mitigate risks such as fraud and to improve process efficiency and effectiveness. This includes strengthening the credibility of relevant products and services by pursuing professional certification.

### Anti-Fraud and Corruption

We consistently review our compliance with regulatory obligations, particularly those surrounding fraud, corruption and Anti-Money Laundering (AML) legislation. Compliance with KYC requirements, procedures surrounding the registration of customers and M-PESA transactions to ensure security and combat money laundering, are key focus areas for us.

### Ethical Behaviour

We recognise that corruption drives inequality by preventing fair access to economic power and basic social needs and in extreme cases, results in violation of human rights. We take steps to cultivate awareness and put anti-corruption monitoring and corrective measures in place and drive behavioural change in society through collective action initiatives.

### Regulatory Compliance

A sound regulatory system is crucial for supporting the growth of our industry. It provides an enabling environment for competition between businesses and enforces fair practices, driving equal opportunity and the inclusive participation of all segments of society in the economic and social spheres. We ensure that we remain compliant with regulatory requirements by assessing our processes against all applicable laws and regulations.

In the year under review, we successfully completed the automation of our compliance returns process. We also have updated our inventory with a comprehensive list of the laws and regulations that impact Safaricom.

## 2. Our Network

Our network is essential to the continuity and sustainability of our business. It is the foundation of all our operations, delivering our services and enabling us to transform lives. The quality, coverage and availability of our network are paramount to our competitive advantage, allowing us to differentiate ourselves in this highly competitive industry.

### Network Quality

We maintained our first-place position in all voice service categories and achieved first place in all categories for data service as per P3 certification, evaluated by P3 Communications (www.p3-group.com), an independent company. This was thanks to continuous network optimisation efforts, capacity expansion, implementation of network enhancement features and expansion of the fibre network, which offers improved capacity and reliability

### Customer Satisfaction (NPS)

We measure our performance against this metric using the customer opinion-driven Net Promoter Score (NPS), an independent survey of customer satisfaction. While NPS is a useful indicator, it is important to note that it measures customer opinions regarding network performance, not actual network performance.

The network NPS metric allows us to monitor how our customers are experiencing our improvements to the network. The network achieved its best-ever NPS of 80, putting us in front of the field, 16 points ahead of our nearest competitor.

## 3. Environmental Responsibility

Responsible environmental stewardship is vital to reducing inequalities. We recognise that our operations have an impact on the environment and that we have a responsibility to act in a sustainable manner and to report our progress honestly and transparently.

### Towards a Net Zero Carbon Footprint

Our aspiration is to be carbon-neutral in terms of $CO^2$ emissions by 2050. We have calculated that, with existing technology, the minimum Scope 1 and 2 emissions of which the company will be capable by 2050 are equivalent to 26% of current levels. This gives us the opportunity to rally our top suppliers to also take action on climate by setting science-based targets for their respective organisations.

### Integrated Waste Management Programme

In FY19, we began measuring the progress of our Integrated Waste Management programme (IWM), wherein we partner with Taka Taka Solutions, a local waste management company to separate our waste for recycling. Over 97% of all waste in our main facilities was either reused, repurposed or recycled. We have also expanded the scope of the programme to include our 5 main mobile switch rooms in Nairobi.

### Becoming a Plastic-Free Organisation

Safaricom is dedicated to becoming a plastic-free environment by eliminating all single-use plastic at Safaricom facilities, as well as minimising the plastic used in our retail packaging.

We have reduced the size of our SIM cards, effectively halving the amount of plastic used in their production. In addition to addressing the environmental problem posed by plastic, this has also saved the company money.

Safaricom has undertaken key initiatives to enhance internal systems to mitigate risks such as fraud and to improve process efficiency and effectiveness.

| Scope | $CO^2e$ emissions ($tCO^2e$) | |
|---|---|---|
| | 2019 | 2018 |
| TOTAL Scope 1 (direct emissions from fuels, gases, company-owned vehicles, fuels used at BTS stations, refrigerants and fugitive gases) | 33,057 | 36,035 |
| TOTAL Scope 2 (indirect emissions from electricity generation and use) | 26,833 | 23,836 |
| TOTAL Scope 3 (indirect emissions within the value chain, mostly travel-related) | 5,818 | 3,814 |
| Total carbon emissions | 65,708 | 63,685 |

## 4. Innovation

Safaricom has overhauled its strategy and innovations team in the year under review to become more effective and efficient in delivering products and services inspired by the genuine needs of our customers, many of whom are savvy early adopters of new, sophisticated technology. Innovative technology affords entrepreneurs access to new markets and ways of doing business, and as such is integral to supporting financial inclusion.

### Alpha Innovation

Alpha Innovation is a development unit within Safaricom that explores and establishes new ways to meet the evolving needs of our customers. Particular effort in this financial year has gone into learning more about our customers, their needs and how we can leverage the capabilities required to meet them.

### Delivering Value to the Society

We remain committed to our purpose of transforming lives. Our latest True Value Report indicates that the value to the Kenyan society created by Safaricom increased by 11% to KShs 601billion, 9.6 times the financial profit the company earned during the same period. We continue to leverage the power of mobile technology to deliver shared value propositions that disrupt inefficiencies and impact lives positively in health, agriculture and education sectors. The economic impact of the estimated KShs 250.3 billion (IFRS 15) in annual revenue from the Safaricom operation resulted in an estimated KShs 531,067million contribution to GDP. This GDP impact can be separated into a direct impact of KShs 147,029million, an indirect impact of KShs 91,818million and an induced impact of KShs 292,220million.

The total economic impact of the KShs 37.3billion capital expenditure in Safaricom resulted in a total estimated GDP contribution of KShs 20.1billion. This GDP impact can be separated into a direct impact of KShs 8.2billion, an indirect impact of KShs 3.5billion and an induced impact of KShs 8.4billion.

# Safaricom and M-PESA Foundations

Much of our work to transform lives throughout Kenyan society takes place through investment from the Safaricom and M-PESA Foundations. Building on the initiatives which begun last year under our 2018-2021 strategy, the Foundations participated in the funding of 157 projects under the areas of health, education and economic empowerment as well as water, environment and disaster response.

Aimed at building a stable and inclusive society, the Safaricom Foundation spent a total of KShs 434million on 157 projects that transformed the lives of 185,513 individuals with a focus on disaster response, education, environment, health and water.

### 1. Health

Foundation initiatives to improve health and well-being included access to cancer screening, medical camps and the renovation and equipping of a maternity wing. KShs 44 million was spent on strategies to enhance maternal health and prevent and manage non-communicable diseases.

The M-PESA Foundation established a number of programmes including Uzazi Salama ("safe pregnancy"). These interventions saw immunisation of children climb from 49% to 60% and 6,000 mother-baby packs were given to women delivering in facilities.

### 2. Education

Projects in which the Safaricom Foundation participated to enable access to quality education included the construction and equipping of classrooms, kitchens, dining halls, latrines, libraries and science laboratories. We contributed to classroom renovations, computer and ICT equipment, autism therapy, manual skills training in electricity, assistive devices for the visually impaired and equipment for differently-abled persons, school learning materials and solar installations.

### 3. Empowerment

The Safaricom Foundation's Wezesha Programme has partnered with Generation in Kenya to support youth to access entry level job opportunities. The purpose of this partnership is to equip unemployed youth aged 18 to 35 with the knowledge, skills and tools required to succeed in the workplace and position them for ongoing personal and professional success. To date, the programme has trained 156 young people on employability skills in areas of financial services, distribution, sales, customer care and operations, with 99 getting placement by completion of the training.

Conclusions from the insight analysis on economic empowerment for young people are that though youth unemployment is receiving substantial attention, there remains a clear chance for intervention in this space as Kenya needs to create at least 500,000 jobs or entrepreneurial opportunities annually. In addition, to ensure maximum impact, the Foundation will focus on specific geographies and on particular groups of youth.

### a) Promoting and Protecting Children's Rights

In the year under review, we conducted our first Children's Rights assessment using the UNICEF Mobile Operators' Child Rights Self Assessment Tool (MO-CRIA). The tool provides guidance for mobile operators on assessing their policies and processes as they relate to children's rights.

### b) Child Online Safety Advocacy

A particular area of interest for Safaricom is online safety, given that we provide internet connectivity and content both for devices and homes through our Home Fibre network. We have put controls in place to ensure online safety of our data products.

In FY19, we collaborated with the GSMA, UNICEF and other MNOs to develop and launch the WeCare campaign initiative, the first of its kind in Africa and developed and launched the Child Online Safety Industry Charter. We have hosted forums such as Safe Internet Day, which aims to enhance the safety of children online.

### c) Benefiting Society through our Environmental Stewardship

In the past financial year, we initiated a number of ecological and conservation projects and collaborated with various partners to roll them out in partnership with our foundations. In June 2018, we completed the KShs 164million Mau Eburu conservation project, commissioned in 2013 by the Ministry of Environment and Forestry and funded by the M-PESA Foundation. The project involved the construction of a 50-kilometre electric fence and extensive reforestation to resolve persistent human-wildlife conflict and restore parts of the forest degraded by human encroachment.

**Much of our work to transform lives throughout Kenyan society takes place through investment from the Safaricom and M-PESA Foundations.**

# Women In Technology

## Equality and Innovation

The Tech-novation Challenge where innovation is harnessed also targeted high school students of 14 to 18 years and involved girls' high schools.

### Safaricom Women In Technology (WIT)

In line with the global goals supporting SDG 4 - Quality Education, SDG 5 -Gender Equality and SDG 9 - Industry Innovation and Infrastructure, WIT is a program for passionate women who form Technology Incubators with an aim of strategically and consistently helping to nurture young students that will form true creators and innovators of our future and next generations of employment and entrepreneurship.

This is achieved by carrying out 6 key programs aiming at reaching out to the girl child at various stages of her education cycle and continually providing support through mentorship, exposure to evolving technologies, technical platforms and networks in order to onboard, increase, retain and build numbers of females within STEM.

Children are hardly given the opportunity to explore or engage their minds and tap into their inner innovation space. Technology is never considered as a first subject, creating a vacuum where we do not have children growing up learning technical subjects or come up with innovations. Early age experiments that are carried out by our youngest, ranging from 6 to 13 years (dubbed Kids-Go-Tech) strategically engages children in science based experiments to embrace changing technology and use it to solve everyday problems. The experiments use interactive kits to simulate real world applications. As a bonus, they get to carry these kits home. Materials in use are easily and locally available recycled tools that simulate real world objects and robots that move, light up and make sounds. From this we explored 28 successful sessions covering Nairobi, Mombasa and Lamu towns in which over 40 experiments were done, 1,500 children took part including over 400 children from disadvantaged backgrounds like SOS Children's Home in Buruburu.

In the age brackets between 14 and 18 years, we continued with our mission of reaching out to 47 schools in each of the 47 counties. Our 47/47 High School program reached out to Turkana for the second year in a row as we hosted more than 40 female students from the county in our Kisumu Kiboswa Data Center. Since inception, the program has reached out to more than 5,000 high school students and more than 2,000 students from marginalised communities in Turkana, Marsabit, Moyale and Samburu.

In one of our coast region sessions, the students had a chance of meeting a young lady who is a beneficiary of the 47/47 program and has now joined a local university pursuing an engineering course.

The Tech-novation Challenge where innovation is harnessed also targeted high school students of 14 to 18 years and involved girls' high schools, with the students required to submit apps addressing specific problems. This annual competition culminating in an international competition at Silicon Valley has seen a total of 1,110 participants since inception with 92 teams formed. So far, 8 teams have been shortlisted for this year's 2019 Global tech semifinals. One of the biggest achievement is successfully onboarding 2 coaches from local universities to the Technology Academy and later absorbing them as permanent staff.

As we embarked on digital transformation last year, we are glad that the Campus outreach program already had relevant topics there in its program. There is more demand in cyber security, DevOps, data science and analytics as captured from Q&A from outreaches conducted. In the last financial year, members in the program were privileged to work with award winning technologist Mariéme Jamme, on the launch of I AM THE CODE Kenyan chapter that saw 500 students introduced to coding. We also had great collaborations from George Washington University, the

German Federation and University of Pennsylvania that increased our international reach as a brand and program line.

30 universities / colleges (3 international) have been reached, 3 BLAZE summits in Mombasa, Kisumu and Thika towns, 2 university SDG-Based Hackathons, 36 university industrial visits & 6 career fairs. Other new collaborations are from Information Systems Audit and Control Association (ISACA) partnership, United Nations Educational, Scientific and Cultural Organization (UNESCO), Kenya Scouts and Education For All Children (EFAC).

The WIT Academy provided added value through internship to university and college students which started off by recruiting 40 ladies quarterly to intern at Safaricom Technology division. After 8 successful intakes, the program was opened up and due to diversity and inclusion, the academy was open to the male counterparts thus WIT Academy was renamed, Technology Academy. Since Technology Academy began in 2017, we have had 8 successful cohorts interning at the Safaricom Technology division. The total of 8 Technology Academy cohorts have created opportunity for 346 candidates to intern at our technology division. Out of the 346 candidates, 158 are ladies and 5 PWDs. In financial year 2018/2019, the Technology Academy managed to have 3 cohorts, that is, cohort 5 to cohort 7, with a total of 107 candidates. During this period, we have seen the number of ladies joining for the internship growing. Out of the 107 candidates, 62 candidates were ladies. For the period of 3 months, interns go through several sessions in a class. The best session that we had included designing a thinking class prompting the interns to develop different prototypes for different issues affecting the employees or customers in Safaricom. This equips them with design thinking skills.

During the cohort 6 period, there was a successful CRS at Getathuru Rehabilitation Center. This was a great initiative to give back to the community as they mobilised the whole company to contribute reading materials and other essentials. In FY 2018/2019, outsourcing of technology staff began through Techsavanna. Technology Academy's past interns make up a good percentage of Techsavanna employees and some have also been permanently absorbed into the company.

As we build our professional networks and focus on the working woman, we held a one day workshop for the 100 ladies in the technology division with a focus on professional profile building and branding oneself. To wind it all up, WIT Sponsored 2 young ladies from the technology division who were key speakers on cyber security and digital transformation during the first ever Women In Technology Africa series in Capetown, South Africa.









# Looking Ahead

With the platueing of traditional revenue streams, we have found it necessary to constantly redefine our focus, in order to tap into opportunities and position our business as a digital services provider to continue to deliver great value to our customers, while at the same time protecting shareholder value.

Looking ahead, the business will sustain its momentum of investing in the quality of our service and diversification of our revenue portfolio to ensure sustained returns to shareholders. This section responds to some of the questions by investors on Safaricom's strategy.

## Leveraging and monetising Big Data and Analytics and the role they play in our digital lifestyle enabler agenda.

Big Data and Analytics give us an excellent understanding of our customers, helping us to be more proactive and customer-focused and allowing for development of Big-Data informed solutions.

Financial and CVM products such as Fuliza, Tunukiwa and Stori Ibambe are some of the successful products that have been developed in this light.

We are leveraging the Vodacom group support for CVM driven initiatives and propositions.

Big-Data has also guided us in identifying the value at stake and in embedding the culture of customer focused data and informed insights, giving us superior knowledge on services for the future such as E-commerce and DigiFarm providing strong competitive advantage.

Using data in the digitisation of agriculture has been a successful venture for us. Using DigiFarm, we are able to provide farmers with necessary tools in the opening of markets and improving farmers' agricultural knowledge.

Learnings from Big Data and Analytics on areas such as customer experience has helped us improve the customer journey, accelerating the use of our customer self-service channels.

Other Big Data informed solutions include our recently launched risk and fraud detection solutions and credit scoring that have been extended to the banking industry.

## Preferred regional expansion model.

As we expand, we aim to stay true to our purpose – transforming lives by creating financial inclusion. For example, this involves banking the unbanked across the region and enabling efficient P2P money transfer systems by developing ecosystems and forging partnerships.

We will achieve this by creating a roadmap and moving one step at a time.

## Spark fund partnerships to drive the ecosystem value multiplier and Alpha in-house initiatives.

Spark Fund Series 1 had USD 1 million in funding for partnerships with startups. We partnered with startups such as Sendy, M-Survey, Eneza, Lynk, iProcure and FarmDrive, which have had tangible impacts on the lives of their customers. Encouraged by the performance and learnings from Spark Fund Series 1, we decided to embark on Spark Fund Series 2, which will have a USD 5 million funding.

The aim of the second series of spark fund is to drive synergies by using resources to catalyse and up-scale start-ups and drive access to markets within verticals. We intend to make partnerships with the entrepreneurial spirit in the health, agriculture and energy sectors.

In house, we have our own innovation team, Alpha, focused on igniting product and technical innovation with the intent to create path-breaking innovation which create everyday solutions for the challenges our customers face.

Social Commerce is Alpha's flagship product – focused on digitising trade within a community set up.

## Solutions to scale up on our digital platforms i.e. DigiFarm and E-commerce.

Agriculture is a major player in Kenya's economy, contributing to around 26% of the GDP. DigiFarm aspires to be at the heart of Kenya's agricultural sector. It currently has 1 million farmers on board. Our solution to farmers is simple: connecting farmers to farmers, farmers to markets and farmers to knowledge.

With E-commerce growing in Africa at 18% to 22%, there is still an opportunity to scale up. We launched Masoko 2 years ago with the dream of giving vendors and consumers access to markets and products.

Over the period, we've made big learnings on improving our consumer journey and experience. In this light, we'll be re-launching a smarter more data-informed Masoko.

## Enhancing asset utilisation and growing fixed service to core business.

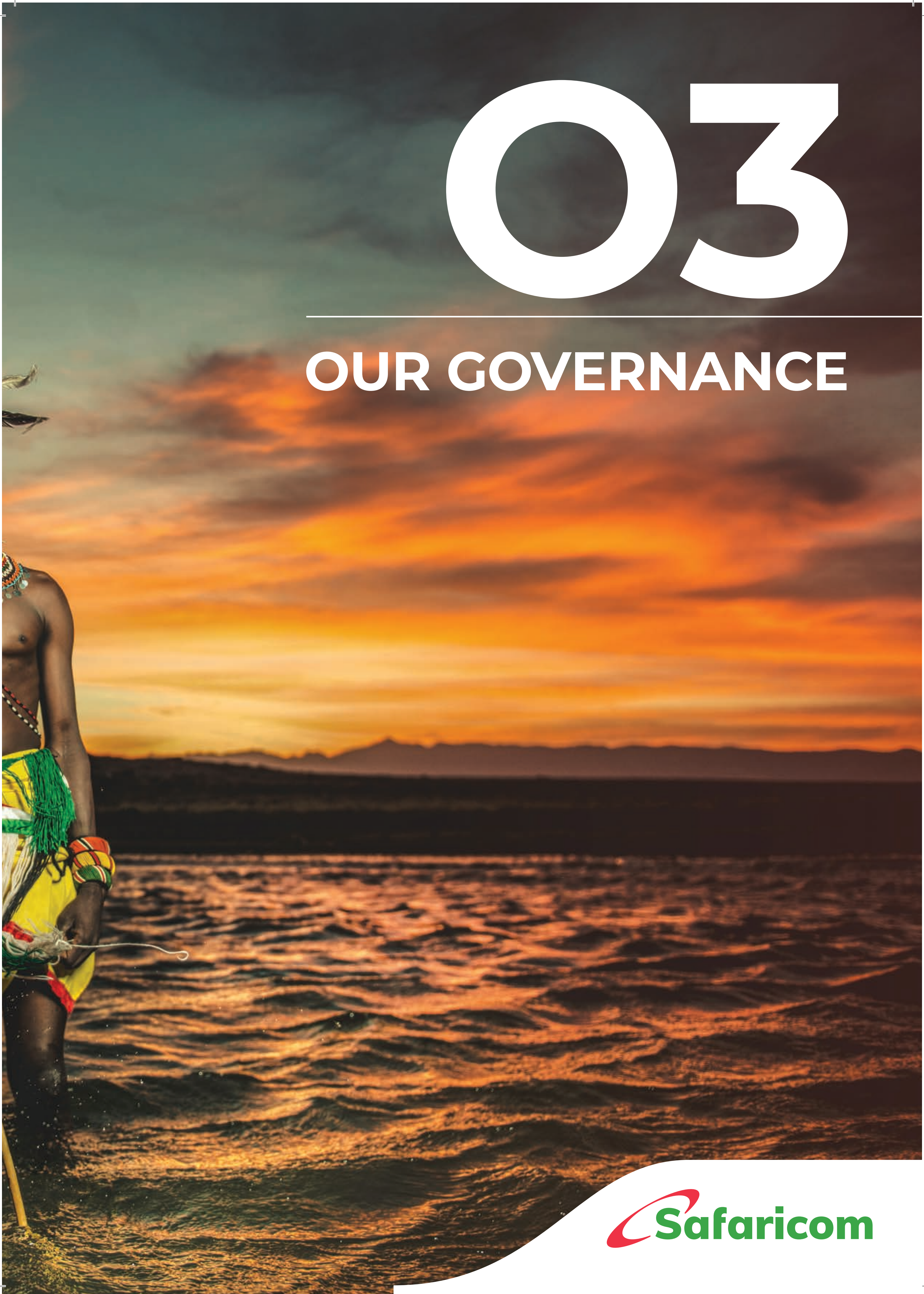
We approached it in phases. Our first point of action was to get the fibre out and now we are at the stage of driving value. We thought of fibre as a pipe providing our customers with access to a service i.e. that is accessing data and content, enabling the meeting of like-minded people and enhancing their businesses. Focus is now on driving value, including scaling up use cases such as content uptake and IoT – driving smart homes and smart enterprises.

## Forecast of the business landscape in the next 3 years.

As the leadership team, we are constantly questioning if we are on the right path and if we are staying true to our cause of making a fundamental difference in people's lives with everything we do.

We are already in the journey of digitising Kenya; in the next 3 years, we aim to be Kenya's largest digital services provider by building an ecosystem of partners.

Our vision is to provide the optimal digital solutions that make the lives of our customers simpler and better. Partnerships are at the centre of our journey to be a digital service provider.



# 03

# OUR GOVERNANCE

# Who Governs Us

Nicholas Nganga BNRC
**Chairman and Non-Executive Director**

Bob Collymore*
**Chief Executive Officer and Executive Director**

Vivek Badrinath BNRC
**Non-Executive Director**

Sateesh Kamath
**Chief Financial Officer and Director (Alternate to Bob Collymore)**

Michael Joseph BNRC
**Chief Executive Officer (Interim) and Director**

Mohamed Shameel Aziz Joosub
**Non-Executive Director** BAC

Esther Koimett BNRC BAC
**Alternate to Henry Rotich**

Linda Watiri Muriuki BNRC
**Non-Executive Director**

Kathryne Maundu BNRC BAC
**Company Secretary**

Till Streichert BAC
**Non-Executive Director**

Bitange Ndemo BAC
**Independent Non-Executive Director**

Rose Ogega BAC
**Independent Non-Executive Director**

## The constitution of the company's Board is stipulated by the company's Articles of Association. It comprises of 10 Directors of whom 9 are Non-Executive Directors and 1 is an Executive Director.

**KEY**

BAC Board Audit Committee

BNRC Board Nominations and Renumeration Committee

Solid background indicates Committee Chair

* Robert Collymore ceased to be a Director on 1 July 2019 and consequently Sateesh Kamath ceased to be his alternate.

Read more on our Board profiles available on the appendix.

# Who Leads Us

Bob Collymore
**CEO and Executive Director**


Michael Joseph
**Chief Executive Officer (Interim)**


Sateesh Kamath
**Chief Financial Officer**


Sylvia Mulinge
**Chief Customer Officer**


Stephen Chege
**Chief Corporate Affairs Officer**


Rita Okuthe
**Chief Enterprise Business Officer**


Nicholas Mulila
**Chief Corporate Security Officer**


Thibaud Rerolle
**Chief Technology Officer**


Joseph Ogutu
**Chief Special Projects Officer**


Sitoyo Lopokoiyit
**Chief Financial Services Officer**


Paul Kasimu
**Chief Human Resources Officer**


Debra Mallowah
**Chief Business Development Officer**

We continuously assess our governance operating model to ensure that robust internal governing bodies and proper systems and processes are in place to support our leadership team to drive change, set strategic direction and formulate high level goals and policies.

Read more on our Board profiles available on the appendix.

# Corporate Governance Report

## Introduction

The Board of Directors is responsible for the governance of the Company. The Company has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the Company.

We remain committed to the highest standards of corporate governance and business ethics. Good corporate governance practices are essential to the delivery of long term and sustainable stakeholder and shareholder value.

Safaricom continues to endeavour to comply with the provisions of the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the Code).

Over and above the self-assessment that the Company completed of its level of compliance of the Code as at March 31 2019, the Corporate Governance Statement as provided in this Annual Report will highlight to the Company's shareholders and various stakeholders, the performance to date.

Besides complying with the Code, the Company has committed to embed internal rules of engagement to support corporate governance. These internal guidelines are constituted in the Code of Business Conduct to which every employee, supplier and the Board makes a commitment to comply with.

The Company also adheres to other regulations promulgated by the CMA and the Nairobi Securities Exchange and the ethical standards prescribed in the Company Code of Conduct. In addition, Safaricom abides by the tenets of the Constitution of Kenya and all other laws as a law-abiding corporate citizen.

We believe that good corporate governance is critical, not only at the corporate level but also at the national level. We require our partners to adhere to the highest level of integrity and business ethics in their dealings with us or with other entities. In the financial year under review, we continued to achieve high levels of corporate governance by focusing on the following areas:

- Continuing to implement our strategy for the long-term prosperity of the business;
- Timely and relevant disclosures and financial reporting to our shareholders and other stakeholders for a clear understanding of our business operations and performance;
- Ensuring execution of strong audit procedures, audit independence and continuously enforcing strong internationally recognised accounting principles;
- Focus on clearly defined Board and management duties and responsibilities;
- Ensuring Director competencies through induction for new Directors and on-going trainings for all Directors;
- Focusing on compliance with relevant laws and upholding the highest levels of integrity in the organisation's culture and practices

## Board Charter

The Board Charter is critical to the Company's governance framework, and offers guidance on matters including but not limited to the following:

- The separation of the roles, functions, responsibilities and powers of the Board and its individual members;
- Powers delegated to the Board committees; matters reserved for final decision-making and approval by the Board;
- Policies and practices of the Board on matters of corporate governance, Directors' declarations and conflict of interest, conduct of Board and Board committee meetings; and
- Nomination, appointment, induction, ongoing training and performance evaluation of the Board and its committees.

The Charter is not a substitute or a replacement of any laws and regulations that govern the running of the Company.

## Board Size, Composition and Appointments

The constitution of the Company's Board is stipulated by the Company's Articles of Association. It comprises of ten Directors, of whom nine are Non-Executive Directors and one is an Executive Director. Of the nine Non-Executive Directors, we now have two Independent Directors. The Non-Executive Directors, other than those appointed by Vodafone and the Government of Kenya, are subject to retirement by rotation and must seek re-election by shareholders in accordance with the Articles of Association.

The Board is responsible for recommending Independent Directors for election by shareholders at the Annual General Meetings. Nominated Directors undergo a formal screening process conducted by the Nominations and Remuneration Committee Board before they are formally appointed. The committee also considers and screens Director nominees recommended by shareholders. Between Annual General Meetings, the Board may appoint Directors to serve until the next AGM. Any such appointment of Independent Directors must be ratified by the shareholders at the next AGM following their appointment.

## The Roles and Responsibilities of the Board

The primary role of the Board remains to guide the company towards sustainable long-term success through the exercise of objective and informed judgement in determining the strategy of the company, having the best team in place to execute that strategy, monitoring business performance and maintaining an effective framework of controls to mitigate risks facing the business.

## How the Board Works

The Board is solely responsible for its agenda. However, it is the responsibility of the Chairman and the Company Secretary, working closely with the Chief Executive Officer, to come up with the annual Board work plan and agenda for the Board meetings.

The Safaricom Board meets at least 4 times a year and the meetings are structured in a way that allows for open discussions.

Comprehensive Board papers are prepared and circulated to all Directors for all substantive agenda items weeks prior to the meeting. This allows time for the Directors to undertake an appropriate review of the Board papers to facilitate full and effective discussions at the meetings. The submissions and notification period may be waived should any urgent and critical matters arise within the 2-week period to the date of the meeting.

The senior leadership team members may be invited to attend the board meetings if deemed necessary. Where Directors are unable to attend a meeting, they are advised on the matters to be discussed and given

### Board Meeting Attendance from 1 April 2018 to 31 March 2019

| Board Member | Position | 8 May 2018 | 30 Aug 2018 | 31 Aug 2019 (AGM) | 1 Nov 2018 | 9 Jan 2019 | 31 Jan 2019 | 12 Feb 2019 |
|---|---|---|---|---|---|---|---|---|
| Nicholas Nganga | Chairman | √ | √ | √ | √ | √ | √ | √ |
| Robert William Collymore | Chief Executive Officer - Alternate is Mr Sateesh Kamath | - | √ | √ | - | √ | √ | √ |
| Susan Mudhune * | | √ | √ | √ | - | - | - | - |
| Michael Joseph | | √ | √ | √ | √ | √ | √ | √ |
| Linda Watiri Muriuki | | √ | √ | √ | √ | √ | √ | √ |
| Henry Rotich | Alternate is Mrs Esther Jepkemoi Koimett | √ | - | - | - | - | √ | √ |
| Vivek Badrinath | Alternate is Francesco Bianco | √ | √ | - | √ | - | √ | √ |
| Bitange Ndemo | | √ | √ | √ | √ | √ | √ | √ |
| Mohamed Joosub | | √ | √ | √ | √ | √ | - | √ |
| Till Streichert | | √ | √ | √ | √ | - | √ | √ |
| Kathryne Maundu | Company Secretary | √ | √ | √ | √ | √ | √ | √ |

* Susan Mudhune ceased to be a Director of the Company on 31 August 2018.

# Corporate Governance Report (continued)

the opportunity to make their views known to the Chairman or the Chief Executive Officer prior to the meeting.

The Non-Executive Directors are responsible for ensuring that the business strategies proposed are fully discussed and critically reviewed, as they do not form part of the Executive management team. This enables the Directors to promote the success of Safaricom for the benefit of its shareholders, with consideration of, among other matters, the interests of employees, the fostering of business relationships with customers, suppliers and other stakeholders.

The Non-Executive Directors oversee the operational performance of the business. To perform these tasks, they have full access to all relevant information, with updates provided on governance, regulatory and other matters affecting the company.

The executive committee members and other senior executives can be invited, as appropriate, to Board meetings to make presentations on their areas of responsibility. This serves as an opportunity to give the Directors greater insights into their business areas. Non-Executive Directors are also occasionally invited to attend the senior leadership's strategic and operations review meetings to gain further insights into different aspects of the business.

## Separation of Powers and Duties of the Chairman and the Chief Executive Officer (CEO)

The separation of the functions of the Chairman (a Non-Executive Director) and the CEO (Executive Director) supports and ensures the independence of the board and management. The balance of power, increased accountability, clear definition of responsibilities and improved decision-making are attained through a clear distinction between the Non-Executive and executive roles. The Chairman's responsibilities include the operation, leadership and governance of the board. The Chief Executive Officer's roles and responsibilities remains the day-to-day management of the company's business and overseeing the implementation of strategy and policies approved by the board.

## Board Diversity

The Board appreciates diversity, recognises its role in bringing different perspectives into Board debates and offers better anticipation of the risks that are inherent in the business and the opportunities that the business pursues. The Safaricom board has the appropriate mix of skills, knowledge and experience to perform its role effectively.

**Below is our Board structure as at 31 March 2019:**

| Name | Nationality | Date of Appointment |
|---|---|---|
| Nicholas Nganga | Kenyan | 6 May 2004 |
| Robert William Collymore* | British/Kenyan | 5 September 2006 |
| Michael Joseph | American/Kenyan | 8 September 2008 |
| Linda Watiri Muriuki | Kenyan | 31 August 2017 |
| Henry Rotich | Kenyan | 5 November 2013 |
| Vivek Badrinath | French | 12 January 2017 |
| Gianluca Ventura (Alt. to Vivek Badrinath)** | Italian | 31 August 2017 |
| Bitange Ndemo | Kenyan | 2 March 2017 |
| Sateesh Kamath (Alt. to Bob Collymore) | Indian | 30 June 2016 |
| Esther Jepkemoi Koimett (Alt. to Henry Rotich) | Kenyan | 5 November 2013 |
| Mohamed Joosub | South African | 31 August 2017 |
| Till Streichert | German | 8 May 2018 |
| Rose Ogega | Kenyan | 12 February 2019 |
| Francesco Bianco (Alt. to Vivek Badrinath)*** | Italian | 2 May 2019 |

* Robert Collymore ceased to be a Director on 1 July 2019 and consequently Sateesh Kamath ceased to be his alternate.

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

*** Francesco Bianco was appointed as Alternate Director to Vivek Badrinath on 2 May 2019.

The areas of expertise of the current Board of Directors are business management, telecommunications, banking and finance, electrical engineering, IT, mobile money, corporate communications, economics, marketing, project management, risk management, human resources, governance and legal and ethics issues.

### Board and Directors' Effectiveness

Board effectiveness in its oversight and leadership role is enhanced by a robust support system. This is facilitated through the following:

### Board Induction and Training

Board members undergo regular training and education to enable them fulfill their responsibilities. All Board members receive an induction upon joining. This provides an overview of the company, new developments in the environment in which the Company operates, accounting and financial reporting developments, as well as any regulatory changes.

As part of the induction training, detailed presentations by Management are factored in, so that the Directors gain a good sense of the Company's operations and central functions. The Board receives regular briefings on legal and regulatory developments at the Board meetings, with particular emphasis on regulations that directly impact the operations of the Company.

During the financial year under review, the Directors discussed salient aspects of the Code and engaged in e-learning or facilitator led training on areas of governance from credible sources, as prescribed by the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015.

### Access to Independent Advice

The Board recognises that there may be occasions when one or more Directors considers it necessary to take independent legal and/or financial advice at the company's expense. This is provided for in the Board Charter.

### Nomination

There is a formal screening process conducted by the Nominations and Remuneration Committee of nominees before they are formally appointed to the Board. The process aims at ensuring that they have the requisite capabilities to carry out their responsibilities.

### Evaluation

In line with the provisions of the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, the Board undertook an annual evaluation of its performance as an entity, its committees, the Chairman and each individual Director as well as the Company Secretary. This was aimed at enabling the Board and its members and the committees to gauge their performance and identify areas of improvement. An independent consultant was hired to carry out the evaluation. The review concluded that the Board continues to be effective.

### Governance Audit

The Governance Auditor for the year ended 31 March 2019 has been appointed and has commenced the audit. The Governance Audit report will be presented to the Board which will consider and implement the recommendations therein. (See below).

### Board Committees

The Board has two standing committees: an Audit Committee and a Nominations and Remuneration Committee. Each committee has formal and approved terms of reference. The Board periodically reviews the terms of reference for each of these committees to ensure they are in line with current legislation and best practice. The committees are provided with all necessary resources to enable them to undertake their duties effectively.

### Audit Committee

### Membership and Functions of the Board Audit Committee

The Audit Committee consists of 5 Non-Executive Directors and reports to the Board after every committee meeting. The Chairperson is an Independent Non-Executive Director.

### Functions of the Audit Committee

To fulfill its oversight responsibility, the Audit Committee receives reports from management, the internal auditors and external auditors, as appropriate.

The responsibilities and roles of the Audit Committee fall under four categories:

### 1. Risk Management and Internal Controls

- Review and assess the Company's risk management process and the adequacy of the overall control environment;
- Review reports on internal audits conducted from the Director of Internal Audit and ensure appropriate action is taken to address any weaknesses identified;
- Receive reports from the Director of Internal Audit, CFO or Director, Risk Management on any fraud, material or not, that involves management or other employees who have a significant role in the Company's internal controls;
- Review results of the Company's key controls questionnaire and ensure appropriate action is taken to address any weaknesses identified; and
- Monitoring compliance with statutory and listing requirements for any exchange on which the Company's shares and debt instruments are quoted.

# Corporate Governance Report (continued)

**A summary of the attendance of the Audit Committee meeting is shown below:**
**The attendance of the Board Audit Committee meetings for 2018/19**

| Board Member | 4 May 2018 | 29 Aug 2018 | 31 Oct 2018 | 11 Feb 2019 |
|---|---|---|---|---|
| Susan Mudhune * | √ | √ | - | - |
| Esther Koimett | √ | - | - | - |
| Bitange Ndemo | √ | √ | √ | √ |
| Mohamed Joosub | - | - | √ | √ |
| Till Streichert ** | √ | √ | √ | √ |
| Kathryne Maundu (Company Secretary) | √ | √ | √ | √ |

* Susan Mudhune ceased to be a Director of the Company and a member of the Committee on 31 August 2018.

** Till Streichert ceased to be an Alternate Director to Mohamed Joosub on 8 May 2018 and was appointed a Substantive Director on 8 May 2018

## 2. Financial Reporting and Disclosure Matters

- Review the published financial statements and recommend their approval to the Board of Directors;
- Review and discuss with management and the external auditor any significant events or transactions affecting the Company's financial reporting; and
- Consider findings from the external and internal auditors on material weaknesses in accounting and financial control systems.

## 3. External Auditor Oversight Responsibilities

- Review the independence, objectivity and effectiveness of the external auditor including their quality control procedure and steps taken to respond to changes in regulatory and other requirements;
- Review the scope and extent of both audit and non-audit services provided to the company by the external auditors and any associated fees and terms of engagement, including the assessment of the non-impairment of the auditor's judgement and independence;
- Ensure that the external auditor submits a formal written statement delineating all relationships between themselves and the Company; and
- Review and discuss with management and auditors the preliminary results, interim information and annual financial statements.

## 4. Internal Audit Oversight Responsibilities

- Oversee the activities and credentials of the Company's

**A summary of Nominations and Remuneration Committee meeting is shown below:**
**The attendance of the Nominations and Remuneration Committee meetings for 2018/19**

| Board Member | 4 May 2018 | 29 Aug 2018 | 16 Oct 2018 | 31 Oct 2018 | 11 Feb 2019 | 8 March 2019 | 20 March 2019 |
|---|---|---|---|---|---|---|---|
| Nicholas Nganga (Chairperson) | √ | √ | √ | √ | √ | √ | √ |
| Susan Mudhune * | √ | √ | - | - | - | - | - |
| Esther Koimett | √ | - | √ | - | √ | √ | √ |
| Michael Joseph | √ | √ | √ | √ | √ | √ | √ |
| Linda Watiri Muriuki | √ | √ | √ | √ | √ | √ | √ |
| Vivek Badrinath | √ | √ | √ | √ | √ | - | √ |
| Kathryne Maundu Company Secretary) | √ | √ | √ | √ | √ | √ | - |

** Susan Mudhune ceased to be a Director of the Company and a member of the Committee on 31 August 2019.

internal audit division, including a review of the internal audit charter, code of ethics, plans, resource requirements, staffing and organisational structure;

- Consider the appointment, replacement or dismissal of the Director of internal audit and make recommendations to the Board;
- Approve the annual audit plan ensuring its consistency with the Company business plan; and
- Receive reports on the status of significant findings, recommendations and management's responses.

### Nominations and Remuneration Committee

The committee is mandated to review amongst other matters the balance and effectiveness of the Board and remuneration of Directors and senior management as well as the succession planning at Board and senior leadership levels.

### Membership and Functions of the Nominations and Remuneration Committee

The Nominations and Remuneration Committee is established by the board of Directors; comprises of five Non-Executive Directors and meets at least four times a year.

The purpose of the committee is to assist the Board by:

- Monitoring the size and composition of the Board and its succession plans;
- Recommending individuals for nominations as members of the Board and its committees; and
- Reviewing executive appointments, succession and development plans and proposing the remuneration structures of Executive and Non-Executive members of the Board.

## DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 MARCH 2019

### 1.1 Introduction

The key objective of the Board Nominations and Remuneration Committee (BNRC) is to make sure that the Board comprises of individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and to review the remuneration of Directors and senior management as well as the succession planning at Board and senior leadership levels.

The members of the Committee during the year were as indicated below:

- Nicholas Nganga - Chairperson
- Esther Koimett
- Susan Mudhune
- Michael Joseph
- Vivek Badrinath
- Gianluca Ventura*
- Linda Muriuki

All members of the committee are Non-Executive Directors.

* Gianluca Ventura ceased to be a Substantive Director with effect from 31 August 2017 and was appointed an Alternate Director to Vivek Badrinath with effect from the same date.

The Committee's responsibilities have been set by the Board and are outlined in the Board Charter and the Terms of Reference of the Committee.

### 1.2 Directors' Remuneration Report

### 1.2.1 Report Preparation

The Directors' Remuneration Report has been prepared to enlighten the shareholders on the remuneration payable to both the Executive and Non-Executive Directors. We will be seeking shareholder approval for our Remuneration Policy at the 2019 AGM. Subject to approval, we will review our policy each year to ensure that it continues to support the strategy of the Company and if necessary to make a change to our policy within the next 3 years, we will seek shareholder approval for the same.

It is the view of the Committee and the Board that our reward arrangements best support our business effectiveness by only delivering above target payouts when this is justified through Company performance and the current policy will support the implementation of the Company's short term and long-term objectives. The policy is entirely appropriate for the Company's needs and serves as a guide to all decisions on Directors' remuneration taken during the year.

The Directors' Remuneration Report is unaudited except where otherwise stated.

### 1.2.2 Regulatory Changes

The Regulatory landscape in Kenya has witnessed a number of changes that have had an impact on the remuneration of Directors and the associated reporting.

In March 2016, the Capital Markets Authority ("CMA") issued the Capital Markets Code for Issuers of Securities ("The Code") which became operational 12 months after its gazzettement. The Code outlines various compliance requirements with respect to the remuneration of Directors'. The Companies Act, 2015 which was enacted in September 2015 and became operational in June 2016, requires the Company to table a Directors' Remuneration report to its shareholders as part of its audited financial statements.

The Committee has prepared this report in accordance with the requirements of the Code and the Companies Act 2015 ("the Act").

# Corporate Governance Report (continued)

### 1.2.3 Current Policy

Our Remuneration Policy reflects a commitment to the following principles:-

a) Ensuring our remuneration policy, and the manner in which it is implemented, drives the behaviours that support our strategy and business objectives;

b) Maintaining a "pay for performance" approach to remuneration which ensures our incentive plans only deliver significant rewards if and when they are justified by business performance;

c) Aligning the interests of our senior management team with those of shareholders by developing an approach to share ownership that helps to maintain commitment over the long term; and

d) Offering competitive and fair rates of pay and benefits.

### 1.2.4 Remuneration for Non-Executive Directors

The Company's Non-Executive Directors' (NEDs) are compensated in the form of fees but are not entitled to any pension, bonus or long term incentives such as performance share plans.

The package covers a Director's role in the Board, any Board Committee(s) and any other activities as identified in the approved compensation schedule and in-line with the Non-Executive Directors' policy. Elements of the compensation schedule include the following:-

a) Annual retainer fee for the Chairman and other Non-Executive Directors;

b) Sitting allowances for Board and Board Committee meetings; and

c) Expenses incurred with respect to travel, accommodation, pre-approved consultancy fees or other expenses incurred as a result of carrying out duties as a Director are reimbursed at cost.

The Company's policy is to remunerate its Non-Executive Directors at the desired position, so as to pay at least at the 75th percentile of the market. This ensures that the Company is competitive in sourcing and retaining its Directors.

The current compensation structure which was approved by the Board in September 2015, was determined

**Remuneration for Executive Directors**

| Reward | Purpose and Link to Strategy | Mechanics of Reward | Performance Metrics |
|---|---|---|---|
| Basic Salary | To attract and retain high calibre individuals to deliver the Company's strategic plans, by offering market competitive remuneration, to reflect an individual's skills and experience. | · Paid in 12 equal monthly instalments during the year and is pensionable<br>· Reviewed annually with salary changes effective from April, depending on performance | Individual and business performance |
| Pension | To provide competitive post-retirement benefit arrangements so as to attract and retain high calibre talent, to drive delivery of Group's strategy. | None | None |
| Other benefits | To aid retention and to facilitate the attraction and retention of high calibre talent to deliver the Company's strategic Plans. To remain competitive within the market place. | The range of benefits include:<br>· Medical insurance<br>· Personal life and accident insurance<br>· Security detail (24 hours)<br>· Education allowance<br>· Car allowance<br>· Driver and domestic allowance | |
| Michael Joseph | √ | √ | √ |

following a benchmarking exercise with comparable entities. A similar exercise was undertaken in February 2018 and the Board approved a revised compensation package for the Non-Executive Directors at their meeting held on 8 May 2018, which is line with the aforementioned policy.

### 1.2.5 Remuneration for Executive Directors

We have summarised in the table below, the key elements of the remuneration packages of the Executive Directors – the Chief Executive Officer and the Chief Finance Officer, as compensation for their role as key management.

## Special Committees

The Board is authorised by the Company's Articles of Association to form ad-hoc or special committees to deal with specific matters for a defined term period. The Board retains oversight authority over such committees.

One such Committee is the Ethics Committee, which plays an oversight role on behalf of the Board with regard to matters of ethics, integrity and best business practices.

## Role of the Company Secretary

- Providing a central source of guidance and advice to the Board, and the Company, on matters of statutory and regulatory compliance and good governance;
- Providing the Board and the Directors individually with guidance on how their responsibilities should be discharged in the best interests of the Company;
- Facilitating the induction training of new Directors and assisting with the Directors' professional development as required. This includes identifying and facilitating continuous Board education;
- In consultation with the CEO and the Chairman, ensuring effective flow of information within the Board and its committees and between senior management and Non-Executive Directors. This includes timely compilation and distribution of Board papers and minutes, as well as communication of resolutions from Board meetings;
- Guiding the company in taking the initiative to not only disclose corporate governance matters as required by law, but also information of material importance to decision-making by shareholders, customers and other stakeholders; and
- Keeping formal records of Board discussions and following-up on the timely execution of agreed actions.

## Directors' Shareholding

Directors can purchase or sell shares of the Company in the open market. None of the Directors as at the end of financial year under review held shares in their individual capacity of more than 1% of the Company's total equity.

## Board Remuneration

Non-Executive Directors are paid a sitting allowance for every meeting attended. They are however, not eligible for pension scheme membership and do not participate in any of the Company's remuneration or compensation schemes.

Details of the fees for the Non-Executive Directors and remuneration of the Executive Directors paid in the financial year under review are set out on the financial statements' part of the annual report

## Conflict of Interest

The Directors are obligated to fully disclose to the Board any real or potential conflict of interest, which comes to any Director's attention, whether direct or indirect. The statutory duty to avoid situations in which the Directors have or may have interests that conflict with those of the Company has been observed by the Board in the financial year under review. All business transactions with all parties, Directors or their related parties are carried out at arm's length. An acknowledgement that should it come to the attention of a Director that a matter concerning the Company may result in a conflict of interest, obligates the Director to

**The breakdown of the Directors' Personal Shareholding in the Company as at March 31, 2019 is as follows:**

| Name of Director | 2019 | 2018 | Change |
|---|---|---|---|
| Nicholas Nganga | 855,100 | 855,100 | - |
| Robert Collymore | 1,518,600 | 1,518,600 | - |
| Michael Joseph | 0 | 1,178,600 | (1,178,600) |
| Esther Koimett | 0 | 517,600 | (517,600) |
| Susan Mudhune | 51,200 | 51,200 | - |
| Henry Rotich | 2,200 | 2,200 | - |
| Sateesh Kamath | 310,000 | 160,000 | 150,000 |

# Corporate Governance Report (continued)

declare the same and exclude himself/herself from any discussion or decision over the matter in question.

The Board has formal procedures for managing conflicts of interest in accordance with the Companies Act 2015 and the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public.

Directors are required to give advance notice of any conflict of interest issues to the Chairman or Company Secretary and these are considered at the next Board meeting.

Declaration of conflicts of interest is also a standard agenda item which is addressed at the onset of each Board meeting. Directors are excluded from the quorum and vote in respect of any matters in which they have an interest. No material conflicts were reported by Directors in the year under review.

## Relationship and Communication with Shareholders

- Safaricom remains committed to relating openly with its shareholders by providing regular as well as ad-hoc information on operating and financial performance and addressing any areas of concern. This is achieved through the following:
- Interim and annual results and publication of extracts of its financial performance in the daily newspapers, preparation of annual audited accounts and holding of the Annual General Meeting;
- Copies of the annual reports are made available to shareholders at least 21 days before the date of the AGM and they are free to raise questions to the Board during the meeting;
- Safaricom responds to daily queries from shareholders, their representatives and financial analysts through a dedicated investor relations team;
- The Safaricom website has a specific webpage dedicated to the information requirements of the shareholders and investment analysts;
- Investor briefing sessions are held immediately after the announcement of interim and full year results; and
- Local and international investor road shows are held after interim and full year results announcements; representatives of the Company's senior leadership team in collaboration with known stock brokerage firms organise meetings with institutional investors, individual shareholder groups and financial analysts.

## Ethics and Code of Conduct

Safaricom Directors and employees are expected to act with honesty, integrity and fairness in all their dealings with one another and with stakeholders and to respect the diverse cultures of the Kenyan people. Safaricom has a Code of Conduct that binds both Directors and employees. When joining Safaricom, every employee is provided with a copy of the Code and must commit to abide by its requirements as part of the employment contract with the Company.

## Whistleblowing Policy

We have a whistleblowing policy that provides for an ethics hotline managed by an independent, accredited and external institution. Through the hotline, anonymous reports on unethical/fraudulent behaviour can be made without fear of retaliation from the suspected individuals. Whistleblowing statistics are reported to the Ethics Committee and the Audit Committee on a quarterly basis. Staff members and business partners are also regularly sensitised on the need to report any suspected unethical business practices.

The whistleblowing policy provides a platform for employees, suppliers, dealers and agents to raise concerns regarding any suspected wrong doing and the policy details how such concerns are addressed.

The whistleblowing policy has been uploaded on the Company's website.

## Corporate Social Responsibility

We recognise that Corporate Social Investment (CSI) issues are of increasing importance to our stakeholders and are fundamental to the continued success of the business. Thus, we have a CSI policy that ensures we operate our business in a responsible manner at all times for the benefit of our customers, staff, suppliers and the wider community. We exercise CSI by partnering with and investing in communities to find sustainable solutions.

We also encourage our employees to take part in CSI initiatives aimed at improving the standards of living of the communities that they come from. Our CSI activities are disclosed every year in the social impact section of our sustainability and foundation reports.

## Procurement Policies

We have in place procurement policies that promote a fair and transparent procurement process, with emphasis on value for many and building mutually beneficial relationships with our suppliers.

A Management Tender Committee

oversees the award of tenders and there is appropriate Risk Assurance for procurement activities.

### Insider Trading Policy

The Company has a policy on insider trading. Directors and staff are made aware that they ought not to trade in the Company's shares while in possession of any material insider information that is not available to the public or during a closed period.

To ensure compliance with the Companies Act, 2015 the Company communicates 'open' and 'closed' periods for trading in its shares to its employees and Directors on an annual basis.

To the best of the Company's knowledge, there was no insider dealing in the financial year under review.

### Going Concern

The Board confirms that the financial statements are prepared on a going concern basis and is satisfied that the Company has adequate resources to continue in business for the foreseeable future. In making this assessment, the Directors consider a wide range of information relating to present and anticipated future conditions, including future projections of profitability, cash flows, capital and other resources.

# Our Principal Risks

## A Company for the People

Everyday, we innovate to keep our customers happy. Last year, we carried out a capacity upgrade on M-PESA's core platform, supporting 1,200 transactions per second.

### Our risks and uncertainties

We operate a mature risk management framework that is aligned with the ISO 31000 International Risk Management Standard. This ensures our strategic and operational risks are identified, managed, assured and reported in a consistent way. It is an evolving framework as we continually seek to improve and enhance our risk management processes and designed to be responsive to the ever-changing environments in which we operate.

We continue to be committed to robust risk management practices as an integral part of good management. This is demonstrated by the top down approach with the Board taking overall responsibility of managing risk. Appropriate support toward risk management is given, driving a positive risk culture across the organisation.

### Identifying our principal risks

We identify the key risks through our Principal Risks Framework, which provides the Executive Committee and Board with a robust assessment of the principal risks facing the Company. An embedded enterprise risk management process supports the identification of these principal risks. The risk appetite for each principal risk is reviewed and approved by the Board to enable informed risk-based decision-making.

### Keys to principal risks

1. Regulatory environment
2. Information and cyber threats
3. Economic growth prospects
4. Competition and market disruption
5. Fit for future digital transformation and simplification
6. Technology resilience
7. Geo-political risks and insecurity
8. Legal/Regulatory compliance
9. Geo-political risk in supply chain
10. Partnership management and 3rd party risks

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

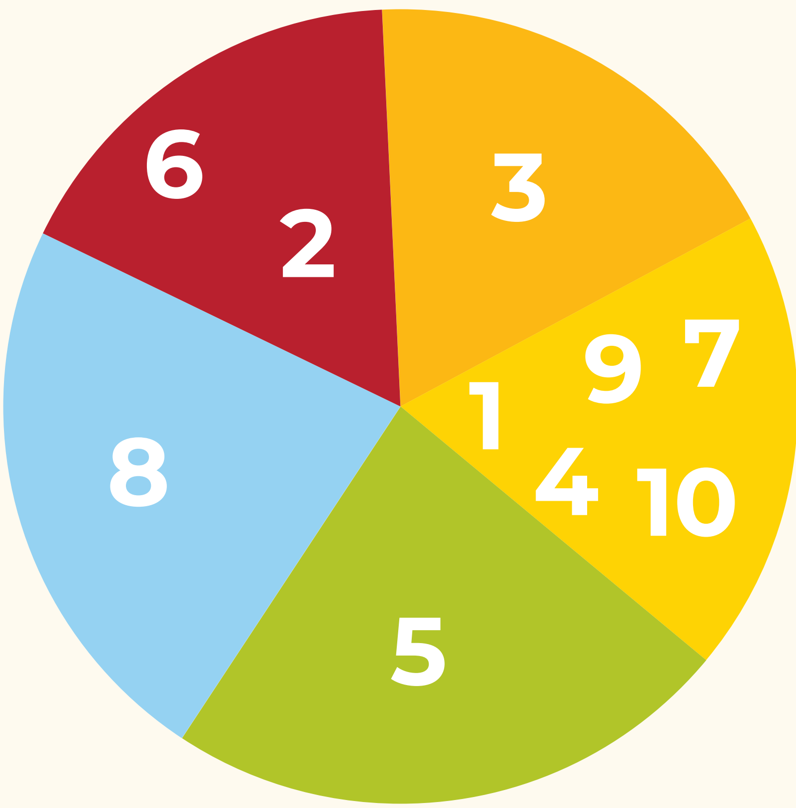
| Principal Risks | Context | How We Manage It |
|---|---|---|
| **Adverse Political and Regulatory Measures**<br><br>Rating: High | The changes in the information, communication and telecommunication landscape in Kenya have resulted in increased regulation which is becoming complex and a key area of focus.<br><br>The nature of products and services that we provide 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). | • We continue to build constructive relationships with the regulators as well as contribute to discussions on emerging legislation and regulations as we prepare to comply with new laws<br><br>• Our products and services are carefully and continuously monitored to ensure they do not contravene any regulations |

| Principal Risks | Context | How We Manage It |
|---|---|---|
| **Cyber Risk**<br><br>Rating: High | An external cyber-attack, insider threat or supplier breach (malicious or accidental) could cause service interruption or the loss of confidential data. Cyber threats could lead to major customer, financial, reputational and regulatory impact including potential costs associated with fraud and/or extortion. | • Robust cyber security controls complemented by the 24/7 Cyber Defense Center to ensure we safeguard the services that we offer<br>• Our ISO 27001 Information Security Certification is an independent confirmation to our customers that we have implemented appropriate processes and controls relating to our M-PESA, billing, mobile data, customer support and cloud services to protect the privacy of their information<br>• Our networks and infrastructure are built with security in mind<br>• Layers of security control applied to all applications and infrastructure |
| **Economic Growth Prospects**<br><br>Rating: High | The mobile communications industry is often subject to unpredictable and higher direct and indirect taxes as seen in the recent past.<br>The economic growth for 2018 was on rebound following the slow growth in 2017. However, the country is still battling increased taxation and inflation as well, leading to a marginal weakening of the Shilling. This has resulted in reduction of disposable incomes and spending power of the people and by large our consumers. The delayed rainfall leading to drought in some parts of the country will further erode the purchasing power of our consumers. | • We continue to proactively monitor these factors, implement measures to mitigate the effects and cushion the business from adverse effects<br>• Adjust our products and services to continue to serve customer needs<br>• Include 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<br>• Implemented a cost-efficiency programme to combat the effects of inflationary pressure on costs |
| **Competition and Market Disruption**<br><br>Rating: High | Competition in the telecommunication industry is on the rise in terms of product and service offerings.<br>Dynamic market needs, ever-changing consumer trends, entrance of new players in the market coupled with speed of new disruptive technologies have also intensified the competition with customer value proposition being the competitive edge. We face increased competition from a variety of new technology platforms, which aim to build alternative communication, which could potentially affect our customer relationships. | Our strategies to manage competition focus on growing and retaining our customers by offering quality services and leveraging on strategic partnerships within different sectors to ensure we provide the customers with relevant products and services.<br>We continue to be a purpose led, customer obsessed, insights driven digital service provider. We continue to be innovative and adopt an agile operating model to be able to respond rapidly to the ever changing customers' needs. |

# Our Principal Risks (continued)

| Principal Risks | Context | How We Manage It |
|---|---|---|
| **Fit For Future Digital Company**<br><br>Rating: High | We are currently implementing a major transformation plan to evolve Safaricom into a Kenya's digital company with an aim to deliver world-class customer experience, increase our speed to market and increase operational efficiencies. Failure to do this could lead to missed commercial opportunities, increased costs and customer experience issues as well as stagnated growth. | • Kenya's largest digital services provider of platforms and partnerships is a companywide transformation programme, with direct sponsorship from our Executive Committee. We have clearly defined objectives and target KPIs for the overall programme and each functional area<br>• We are continuously driving simplification to reduce the complexity of our products and propositions with clearly defined objectives and target KPIs |
| **Technology Resilience**<br><br>Rating: Medium | Our customer value proposition is based on the reliable availability of our high quality network. A major failure in critical network or information technology assets for example, through natural disasters, insufficient preventative maintenance, or malicious attack – would have a profound impact on our customers, revenues and reputation. | • Invest in maintaining and upgrading our network on an ongoing basis, with comprehensive business continuity and disaster recovery plans in place<br>• Investments to ensure adequate redundancy capabilities and elimination of any single point of failure |
| **Geo-Political Risks and Insecurity**<br><br>Rating: Medium | There has been an increase in terror related activities in the country notably the Dusit D2 terror attack and targeted attacks in North Easter region.<br>Due to our countrywide presence, these uncertainties have also led to security concerns affecting our business operations and leading to increased cost of operations. | • The business continues to monitor the political situation keenly while taking appropriate business measures to safeguard our operations<br>• To manage security risks, we have invested heavily to ensure our staff, contractors and assets are protected and we continue to work closely with law enforcement authorities to ensure our customers' interests are well protected<br>• Further, we carry out proactive intelligence gathering, screening and security surveillance |
| **Legal/Regulatory Compliance**<br><br>Rating: Medium | We operate in a complex and heavily regulated environment and therefore Safaricom must comply with a multitude of local and international laws. These include laws relating to: data privacy; antimoney laundering; competition; anti-bribery and economic sanctions. Failure to comply with these laws could lead to reputational damage, financial penalties and/or suspension of our license. The rundown success of our mobile money further exposes us to money laundering and terror financing related risks. | • All new products and services are reviewed for compliance with all applicable laws and regulations before being approved for launch<br>• Subject matter experts in our legal and regulatory teams advise on strategy and manage policy and risk issues<br>• Robust, proportionate, risk-based controls to prevent, detect and report money-laundering and terrorist financing for our mobile money system<br>• Assurance Programme on regulatory compliance |

| Principal Risks | Context | How We Manage It |
|---|---|---|
| **Geo-Political Risk in Supply Chain**<br><br>Rating: Medium | We operate a complex infrastructure to run our operations. Our systems and network are dependent on a wide range of suppliers locally and internationally. If we were unable to execute our plans, we and the industry would face potential delays to network improvements and increased costs. | • We operate our supply chain with resiliency in design by having dual supply partners and robust spares stockholding capacity<br>• We are closely monitoring the political situation around our key suppliers. We are also engaging with the Vodafone global supply chain, experts and suppliers to remain fully informed so that we can respond accordingly |
| **Partnerships and 3rd Party Risks**<br><br>Rating: Medium | We are increasingly engaging in strategic partnerships to drive our digital platforms and partnerships strategy.<br>We however face the risk of failure to extract value through the partnerships and introduction of 3rd party related risks from these partnerships | • Partnership management framework adopted across the organisation |




## Key to Principal Risks

1. Regulatory environment
2. Information and cyber threats
3. Economic growth prospects
4. Competition and market disruption
5. Fit for future digital transformation and simplification
6. Technology resilience
7. Geo-political risks and insecurity
8. Legal/Regulatory compliance
9. Geo-political risk in supply chain
10. Partnership management and 3rd party risks

- Strategic/External
- Operational
- Compliance
- Tech
- Financial

# 04

# OUR FINANCIALS

# Table of Contents



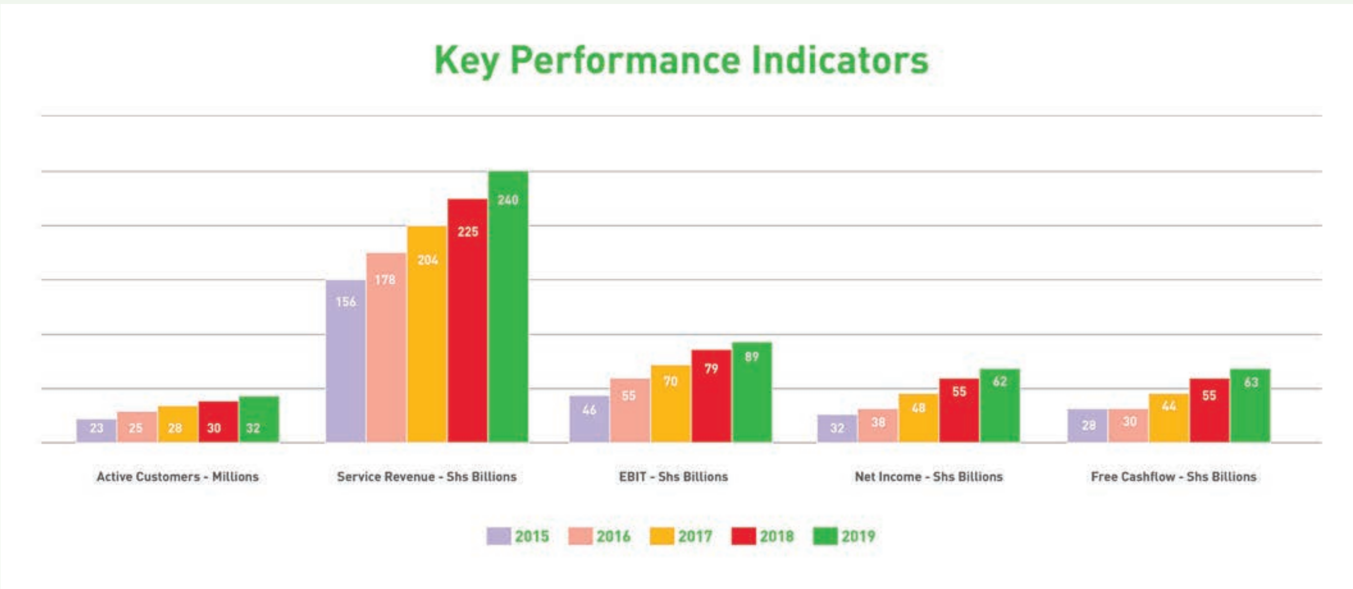
The directors submit their report together with the audited financial statements for the year ended March 31 2019 which disclose the state of affairs of Safaricom PLC (the "Company" or "Safaricom") and its subsidiaries (together, the "Group").

## BUSINESS REVIEW

Safaricom exists to transform lives. As a digital service provider, we provide voice, data, financial services and enterprise solutions for a range of subscribers, small businesses and government using a variety of platforms.

Three main pillars guide our corporate strategy. These are: Customer First, Relevant Products and Services and Operational Excellence. These pillars have helped us grow our loyal customer base leading to excellent results across our key financial and commercial performance indicators and a positive impact on the lives of the customers we serve.

Below graph shows a 5-year key performance indicators trend:




The Group has delivered robust financial performance for the year ending March 31 2019. In order to give a more accurate comparative for the year under review against prior year, we have used the performance as would have been under IAS 18 (see Appendix 2).

Service revenue grew by 7.0% to KShs 240.30 billion driven predominantly by increased usage of non-voice services mainly M-PESA, mobile data and fixed service revenues and growth in our total customer base by 7.70% to 31.84 million.

Overall voice service revenue now stands at 39.92% of service revenue and remained flat in the year growing by 0.31% to KShs 95.94 billion.

Mobile data revenue, which accounts for 16.10% of our service revenue, grew at 6.40% to KShs 38.70 billion. This was driven by a 6.58% growth in 30 day active mobile data customers to 18.83 million, increased bundle users and smartphone penetration. Bundle users in the year increased by 26.25% to 10.59 million.

Fixed data revenue increased by 22.75% to KShs 8.19 billion on the back of 24.27% growth in fixed service customers to 19.03 million. Included in fixed service revenue is KShs 972 million (2018: KShs 972 million) relating to annual management service charge for the national secure communication network.

M-PESA revenue recorded a growth of 19.21% to KShs 75.00 billion driven by 10.19% increase in 30 day active M-PESA customers to 22.64 million and an 11.00% growth in monthly usage per customer to 12.2 transactions per month.

## BUSINESS REVIEW (Continued)

Operating profit (EBIT) for the year increased by 13.06% attributed to growth in service revenue, cost optimisation and prudent capital expenditure (CAPEX) investments.

Earnings per share improved by 14.67% Year on Year (YoY) (13.04% based on IFRS 15) driven by strong operating performance and free cash flow improved by 13.94% YoY.

The accounting policies adopted in the financial year ending March 31 2019 are consistent with those followed in the preparation of the Annual Financial Statements for the year ended March 31 2018 except for the adoption of IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments.

IFRS 15 and IFRS 9 are effective for financial years beginning on or after January 1 2018.

The Group has adopted IFRS 15 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 15 has been recognised as an adjustment to the opening balance of retained earnings as at April 1 2018, with no restatement of comparative information.

In the year, the Finance Act, 2018 (the Act) was signed into law on September 21 2018.The Act increased excise duty chargeable on mobile money transfer services by cellular phone service providers from 10% to 12%.The Company increased its mobile money (M-PESA) transactions costs effective July 1 2018.Additionally, the Act increased the excise duty on mobile telephone services from 10% to 15% and introduced excise duty on internet services at the rate of 15%. The Company increased its voice calls by KShs 0.30 and SMS by KShs 0.10 effective October 18 2018.

In the spirit of Nawe Kila Wakati and inspired by everyday Kenyans who are making a positive impact to those around them; we continue to partner with communities across the country to bring 500 community dreams to life. The strategy focuses on health, education and empowerment and enables us and our partners to develop new and exciting partnerships models which brings together philanthropy, strategic investments, shared value and issue based advocacy for continued connection with communities.

We officially opened the M-PESA Foundation Academy, a state of the art, mixed boarding high school providing learning opportunities for bright and/or talented children from economically disadvantaged backgrounds. It is driven by leadership, entrepreneurship, technology and innovation. Currently the Academy has about 700 learners, 14 from each of the 47 Counties.

We continue to take our social and moral responsibility to manage our environmental impact very seriously. We recognise the environmental considerations are not separate from our core business, but have an impact on our overall commercial sustainability and success.

As part of our commitment to the sustainable development goals (SDG's) and to the environment in particular, we are committed to maximizing our positive impact and mitigating our negative impact through the continue alignment of our efforts with three of the goals;

i. promoting the use of affordable and clean energy (SDG7), both within our network and the homes of employees,

ii. advocating for, implementing and promoting the responsible production and consumption of resources (SDG12),

iii. guiding efforts towards achieving our 'net zero' carbon-emitting aspiration through the development and implementation of climate change-related strategies and policies (SDG13).

Key focus areas during the year include;

i. Net zero emissions by 2050 initiatives - monitoring our emissions and introducing science-based carbon reduction targets,

ii. Continued compliance - compliance with regulations regarding plastics, air quality and noise levels,

iii. Waste management- e-waste collection initiative and internal end-to-end waste management programme,

iv. ISO 14001 recertification - upgrades to Environmental Management System (EMS) and successful transition to ISO 14001:2015 version.

We have committed to becoming a net zero carbon-emitting company by 2050. The current scientific consensus is that global carbon emissions need to be reduced by 80% by 2050 to avoid catastrophic climate change and we are determined to play our part.

Our bold pledge has focused our thinking and efforts across the entire business, from improving energy efficiencies and reducing the energy consumed across our network and facilities to deploying renewable energy solutions and exploring carbon offset projects.

We continue to be committed to robust risk management practices as an integral part of good management. This is demonstrated by the top down approach with the Board taking overall responsibility of managing risk. Appropriate support toward risk management is given, driving a positive risk culture across the organization.

## BUSINESS REVIEW (Continued)

We have a clear framework for identifying and managing risk, both at an operational and strategic level. Our risk identification and mitigation processes have been designed to be responsive to the ever-changing environments in which we operate.

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

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


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

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

### Strategic Risks

| Regulatory environment | Mitigation |
|---|---|
| The changes in the information, communication and telecommunication landscape in Kenya has resulted in increased regulation which is becoming complex and a key area of focus.<br><br>The nature of products and services that we provide 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).<br><br>With the ushering in of the European Union's General Data Protection Regulation (GDPR) in May 2018, we have had to adjust our operations accordingly to ensure adherence. The consequences of non-compliance with the GDPR are punitive. | We continue to build constructive relationships with the regulators as well as contribute to discussions on emerging legislation and regulations as we prepare to comply with new laws.<br><br>Our products and services are carefully and continuously monitored to ensure they do not contravene any regulations. |
| **Competition** | **Mitigation** |
| Competition in the telecommunication industry is on the rise in terms of product and service offerings.<br><br>Dynamic market needs, entrance of new players in the market coupled with speed of new technologies have also intensified the competition with customer value proposition being the competitive edge. | Our strategies to manage competition focuses on growing and retaining our customers by offering quality services and leveraging on strategic partnerships within different sectors to ensure we provide the customers with relevant products and services.<br><br>We continue to be innovative and adopt an agile operating model to be able to respond rapidly to the ever-changing customers' needs. |

## BUSINESS REVIEW (Continued)

### Strategic Risks (continued)

| Economic growth prospects | Mitigation |
|---|---|
| While the economic growth was on rebound in 2018, the country is still battling increased taxation and inflation as well, leading to a marginal weakening of the shilling.<br><br>The swelling public debt continues to weigh heavily on the country with the public debt currently at 57.1% of GDP (Central Bank of Kenya statistics). This has resulted in crowding out of development and social programmes as huge portions of the government revenue is taken away from essential services reducing the disposable incomes and spending power of the people.<br><br>The delayed rainfall leading to drought in some parts of the country will further erode purchasing power of the people. | We continue to proactively monitor these factors, implement measures to mitigate the effects and cushion the business from adverse effects. |

| Political uncertainties and unrest | Mitigation |
|---|---|
| The country's return to political stability in 2018 was notable with relative political calm restored after the post-electoral crisis. However, the tensions between the national and county governments resulted in some political tension prompting the national government to focus on building effective working relationships with county governments.<br><br>There has been an increase in terror related activities in the country this year and due to our countrywide presence, these uncertainties have also led to security concerns affecting our business operations and leading to increased cost of operations. | The business continues to monitor the political situation keenly while taking appropriate business measures to safeguard our operations. To manage these security risks, we have invested heavily to ensure our staff, contractors and assets are protected and we continue to work closely with Law enforcement authorities to ensure our customers' interests are well protected.<br><br>Further, we carry out proactive intelligence gathering, screening and security surveillance.<br><br>We will continue to invest in security training and awareness as well as maintenance and improvement of our security infrastructure and tools. |

### Operational Risks

| Information and cyber threats | Mitigation |
|---|---|
| An external cyber-attack, insider threat or supplier breach (malicious or accidental) could result into service disruption and/or breach of confidential data, resulting in negative impact on customers, revenues and reputation including potential costs associated with fraud and/or extortion. | Safaricom has enhanced its capacity to handle cyber-crime incidents and technology related crime. Of particular note are robust cyber security controls complemented by the 24/7 Security Operations Centre to ensure we safeguard the services that we offer.<br><br>Our ISO 27001 Information Security Certification is an independent confirmation to our customers that we have implemented appropriate processes and controls relating to our M-PESA, billing, mobile data, customer support and cloud services to protect the privacy of their information. |

## RESULTS AND DIVIDEND

The net profit for the year of KShs 62,491 million (2018: KShs 55,289 million) has been added to retained earnings.

The directors recommend the approval of a final dividend in respect of the year ended March 31 2019 of KShs 1.25 (2018: KShs 1.10) of KShs 50,082 million (2018: KShs 44,071 million) and the approval of a special dividend of KShs 24,841 (2018: Nil) equivalent to KShs 0.62 per share.

## DIRECTORS

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 | May 6 2004 |
| Bob Collymore | Managing Director and Chief Executive Officer | British & Kenyan | September 5 2006 |
| Sateesh Kamath | Chief Finance Officer (Alternate to Bob Collymore) | Indian | June 30 2016 |
| Henry Rotich | Cabinet Secretary to the National Treasury | Kenyan | November 5 2013 |
| John Otty | Non-Executive Director | British | Resigned on May 8 2018 |
| Michael Joseph | Vodafone Kenya Limited nominee | American & Kenyan | September 8 2008 |
| Susan Mudhune | Non-Executive Director | Kenyan | Retired on August 31 2018 |
| Bitange Ndemo | Independent Director | Kenyan | March 2 2017 |
| Vivek Badrinath | Vodafone Kenya Limited nominee | French | January 12 2017 |
| Esther Koimett | Alternate to Henry Rotich | Kenyan | November 5 2013 |
| Gianluca Ventura | Alternate to Vivek Badrinath | Italian | March 6 2015 |
| Linda Muriuki | Government of Kenya nominee | Kenyan | August 31 2017 |
| Mohamed Josuub | Vodafone Kenya Limited nominee | South African | August 31 2017 |
| Rose Ogega | Independent Director | Kenyan | Appointed on February 12 2019 |
| Till Streichert | Vodafone Kenya Limited nominee | German | May 8 2018 |

## 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 so as 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

PricewaterhouseCoopers continues in office in accordance with the Group's and Company's Articles of Association and 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
May 2 2019

## 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 May 2 2019 and signed on its behalf by:

**Nicholas Nganga**
Chairman and
Non-executive Director

**Bob Collymore**
Managing Director
and Chief Executive Officer

# INFORMATION NOT SUBJECT TO AUDIT

## The Company's remuneration policy and strategy

Safaricom PLC presents the Directors' Remuneration Report for the year ended March 31 2019 as stipulated in the Kenyan Companies Act, 2015 and in accordance with the Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 which provides guidelines on Directors' remuneration.

The Directors for the Company, for the year ended March 31 2019, comprised of the following:

(a) Seven Non-Executive Directors:

- i. Nicholas Nganga
- ii. Henry Rotich (Cabinet Secretary, National Treasury). Alternate: Esther Koimett
- iii. John Otty (resigned w.e.f May 8 2018)
- iv. Michael Joseph
- v. Vivek Badrinath. Alternate: Gianluca Ventura w.e.f August 31 2017 (resigned as a substantive director w.e.f August 31 2017)
- vi. Linda Muriuki - appointed August 31 2017
- vii. Mohamed Josuub - appointed August 31 2017.
- viii. Till Streichert-appointed May 8 2018

(b) Two Independent Non - Executive Directors:

- i. Bitange Ndemo
- ii. Rose Ogega - appointed w.e.f February 12 2019
- iii. Susan Mudhune - retired w.e.f August 31 2018

(c) One Executive Director:

- i. Bob Collymore - Chief Executive Officer. Alternate: Sateesh Kamath - Chief Financial Officer

In the financial year ended March 31 2019, the total directors' remuneration was KShs 340 million compared to KShs 328 million in the previous year. Safaricom does not grant loans to its directors.

## Non-Executive Directors remuneration

The Board establishes and approves transparent and competitive remuneration policies to 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 account the prevailing market conditions.

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 Nomination and Remuneration Committee, and carried out by PricewaterhouseCoopers (PwC) across peer organizations comparable with Safaricom. Remuneration for non-executive directors is reviewed every two years.

# INFORMATION NOT SUBJECT TO AUDIT (Continued)

## Non-Executive Directors Remuneration (Continued)

The below fees and allowances have been agreed upon:

- Annual Directors fees paid to the Chairman of the Board agreed at KShs 5,700,000 per annum (2018:KShs 4,500,000),
- Annual Directors fees paid to each Non-Executive Director agreed at KShs 2,200,000 per annum (2018:KShs 1,900,000),
- Sitting allowance payable to the Chairman of the Board agreed at KShs 85,000 per meeting (2018: KShs 85,000),
- Sitting allowance payable to the Chair of a Committee agreed at KShs 74,150 per meeting (2018: KShs 75,000),
- Sitting allowance payable to each Non-Executive Director agreed at KShs 60,000 per meeting (2018:KShs 50,000).

The annual directors' fees for the director representing the National Treasury is paid directly to the National Treasury.

The directors' fees for the directors representing Vodafone Kenya Limited are paid directly to Vodafone Group.

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

The Board has in place a formal annual process of reviewing 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 (CEO) remuneration is as per the negotiated employment contracts and is employed on a fixed term basis.

Besides the 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

During the year, there were changes in Non-Executive Directors remuneration fees and allowances as shown above.

## Statement of voting on the directors' remuneration report at the previous Annual General Meeting

During the Annual General Meeting held on August 31 2018, voting was done by the ballot to approve the Directors Remuneration Policy and the Directors Remuneration Report.

The results of the vote were as below;

| Agenda | Vote | Total Votes | As a percentage of the total votes cast at the meeting |
|---|---|---|---|
| 5 (a) Directors Remuneration Policy | For | 30,060,327,391 | 99.9996% |
| | Against | 101,100 | 0.0003% |
| | Abstained | - | 0% |
| | | | |
| 5 (b) Directors Remuneration Report | For | 30,060,199,891 | 99.9992% |
| | Against | 228,600 | 0.0007% |
| | Abstained | - | 0% |

At the Annual General Meeting to be held on August 30 2019, the Directors Remuneration Policy and the Directors Remuneration report for the year ended March 31 2019 will be presented to the shareholders for approval.

## INFORMATION SUBJECT TO AUDIT

The following table shows a single figure remuneration for the Executive and Non-Executive Directors in respect of qualifying services for the financial year ending March 31 2019 and comparative figures for the year ended March 31 2018.The aggregate Directors' emoluments are shown in Note 31(iii).

**Directors' remuneration for the year ended March 31 2019**

### Executive Directors

| Name | Salary | Directors' Fees | Bonus | Non-Cash Benefits | EPSAP* | Totals |
|---|---|---|---|---|---|---|
| | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm |
| Bob Collymore | 96.83 | - | 32.87 | 41.49 | 29.76 | **200.95** |
| Sateesh Kamath | 54.78 | - | 14.44 | 22.18 | 10.89 | **102.29** |
| **Total** | **151.61** | **-** | **47.31** | **63.67** | **40.65** | **303. 24** |

### Non-executive Directors

| Name | Salary | Directors' Fees | Bonus | Non-Cash Benefits | EPSAP* | Totals |
|---|---|---|---|---|---|---|
| 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** |

## INFORMATION SUBJECT TO AUDIT (Continued)

**Directors' remuneration for the year ended March 31 2018**

### Executive Directors

| Name | Salary | Directors' Fees | Bonus | Non- Cash Benefits | EPSAP* | Totals |
|---|---|---|---|---|---|---|
| | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm |
| Bob Collymore | 94.32 | - | 32.42 | 35.64 | 34.09 | **196.47** |
| Sateesh Kamath | 52.79 | - | 14.51 | 20.59 | 8.71 | **96.60** |
| **TOTAL** | **147.11** | **-** | **46.93** | **56.23** | **42.80** | **293.07** |

### Non-Executive Directors

| | | | | | | |
|---|---|---|---|---|---|---|
| Nicholas Nganga | - | 6.37 | - | 0.03 | - | **6.40** |
| Bitange Ndemo | - | 2.48 | - | 0.13 | - | **2.61** |
| John Otty | - | 2.45 | - | - | - | **2.45** |
| Linda Muriuki | - | 1.03 | - | - | - | **1.03** |
| Mohamed Josuub | - | 1.31 | - | - | - | **1.31** |
| Michael Joseph | - | 2.40 | - | 0.53 | - | **2.93** |
| Susan Mudhune | - | 3.15 | - | 5.33 | - | **8.48** |
| Vivek Badrinath | - | 2.25 | - | - | - | **2.25** |
| Till Streichert | - | 1.31 | - | - | - | **1.31** |
| Gianluca Ventura | - | 2.30 | - | - | - | **2.30** |
| Nancy Macharia | - | - | - | 0.29 | - | **0.29** |
| National Treasury | - | 1.90 | - | - | - | **1.90** |
| Esther Koimett | - | 1.00 | - | 0.14 | - | **1.14** |
| **Total** | **-** | **27.95** | **-** | **6.45** | **-** | **34.40** |
| **Grand Total** | **147.11** | **27.95** | **46.93** | **62.68** | **42.80** | **327.47** |

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

On behalf of the Board

**Chairman, Nomination and Remuneration Committee**
May 2 2019

# 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 116 to 174, which comprise the consolidated statement of financial position at 31 March 2019 and the consolidated statement of 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 2019 and the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the Company 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 2019 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' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and 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.

# Independent auditor’s report to the shareholders of Safaricom PLC (Continued)

*Key audit matters (continued)*

| Key audit matter | How our audit addressed the matter |
|---|---|
| *Revenue recognition - Accuracy of revenue recorded given the complexity of products and the adoption of IFRS 15*<br>The high volume of transactions and the multiple revenue streams make revenue recognition complex.<br><br>The determination of the quantum and timing of revenue recognition is complicated by the multiple tariff structures and pricing models for the various products to customers.<br><br>Further, as explained in note 2 (a) of the financial statements, the Group adopted IFRS 15 – Revenue from Contracts with Customers effective from 1 April 2018, which resulted in changes to key accounting policies, judgments and estimates and disclosures for revenue recognition.<br><br>Refer to note 2 (d) of the financial statements for the accounting policy on Revenue from contracts with customers and notes 5 and 29(b) for disclosures on revenue and contract liabilities respectively. | We updated our understanding of the Group’s revenue recognition policies including the adoption of IFRS 15 and identified the internal controls adopted by the Group for the accounting processes and systems.<br><br>We tested revenue through a combination of controls testing and substantive audit procedures which included:<br><br>• testing the design and operating effectiveness of the controls over the continued integrity of the IT systems that relate to revenue;<br><br>• testing the IT general and application controls on the revenue billing systems and their interfaces with the general ledger;<br><br>• re-performing some of the work done by the Group’s Revenue Assurance department on capturing and recording of revenue transactions, authorisation of rate changes and input of this information into the billing system during the year;<br><br>• performing substantive analytical reviews on relevant revenue streams and tracing revenue amounts on a sample basis to source systems and other supporting documentation to determine the reasonableness of the amounts;<br><br>• assessing and testing the Group’s revenue accounting policies including the application of new accounting policies, key judgements and estimates applied by management in consideration of the requirements of IFRS 15; and<br><br>• assessing the sufficiency of the relevant disclosures in the financial statements. |

| Key audit matter | How our audit addressed the matter |
|---|---|
| *Asset capitalisation and useful lives*<br>There are a number of areas where management judgement impacts the carrying value of network infrastructure assets and their respective depreciation profiles. These include:<br><br>• the decision to capitalise or expense costs;<br><br>• the annual asset life review, including the impact of changes in the Group’s strategy; and<br><br>• the timeliness of transfers from capital work in progress.<br><br>Refer to notes 2 (e) of the financial statements for the accounting policy for property, plant and equipment and note 18 for disclosures on the movement in property, plant and equipment in the year. | We understood management process and policy of monitoring and capitalisation of assets.<br><br>We checked the appropriateness of the useful lives of network infrastructure assets and related depreciation policies.<br><br>On a sample basis, we tested the additions and the timing of capitalisation of network infrastructure assets by tracing to supporting documentation.<br><br>We tested the aging and valuation of network infrastructure assets classified as capital work in progress at year end.<br><br>We assessed the reasonableness of the carrying values of network infrastructure assets.<br><br>We assessed the sufficiency of the disclosures under note 18 of the financial statements. |

# Independent auditor's report to the shareholders of Safaricom PLC (Continued)

*Other information*

The other information comprises the Directors' Report, Statement of Directors' Responsibilities, Directors' Remuneration Report and the appendices (Principal shareholders, Statement of comprehensive income based on IAS 18 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

# Independent auditor's report to the shareholders of Safaricom PLC (Continued)

or conditions may cause the Group to cease to continue as a going concern.

*Auditor's responsibilities for 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 102 to 106 is consistent with the financial statements.

*Directors' remuneration report*

In our opinion the auditable part of the directors' remuneration report on pages 108 to 111 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

PricewaterhouseCoopers

Certified Public Accountants 2 May 2019
Nairobi

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

# Statement of Comprehensive Income

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2019 KShs'm | 2018 KShs'm | 2019 KShs'm | 2018 KShs'm |
| Revenue from contracts with customers | 5(a) | 248,102 | 232,199 | 247,238 | 231,717 |
| Revenue from other sources | 5(b) | 2,181 | 2,028 | 2,243 | 2,176 |
| **Total revenue** | | **250,283** | **234,227** | **249,481** | **233,893** |
| Direct costs | 6 | (72,389) | (70,757) | (73,021) | (71,562) |
| Other expenses | 7 | (53,590) | (50,636) | (52,935) | (50,320) |
| **Earnings before interest, taxes, depreciation and amortization (EBITDA)** | | **124,304** | **112,834** | **123,525** | **112,011** |
| Depreciation of property, plant and equipment | 18 | (33,660) | (31,908) | (33,660) | (31,899) |
| Amortization - Indefeasible Rights of Use (IRUs) | 19 | (301) | (301) | (301) | (301) |
| Amortization - intangible assets | 21 | (1,370) | (1,359) | (1,369) | (1,358) |
| Impairment of investment in subsidiaries | 22(a) | - | - | - | (822) |
| **Operating profit** | | **88,973** | **79,266** | **88,195** | **77,631** |
| Finance income | 8 | 2,760 | 1,830 | 2,742 | 1,836 |
| Finance cost | 9 | (520) | (1,197) | (473) | (1,234) |
| Share of profit of associate | 22(b) | 5 | 10 | 5 | 10 |
| **Profit before income tax** | | **91,218** | **79,909** | **90,469** | **78,243** |
| Income tax expense | 12 | (28,727) | (24,620) | (28,503) | (24,429) |
| **Profit and total comprehensive income for the year attributable to the owners of the Company** | | **62,491** | **55,289** | **61,966** | **53,814** |
| **Earnings per share** | 13 | | | | |
| Basic and diluted (KShs per share) | | **1.56** | **1.38** | **1.55** | **1.34** |

# Statement of Financial Position

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2019 KShs'm | 2018 KShs'm | 2019 KShs'm | 2018 KShs'm |
| Share capital | 14 | 2,003 | 2,003 | 2,003 | 2,003 |
| Share premium | 14 | 2,200 | 2,200 | 2,200 | 2,200 |
| Retained earnings | 14 | 65,221 | 75,640 | 63,846 | 74,790 |
| Proposed dividend | 15 | 74,923 | 44,071 | 74,923 | 44,071 |
| **Total equity** | | **144,347** | **123,914** | **142,972** | **123,064** |
| **Non-current liabilities** | | | | | |
| Payables and accrued expenses | 28(a) | 1,131 | - | 1,131 | - |
| Contract liabilities | 29(b) | 739 | - | 739 | - |
| | | **1,870** | **-** | **1,870** | **-** |
| **Total equity and non-current liabilities** | | **146,217** | **123,914** | **144,842** | **123,064** |
| **Non-current assets** | | | | | |
| Deferred income tax | 17 | 1,602 | 2,160 | 1,566 | 2,127 |
| Property, plant and equipment | 18 | 125,217 | 121,709 | 124,821 | 121,709 |
| Indefeasible rights of use (IRUs) | 19 | 3,553 | 3,854 | 3,553 | 3,854 |
| Investment property | 20 | 845 | 845 | 845 | 845 |
| Intangible assets | 21 | 7,386 | 8,756 | 7,380 | 8,749 |
| Investment in subsidiaries | 22(a) | - | - | 431 | 24 |
| Investment in associate | 22(b) | 150 | 145 | 150 | 145 |
| Prepaid operating lease rentals | 23 | 57 | 45 | 57 | 45 |
| Loan to subsidiaries | 31(x) | - | - | - | 122 |
| Contract assets | 29(a) | 965 | - | 965 | - |
| Restricted cash | 26(b) | 1,846 | 1,584 | 1,846 | 1,584 |
| Deferred restricted cash asset | 26(c) | 896 | 879 | 896 | 879 |
| | | **142,517** | **139,977** | **142,510** | **140,083** |
| **Current assets** | | | | | |
| Cash and cash equivalents | 26(a) | 20,030 | 9,497 | 19,828 | 9,043 |
| Other financial assets | 27 | 8,043 | - | 7,867 | - |
| Receivables and prepayments | 25 | 18,126 | 15,857 | 17,206 | 14,999 |
| Inventories | 24 | 1,775 | 1,605 | 1,775 | 1,605 |
| Current income tax | | - | 503 | - | 503 |
| Contract assets | 29(a) | 1,985 | - | 1,985 | - |
| | | **49,959** | **27,462** | **48,661** | **26,150** |
| **Current liabilities** | | | | | |
| Payables and accrued expenses | 28(a) | 28,704 | 26,467 | 28,911 | 26,310 |
| Current income tax | | 349 | 144 | 255 | - |
| Borrowings | 16 | 4,032 | 4,040 | 4,032 | 4,040 |
| Provisions for liabilities | 28(b) | 3,894 | 4,028 | 3,894 | 4,028 |
| Contract liabilities | 29(b) | 9,280 | 8,846 | 9,237 | 8,791 |
| | | **46,259** | **43,525** | **46,329** | **43,169** |
| **Net current assets / (liabilities)** | | 3,700 | (16,063) | 2,332 | (17,019) |
| | | **146,217** | **123,914** | **144,842** | **123,064** |

The financial statements on pages 116 to 174 were approved for issue by the Board of Directors on May 2 2019 and signed on its behalf by:

**Nicholas Nganga**
Chairman and Non-Executive Director

**Bob Collymore**
Managing Director and CEO

# Consolidated Statement of Changes in Equity

| | Notes | Share capital KShs'm | Share premium KShs'm | Retained earnings KShs'm | Proposed dividends KShs'm | Total equity KShs'm |
|---|---|---|---|---|---|---|
| **Year ended March 31 2018** | | | | | | |
| At start of year | | 2,003 | 2,200 | 64,422 | 38,863 | 107,488 |
| Profit and total comprehensive income for the year | | - | - | 55,289 | - | 55,289 |
| **Transactions with owner:** | | | | | | |
| Dividends: | | | | | | |
| - Final for 2017 | 15 | - | - | - | (38,863) | (38,863) |
| - Proposed final for 2018 | 15 | - | - | (44,071) | 44,071 | - |
| | | - | - | (44,071) | 5,208 | (38,863) |
| **At end of year** | | **2,003** | **2,200** | **75,640** | **44,071** | **123,914** |
| **Year ended March 31 2019** | | | | | | |
| At start of year | | 2,003 | 2,200 | 75,640 | 44,071 | 123,914 |
| Initial application of IFRS 15 (Note 2 (a)) | | - | - | 2,013 | - | 2,013 |
| Adusted balance at April 1 2018 | | **2,003** | **2,200** | **77,653** | **44,071** | **125,927** |
| Profit and total comprehensive income for the year | | - | - | 62,491 | - | 62,491 |
| **Transactions with owners:** | | | | | | |
| Dividends: | | | | | | |
| - Final for 2018 | 15 | - | - | - | (44,071) | (44,071) |
| - Proposed final for 2019 | 15 | - | - | (50,082) | 50,082 | - |
| - Proposed special dividend for 2019 | 15 | - | - | (24,841) | 24,841 | - |
| | | - | - | (74,923) | 30,852 | (44,071) |
| **At end of year** | | **2,003** | **2,200** | **65,221** | **74,923** | **144,347** |

# Company Statement of Changes in Equity

| | Notes | Share capital KShs'm | Share premium KShs'm | Retained earnings KShs'm | Proposed dividends KShs'm | Total equity KShs'm |
|---|---|---|---|---|---|---|
| **Year ended March 31 2018** | | | | | | |
| At start of year | | 2,003 | 2,200 | 65,047 | 38,863 | 108,113 |
| Profit and total comprehensive income for the year | | - | - | 53,814 | - | 53,814 |
| **Transactions with owners:** | | | | | | |
| Dividends: | | | | | | |
| - Final for 2017 | 15 | - | - | - | (38,863) | (38,863) |
| - Proposed final for 2018 | 15 | - | - | (44,071) | 44,071 | - |
| | | - | - | (44,071) | 5,208 | (38,863) |
| **At end of year** | | **2,003** | **2,200** | **74,790** | **44,071** | **123,064** |
| **Year ended March 31 2019** | | | | | | |
| At start of year | | 2,003 | 2,200 | 74,790 | 44,071 | 123,064 |
| Initial application of IFRS 15 (Note 2 (a)) | | - | - | 2,013 | - | 2,013 |
| Adjusted balance at April 1 2018 | | 2,003 | 2,200 | 76,803 | 44,071 | 125,077 |
| Profit and total comprehensive income for the year | | - | - | 61,966 | - | 61,966 |
| **Transactions with owners:** | | | | | | |
| Dividends: | | | | | | |
| - Final for 2018 | 15 | - | - | - | (44,071) | (44,071) |
| - Proposed final for 2019 | 15 | - | - | (50,082) | 50,082 | - |
| - Proposed special dividend for 2019 | 15 | - | - | (24,841) | 24,841 | - |
| | | - | - | (74,923) | 30,852 | (44,071) |
| **At end of year** | | **2,003** | **2,200** | **63,846** | **74,923** | **142,972** |

# Statement of Cash Flows

| | Notes | Group 2019 KShs'm | Group 2018 KShs'm | Company 2019 KShs'm | Company 2018 KShs'm |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 30 | 125,286 | 117,230 | 124,993 | 116,472 |
| Movement in restricted cash | | (333) | (390) | (333) | (390) |
| Interest received | 8 | 2,318 | 1,400 | 2,300 | 1,406 |
| Income tax paid | | (27,460) | (26,280) | (27,184) | (26,199) |
| **Net cash generated from operating activities** | | **99,811** | **91,960** | **99,776** | **91,289** |
| Cash flows from investing activities | | | | | |
| Purchase of property, plant and equipment | 18 | (37,253) | (36,422) | (36,857) | (36,422) |
| Proceeds from disposal of property, plant and equipment | | 245 | 23 | 245 | 23 |
| Investment in other financial assets | 27 | (8,043) | - | (7,867) | - |
| **Net cash used in investing activities** | | **(45,051)** | **(36,399)** | **(44,479)** | **(36,399)** |
| **Cash flows from financing activities** | | | | | |
| Dividends paid | 15 | (44,071) | (38,863) | (44,071) | (38,863) |
| Interest paid | 9 | (148) | (653) | (148) | (653) |
| Proceeds from short-term borrowings | 16 | 8,028 | 18,606 | 8,028 | 18,606 |
| Repayments on short-term borrowings | 16 | (8,036) | (31,110) | (8,036) | (31,110) |
| Additional investment in subsidiaries | 22(a) | - | - | (407) | - |
| Repayment of loans by subsidiaries | 31(x) | - | - | 122 | 352 |
| **Net cash used in financing activities** | | **(44,227)** | **(52,020)** | **(44,512)** | **(51,668)** |
| **Increase in cash and cash equivalents** | | **10,533** | **3,541** | **10,785** | **3,222** |
| Movement in cash and cash equivalents | | | | | |
| At start of year | | 9,497 | 5,956 | 9,043 | 5,821 |
| Increase in cash and cash equivalents | | 10,533 | 3,541 | 10,785 | 3,222 |
| **At end of year*** | **26(a)** | **20,030** | **9,497** | **19,828** | **9,043** |

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

# Notes to the Financial Statements

## 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 Kenyan 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 April 1 2018:

- IFRS 9: Financial Instruments.
- IFRS 15: Revenue from Contracts with Customers

Adoption of IFRS 9: Financial Instruments

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board in July 2014 with a transition date of 1 January 2018, which resulted in changes in accounting policies.

IFRS 9: Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. As a result, the comparative information provided continues to be accounted for in accordance with the previous accounting policy.

# Notes (Continued)

2 **Summary of significant accounting policies (continued)**

(a) **Basis of preparation (continued)**

i) **New and amended standards adopted by the Group (continued)**

Adoption of IFRS 9: Financial Instruments **(continued)**

In addition, provisions are now made for either 12-month or lifetime expected credit losses (ECLs) for all financial assets. The directors have opted to apply the simplified approach for receivables, loan to subsidiary and cash and bank balances whereby lifetime ECL are provided for from inception.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group and Company on classification of financial instruments.

| Item | Classification under IAS 39 | Classification under IFRS 9 |
|---|---|---|
| Trade and other receivables | Loans and receivables | Amortised cost |
| Loan to subsidiary | Loans and receivables | Amortised cost |
| Restricted cash | Loans and receivables | Amortised cost |
| Treasury Bills | Loans and receivables | Amortised cost |
| Cash and bank balances | Loans and receivables | Amortised cost |
| Borrowings | Loans and receivables | Amortised cost |
| Payables and accrued expenses | Loans and receivables | Amortised cost |

The was no significant impact on the carrying amount of financial assets, from their previous measurement categories in accordance with IAS 39 as at March 31 2018 to the new measurement categories under IFRS 9 on April 1 2019.

The adoption of this standard was not material to these financial statements.

Adoption of IFRS 15: Revenue from Contracts with Customers

IFRS 15 outlines principles to be applied in determining the measurement of revenue and timing of revenue recognition. The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It therefore establishes a framework for determining whether, how much and when revenue is recognised. It replaced IAS18: Revenue, IAS 11: Construction Contracts and related interpretations.

The new standard requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The adoption of IFRS 15 led to changes in the revenue recognition policies for various revenue categories. The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Connection revenue

Connection revenue arises from first time activation of a sim-card bought by a subscriber. It is the amount paid by the subscriber to obtain a sim-card.

# Notes (Continued)

2 **Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

**i) New and amended standards adopted by the Group (continued)**

Adoption of IFRS 15 (continued)

Connection revenue **(continued)**

Previously, the Group would recognise as revenue the full amount paid for the sim-card upfront upon activation of the sim-card by a subscriber.

Under IFRS 15, activation is determined not to be a distinct performance obligation as it does not result in the transfer of services to the subscriber. It is an advance payment for future services that will be provided to the subscriber.

This upfront fee is therefore deferred and recognised as revenue over the customer life.

Subscriber acquisition costs

Subscriber acquisition costs relate to the cost of activated sim-cards and the commissions paid to dealers upon the activation of a subscriber.

Previously, the Group expensed subscriber acquisition costs as incurred at inception of the contract.

IFRS 15 introduced specific guidance on accounting for costs of obtaining contracts with customers. The costs must relate directly to a contract with a customer, relate to future performance by the entity and are expected to be recovered under the contract.

Under IFRS 15, activation is determined not to be a distinct performance obligation as it does not result in the transfer of services to the subscriber. As such, the related subscriber acquisition costs are capitalised as contract assets which are amortised over the customer life.

Emergency Top up (ETU) access fee

The Group advances airtime to prepay subscribers to be repaid within 5 days. To access the service, the subscriber pays a 10% upfront access fee against the value of resources they wish to borrow.

Previously, the Group would recognise the 10% access fee as revenue upfront upon awarding resources to a subscriber. Under IFRS 15, the performance obligation is satisfied over time as the customer utilises the advanced resources. The 10% access fee charged is therefore deferred and recognized as the customer utilizes the borrowed resources.

Premium Rate Services initial set-up fee

The Group has partnered with Premium Rate Service Providers (PRSPs) to offer Value Added Services (VAS) to subscribers. The PRSPs are required to pay a non-refundable upfront fee before they are onboarded on the network to provide various services to subscribers. Prior to adoption of IFRS 15, the Group would recognise the non-refundable fee as revenue upfront upon on-boarding of new PRS partners.

Under IFRS 15, there is no transfer of service to the PRSP partner upon receipt of the non-refundable set-up fee and therefore the performance obligation has not been satisfied. The non-refundable upfront fee is therefore deferred and recognized as revenue over the contract period.

Integrated products

The Group offers its customers integrated bundled products incorporating voice, data and SMS resources. An integrated bundle offers subscribers freedom to choose their preferred resources in form of voice minutes, SMS and mobile data bundles (MBs) for a determined validity period.

Previously, the Group would recognise revenue as the full amount paid for the integrated products net of a deferred amount derived from valuation of subscribers' un-utilised integrated resources. This net amount would then be split using ratios to the respective voice, SMS and mobile data revenue lines that reflected usage patterns of the resources.

Under IFRS 15, the resources offered within a bundle are distinct performance obligations as each is separately identifiable from other items in the package and a customer can benefit from each resource (voice, data and SMS) on its own without the need of integrating other promises in the contract.

# Notes (Continued)

**2 Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

**i) New and amended standards adopted by the Group (continued)**

**Adoption of IFRS 15: Revenue from Contracts with Customers (continued)**

Integrated products **(continued)**

The transaction price is allocated to the various performance obligations based on the stand-alone prices of the resources. The stand-alone selling price is the price at which the entity would separately sell each resource to a customer. For products or services that are not separately sold, management estimates the standalone selling prices using the 'cost plus a reasonable margin' method. Where unlimited resources have been issued, the Group estimates the average possible usage of such resources and uses this for price allocation.

Revenue from integrated bundled products is deferred and recognised over time on usage or expiry based on the allocated transaction price.

Bulk SMS

The Group sells bulk SMS to corporates and other customers wishing to disseminate information to multiple users or conduct surveys. The bulk SMS sold have a set validity period after which they expire.

Previously, the Group would recognise as revenue the total amount received on sale of the bulk SMS.

Under IFRS 15, management has determined that the performance obligation is only satisfied when the bulk SMS are used. As such, the consideration received from the customers is deferred and recognised as revenue on usage or expiry of the bulk SMS offering.

Handsets bundled with resources

The Group sells some handsets in its shops that are bundled with resources mainly in form of mobile data MBs.

Previously, the Group would value the resources and reallocate from handset revenue to deferred mobile data revenue after which revenue would be recognised on utilisation of the resources.

IFRS 15 requires an allocation of the price and discounts, if any, to the different performance obligations and revenue recognised upon satisfaction of these performance obligations.The transaction price is allocated to the two performance obligations (handset and resources) based on the stand-alone prices. The price of the handset is determined at cost plus reasonable margin.

The transaction price allocated to the handset is recognized as revenue on sale of the handset. The price allocated to the free resource is deferred and recognized as revenue over time on utilization of the resource or upon expiry.

Presentation of contract assets and liabilities

The Group has changed the presentation of certain amounts in the statement of financial position to reflect the terminology of IFRS 15 as below:

- Contract assets arising from capitalisation and subsequent amortisation of subscriber acquisition costs over the determined customer life, previously expensed as part of direct costs.
- Contract liabilities arising from deferral of sim-card connection revenue over the determined customer life, previously recognised upfront as connection revenue.
- Contract liabilities arising from deferral of ETU access fee to be recognised as and when the subscriber utilises the airtime advanced, previously recognised upfront as ETU access fee under other service revenue.
- Contract liabilities arising from deferral of PRSP initial set-up fee to be recognised over the contract period, previously recognised upfront as PRSP initial set-up fee under other service revenue.
- Other deferred revenue balances previously presented together with trade and other payables are now presented as contract liabilities.

The contract assets and liabilities have been analysed under Note 29 of these financial statements.

# Notes (Continued)

**2 Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

**i) New and amended standards adopted by the Group (continued)**

**Adoption of IFRS 15: Revenue from Contracts with Customers (continued)**

Transition to IFRS 15

In accordance with the transition provisions in IFRS 15, the Group has elected to use the modified retrospective method where the comparative period is not restated and the cumulative effect of initially applying the new revenue standard is adjusted to the opening retained earnings balance at April 1 2018, the initial adoption date.

The Group also elected to apply the following practical expedients on initial adoption of IFRS 15:

- Use of the portfolio approach. Due to the nature of the various customer contracts in the business, the Group elected to apply this practical expedient for groups of contracts with similar characteristics for it was determined applying the standard on each contract would yield similar results;
- Incremental costs of obtaining a contract whose expected amortisation period was one year or less were expensed as incurred; and
- In cases where the timing difference between payment by the customer for services and the entity's performance of the obligation was one year or less, the transaction price was not adjusted for significant financing component.

The impact of adoption of IFRS 15 on the opening retained earnings is as below:

| **Particulars** | **KShs' m** |
|---|---|
| **Retained earnings - as previously reported** | **75,640** |
| Recognition of contract liability - Connection revenue | (783) |
| **Recognition for contract assets on subscriber acquisition costs:** | |
| - Dealers' connection commission | 2,055 |
| - Sim-card activation cost | 748 |
| Recognition of contract liability - ETU access fee | (5) |
| Recognition of contract liability - PRSP initial set-up fee | (2) |
| Adjustment to retained earnings on adoption of IFRS 15 | 2,013 |
| **Retained earnings – adjusted** | **77,653** |

In order to show the impact of adoption of IFRS 15 in the current year and enhance comparability of the current year and prior year's results, the Group has presented in the table below a bridge between results as per IAS 18 and IFRS 15 for impacted revenue and cost lines for the year ended March 31 2019.

| | **IAS 18 KShs' m** | **Adjustment KShs' m** | **IFRS 15 KShs' m** |
|---|---|---|---|
| Connection revenue | 1,848 | (125) | 1,723 |
| Initial access fee (PRSP & ETU access fee) | 4,542 | - | 4,542 |
| SMS revenue (integrated , bulk & bundle) | 6,328 | 2,117 | 8,445 |
| Mobile Data revenue (integrated & Bundle) | 37,349 | (2,422) | 34,927 |
| Fixed data revenue | 11,280 | (90) | 11,190 |
| Voice revenue (integrated & Bundle) | 8,956 | (140) | 8,816 |
| Handset revenue (bundled with resources) | 5,784 | (12) | 5,772 |
| **Total revenues** | **76,087** | **(672)** | **75,415** |

# Notes (Continued)

**2 Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

**i) New and amended standards adopted by the Group (continued)**

**Adoption of IFRS 15: Revenue from Contracts with Customers (continued)**

**Transition to IFRS 15 (continued)**

| | IAS 18 KShs' m | Adjustment KShs' m | IFRS 15 KShs' m |
|---|---|---|---|
| Subscriber acquisition costs: | | | |
| - Sim-card activation cost | (762) | (165) | (927) |
| - Dealers' connection commission | (3,398) | 191 | (3,207) |
| License fees (charged on qualifying revenues) | (2,658) | 6 | (2,652) |
| **Total direct cost** | **(6,818)** | **32** | **(6,786)** |
| | | | |
| **Net pre-tax impact on statement of comprehensive income** | **69,269** | **(640)** | **68,629** |
| Corporate tax impact | (27,674) | (268) | (27,942) |
| **Net post-tax impact on statement of comprehensive income** | **41,595** | **(908)** | **40,687** |

ii) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31 2019 reporting period and have not been early adopted by the Group. The standard expected to have a material impact on the financial statements of the Group is set out below:

IFRS 16: Leases

FRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of KShs 14,275 million (see note 33). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The standard is mandatory for the Group for the financial year commencing April 1 2019.

(b) Consolidation

i) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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 comprehensive income, statement of changes in equity and balance sheet respectively.

# Notes (Continued)

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

**(b) Consolidation (continued)**

ii) *Associates*

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 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

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) *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) 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 available for sale 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'.

(d) 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

# Notes (Continued)

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

**(d)** Revenue recognition **(continued)**

- 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 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 post pay revenue is recognized at the end of every month based on a monthly charge.

The Group has in place the Stori Ibambe bonus scheme where the subscribers are required to attain a pre-determined 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.

2 **Summary of significant accounting policies (continued)**

**(d) Revenue recognition (continued)**

*Data revenue*

Mobile data enables both prepay and post pay customers access the internet. Prepay customers top up their lines by purchasing credit or bundles in advance whereas Post pay 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 un-utilised 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.

The Group has in place 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 in place its Safaricom Home Fibre i.e. 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 recognized 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, 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 maximizing 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 daily 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 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.

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 dialing *812#

**2 Summary of significant accounting policies (continued)**

**(d) Revenue recognition (continued)**

***Integrated bundles (continued)***

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 in to 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 recognized as revenue on utilization 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 January 2019 the Group commercially launched the Overdraft (OD) facility dubbed 'Fuliza', a product that enables customers to access unsecured line of credit by overdrawing on M-PESA to cover short-term cash-flow shortfalls subject to an applicable pre-determined limit.

Currently, Fuliza is underwritten by Kenyan lenders, Commercial Bank of Africa (CBA) 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 pre-determined matrix. Safaricom earns a proportion of the fee based on a pre-determined revenue share matrix.

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 Commercial Bank of Africa (CBA) and Kenya Commercial Bank (KCB) 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.

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 and set-up fee charged for codes allocated to premium rate services providers (PRSPs). The fee charged is deferred and recognized as revenue on the usage of borrowed airtime and over the contract period for PRSPs.

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

**(d) Revenue recognition (continued)**

*Loyalty programme*

A 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 recognizes 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 pre-determined matrix and recognises the revenue earned upon redemption.

*E-commerce revenue*

The Group has in place ' Masoko' an e-commerce portal aimed at leveraging the mobile phone to provide local merchants with unlimited potential to sell their products and customers access to the best in technology, fashion, latest trends and everyday essentials at the click of a button through either their mobile phones or computers.

All mobile money payments as well as Visa and Master card payments are accepted and dedicated delivery fulfilment partners have been appointed to ensure customer experience is versatile, fast and secure.

Revenue recognition is based on a graduated platform usage fee as per contracts with respective merchants. Cash payout is done weekly to the respective vendors and delivery fulfillment partners based on successfully delivered orders.

*Handsets and acquisitions revenue*

These includes 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 recognized 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 recognized systematically over the lease period.

# Notes (Continued)

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

**(d) Revenue recognition (continued)**

*Miscellaneous income*

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

**(e) 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 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 | 3 - 10 years |
| Equipment and motor vehicles | 3 - 5 years |
| Fibre | 25 years |
| Leasehold improvements | Shorter of life of lease or useful life of the asset |
| Network maintenance spares | 3 – 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.

# Notes (Continued)

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

(e) Property, plant and equipment **(continued)**

***Asset Retirement Obligations (continued)***

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.

(f) 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 de-recognised 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 de-recognition 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 comprehensive income in the period in which the property is de-recognised.

(g) Intangible assets – Network licenses

Separately acquired trademarks and licenses are shown at historical cost. Licenses acquired in a business combination are recognised at fair value at the acquisition date. Licenses 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 licenses over their estimated useful lives of 10 to 15 years.

A telecommunication license 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 license fees are capitalised at cost and amortised over the period of the license 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.

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

**(g) Intangible assets – Network licenses (continued)**

The following licences are also in place:

- Local Loop Operator Licence (LLO) issued to Comtec Training and Management Services Limited in March 2006;
- Internet Service Provider (ISP) issued to Flexible Bandwidth Limited in March 2006;
- Digital Carrier Network Operation (DCNO) issued to Comtec Integration Systems Limited in March 2006;
- Public Data Communications Network Operator Licence (PDCNO) transferred to Safaricom PLC in September 2011 (held by PacketStream Data Networks Limited from July 2005);
- Public Data Network Operators Licence (PDNO) transferred to Safaricom PLC in September 2011 (held by IGO Wireless Limited from July 2005); and Content Service Provider (CSP) and Application Service Provider Licence (ASP) issued to Instaconnect Limited in April 30 2009; and
- Additional LLO and DCNO Licences are held under One Communications Limited, a WIMAX service provider, since August 31 2008.

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.

(h) 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).

(i) Accounting for operating leases

Leases for assets where a significant proportion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Payments made/received under operating leases are charged/credited to the statement of comprehensive income on a straight line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

(j) 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.

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

**(j) Financial assets (continued)**

*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.

**(k) Indefeasible rights of use**

The Group enters into long-term service contracts under which it purchases lit 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.

The Group also has rights to use sites for which lease agreements with respective landlords are with East Africa Tower Company Limited (EATCL). The rights are amortised over the period in which the lease agreements remain between EATCL and the landlords. On expiry, the lease agreements will be transferred to Safaricom.

# Notes (Continued)

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

**(k) Indefeasible rights of use (continued)**

| IRU | Contract period |
|---|---|
| TEAMS | 20 years |
| KPLC | 20 years |
| SEACOM | 20 years |
| TATA | 15 years |
| ETISALAT | 15 years |
| EATCL | Dependent on individual lease period |

(l) 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.

(m) 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.

(n) 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.

(o) 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

(p) Restricted cash

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

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

The restricted cash is measured at fair value using discounted cash flow method. The discount rate used is based on 70 per cent 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.

(q) 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.

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

(q) Employees benefits **(continued)**

*(i) Retirement benefit obligation (continued)*

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.

(r) 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 3-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 the statement of comprehensive income.

(s) Current and deferred income tax

The income tax expense for the year comprises current and deferred tax. Income tax is recognized 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.

# Notes (Continued)

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

**(s) Current and deferred income tax (continued)**

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.

(t) 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 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 capitalizes 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 capitalized. 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.

(u) 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.

(v) Provisions

Provisions are recognized 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.

(w) Comparatives

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

# Notes (Continued)

## 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 circum stances.

### 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 capitalization of the assets. The depreciation rates used are set out in Note 2 (e) above.

*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 71 million respectively (2018: KShs 66 million).

*Provisions*

The Group faces exposure to claims and other liabilities arising from normal course of business. These claims and other liabilities normally takes 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.

### 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 and leases;
- Whether assets are impaired;
- The average customer life; and
- The impact of initial adoption of IFRS 9.

### iii) Critical judgement on going concern

The Group's current assets exceed its current liabilities by KShs 4 billion (2018: net current liability of KShs 16 billion) at the statement of financial position date as shown on page 18.

The net current asset position is explained by among others, the favorable cash position at the end of the year mainly arising from favorable cash generation from operations and a short-term loan that was not due for payment.

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

# Notes (Continued)

## 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 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 recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

At March 31 2019, if the Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, consolidated post tax profit for the year would have been KShs 11 million (2018: KShs 256 million) lower/higher, mainly as a result of US dollar denominated cash and bank balances, receivables and payables.

At March 31 2019, if the Shilling had weakened/strengthened further by 10% against the Euro with all other variables held constant, consolidated post tax profit for the year would have been KShs 21 million (2018: KShs 68 million) 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.

At March 31 2019, an increase/decrease in interest rates of 100 basis points (2018: 100 basis points) would have resulted in a decrease/increase in consolidated post tax profit of KShs 215 million (2018: KShs 107 million).

### Credit risk

Credit risk is managed on a Group basis. Credit risk arises from deposits with banks, contract assets as well as trade and other receivables. The Group has no significant concentrations of credit risk. Bank deposits are re-valued at closing rates at the end of the year. For banks and financial institutions, only reputable well established financial institutions are used. Category 1 is made up of counterparties with international credit ratings; Category 2 are counterparties who are subsidiaries of parents with international credit ratings; Category 3 counterparties have local credit ratings or are not rated but are classified as large by the Central Bank of Kenya.

While the cash and cash equivalents, government securities, deposits with financial institutions and contract assets are also subject to impairment requirements of IFRS 9, the identified impairment loss was immaterial.

# Notes (Continued)

## 4. Financial risk management (continued)

**Credit risk (continued)**

**Cash at bank, government securities and deposits with financial institutions**

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 KShs'm | 2018 KShs'm | 2019 KShs'm | 2018 KShs'm |
| Category 1 | 11,867 | 3,973 | 11,691 | 3,811 |
| Category 2 | 9,083 | 3,781 | 9,068 | 3,780 |
| Category 3 | 7,123 | 1,743 | 6,936 | 1,452 |
| | **28,073** | **9,497** | **27,695** | **9,043** |

*Trade and other receivables*

For trade and other 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 minimizes 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 neighboring 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 aging system for monitoring its receivables. Dealers' transactions and credit positions are closely monitored.

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 determines the expected credit loss by computing a derived expected credit loss rate based on a 24-month roll over model.

On that basis, the loss allowance as at March 31 2019 was determined as shown below for trade receivables.

| Group | 0-30 days KShs'm | 30-90 days KShs'm | Over 90 days KShs'm | Total KShs'm |
|---|---|---|---|---|
| Trade receivables | 6,868 | 1,040 | 1,261 | 9,169 |
| Credit loss rate | 4.07% | 19.52% | 98.57% | - |
| **Loss allowance** | **280** | **203** | **1,243** | **1,726** |

# Notes (Continued)

**4 Financial risk management (continued)**

**Credit risk (continued)**

***Trade and other receivables (continued)***

**Company**

| | 0-30 days KShs'm | 30-90 days KShs'm | Over 90 days KShs'm | Total KShs'm |
|---|---|---|---|---|
| Trade receivables | 6,316 | 1,040 | 1,326 | 8,682 |
| Credit loss rate | 4.43% | 19.52% | 93.74% | - |
| **Loss allowance** | **280** | **203** | **1,243** | **1,726** |

A detailed assessment of the trade and other receivables as shown below;

| (a) Group | Gross carrying amount KShs'm | Expected credit loss KShs'm | Exposure to credit risk KShs'm |
|---|---|---|---|
| **At 31 March 2019** | | | |
| Dealers | 65 | - | 65 |
| Post-pay | 2,579 | (831) | 1,748 |
| Roaming and interconnect | 2,085 | (387) | 1,698 |
| Other trade receivables | 4,440 | (508) | 3,932 |
| Total trade receivables | 9,169 | (1,726) | 7,443 |
| Due from related parties | 2,117 | (11) | 2,106 |
| Other receivables | 2,971 | - | 2,971 |
| **Total** | **14,257** | **(1,737)** | **12,520** |

| | | | |
|---|---|---|---|
| **At 31 March 2018** | | | |
| Dealers | 86 | - | 86 |
| Post-pay | 2,281 | (582) | 1,699 |
| Roaming and interconnect | 1,879 | (708) | 1,171 |
| Other trade receivables | 4,058 | (751) | 3,307 |
| Total trade receivables | 8,304 | (2,041) | 6,263 |
| Due from related parties | 1,942 | (30) | 1,912 |
| Other receivables | 2,343 | (1) | 2,342 |
| **Total** | **12,589** | **(2,072)** | **10,517** |

# Notes (Continued)

## 4. Financial risk management (continued)

### Credit risk (continued)

*Trade and other receivables (continued)*

| (b) Company | Gross carrying amount KShs'm | Expected credit loss KShs'm | Exposure to credit risk KShs'm |
|---|---|---|---|
| **At March 31 2019** | | | |
| Dealers | 65 | - | 65 |
| Post-pay | 2,579 | (831) | 1,748 |
| Roaming and interconnect | 2,085 | (387) | 1,698 |
| Other trade receivables | 3,953 | (508) | 3,445 |
| Total trade receivables | 8,682 | (1,726) | 6,956 |
| Due from related parties | 1,803 | (11) | 1,792 |
| Other receivables | 2,867 | - | 2,867 |
| **Total** | **13,352** | **(1,737)** | **11,615** |
| **At March 31 2018** | | | |
| Dealers | 86 | - | 86 |
| Post-pay | 2,281 | (582) | 1,699 |
| Roaming and interconnect | 1,879 | (708) | 1,171 |
| Other trade receivables | 3,666 | (751) | 2,915 |
| Total trade receivables | 7,912 | (2,041) | 5,871 |
| Due from related parties | 1,502 | (30) | 1,472 |
| Other receivables | 2,327 | (1) | 2,326 |
| **Total** | **11,741** | **(2,072)** | **9,669** |

## 4 Financial risk management (continued)

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, 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, Treasury section maintains flexibility in funding by maintaining availability under committed credit lines. Liquidity position is monitored through daily cash position as well as 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 | Between 1 and 5 years | Total |
|---|---|---|---|
| | KShs'm | KShs'm | KShs'm |
| **At March 31 2019:** | | | |
| - payables and accrued expenses | 28,704 | 1,131 | 29,835 |
| - borrowings | 4,032 | - | 4,032 |
| **Total financial liabilities** | **32,736** | **1,131** | **33,867** |
| **At March 31 2018:** | | | |
| - payables and accrued expenses | 26,467 | - | 26,467 |
| - borrowings | 4,040 | - | 4,040 |
| **Total financial liabilities** | **30,507** | **-** | **30,507** |

# Notes (Continued)

## 4 Financial risk management (continued)

**Liquidity risk (continued)**

| (b) Company | Less than 1 year KShs'm | Between 1 and 5 years KShs'm | Total KShs'm |
|---|---|---|---|
| **At March 31 2019:** | | | |
| - payables and accrued expenses | 28,911 | 1,131 | 30,042 |
| - borrowings | 4,032 | - | 4,032 |
| **Total financial liabilities** | **32,943** | **1,131** | **34,074** |
| | | | |
| **At March 31 2018:** | | | |
| - payables and accrued expenses | 26,310 | - | 26,310 |
| - borrowings | 4,040 | - | 4,040 |
| **Total financial liabilities** | **30,350** | **-** | **30,350** |

Guarantees amounting to KShs 195.8 million (2018: KShs 234.9 million) have been issued against credit cards for use of senior staff and to various suppliers for services provided to the Group as detailed under Note 32.

There are also undrawn bank facilities amounting to KShs 36.33 billion (2018: KShs 36.34 billion) that would be utilized 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.

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 will be 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:

Net (cash)/debt reconciliation and gearing ratio

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 KShs'm | 2018 KShs'm | 2019 KShs'm | 2018 KShs'm |
| Total borrowings | 4,032 | 4,040 | 4,032 | 4,040 |
| Less: cash and cash equivalents | (20,030) | (9,497) | (19,828) | (9,043) |
| Net cash | (15,998) | (5,457) | (15,796) | (5,003) |
| **Total equity** | **144,347** | **123,914** | **142,972** | **123,064** |
| **Total capital** | **128,349** | **118,457** | **127,176** | **118,061** |
| Gearing ratio | 0% | 0% | 0% | 0% |

## 4. Financial risk management (continued)

### 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 or available-for-sale.

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.

## 5. Revenue

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

(a) Revenue from contracts with customers

| Group | March 31 2019 | | | March 31 2018 |
|---|---|---|---|---|
| | IFRS 15 | | | IAS 18 |
| | At a point in time KShs 'm' | Over time KShs 'm' | Total KShs 'm' | Total KShs 'm' |
| Voice revenue | - | 91,172 | 91,172 | 92,271 |
| Interconnect voice revenue from local partners | - | 4,626 | 4,626 | 3,368 |
| Messaging revenue | - | 19,518 | 19,518 | 17,656 |
| Interconnect messaging revenue from local partners | - | 95 | 95 | 66 |
| Mobile data revenue | - | 36,261 | 36,261 | 36,357 |
| Fixed data revenue | - | 8,101 | 8,101 | 6,673 |
| M-PESA revenue | 74,990 | - | 74,990 | 62,907 |
| ETU access fee | - | 4,309 | 4,309 | 4,546 |
| Other service revenue | - | 694 | 694 | 689 |
| PRSP initial set up fees | - | 2 | 2 | 2 |
| Service revenue | 74,990 | 164,778 | 239,768 | 224,535 |
| Handset revenue | 6,008 | - | 6,008 | 5,829 |
| Connection revenue | - | 1,723 | 1,723 | 1,633 |
| Construction revenue | - | 603 | 603 | 202 |
| | **80,998** | **167,104** | **248,102** | **232,199** |

| Company | | | | |
|---|---|---|---|---|
| Voice revenue | - | 91,172 | 91,172 | 92,271 |
| Interconnect voice revenue from local partners | - | 4,626 | 4,626 | 3,368 |
| Messaging revenue | - | 19,518 | 19,518 | 17,656 |
| Interconnect messaging revenue from local partners | - | 95 | 95 | 66 |
| Mobile data revenue | - | 36,261 | 36,261 | 36,357 |
| Fixed data revenue | - | 8,101 | 8,101 | 6,673 |
| M-PESA revenue | 74,126 | - | 74,126 | 62,425 |
| ETU access fee | - | 4,309 | 4,309 | 4,546 |
| Other service revenue | - | 694 | 694 | 689 |
| PRSP initial set up fees | - | 2 | 2 | 2 |
| Service revenue | 74,126 | 164,778 | 238,904 | 224,053 |
| Handset revenue | 6,008 | - | 6,008 | 5,829 |
| Connection revenue | - | 1,723 | 1,723 | 1,633 |
| Construction revenue | - | 603 | 603 | 202 |
| | **80,134** | **167,104** | **247,238** | **231,717** |

**5. Revenue (continued)**

(b) Revenue from other sources

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 IFRS 15 KShs'm | 2018 IAS 18 KShs'm | 2019 IFRS 15 KShs'm | 2018 IAS 18 KShs'm |
| Collocation | 1,717 | 1,518 | 1,779 | 1,579 |
| Other income | | | | |
| -Gain on disposal of property plant and equipment | 160 | 18 | 160 | 18 |
| -Miscellaneous income* | 304 | 492 | 304 | 579 |
| | **2,181** | **2,028** | **2,243** | **2,176** |

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

## 6. Direct costs

| | | | | |
|---|---|---|---|---|
| M-PESA commissions | (22,256) | (19,765) | (22,256) | (19,765) |
| Airtime commissions | (11,013) | (11,422) | (11,013) | (11,422) |
| Licence fees | (10,078) | (9,344) | (10,063) | (9,344) |
| Interconnect and roaming costs | (7,546) | (7,053) | (8,193) | (7,773) |
| Handset costs | (6,094) | (6,635) | (6,094) | (6,635) |
| Customer acquisition and retention | (7,801) | (7,317) | (7,801) | (7,317) |
| Promotions and Value Added Services costs (Voice &SMS) | (6,308) | (5,988) | (6,308) | (5,988) |
| Provision for expected credit loss (ECL) on receivables | 10 | (1,041) | 10 | (1,126) |
| Other direct costs | (700) | (1,990) | (700) | (1,990) |
| Construction costs | (603) | (202) | (603) | (202) |
| | **(72,389)** | **(70,757)** | **(73,021)** | **(71,562)** |

## 7. Other expenses

| | | | | |
|---|---|---|---|---|
| Repairs and maintenance expenditure on property, plant and equipment | (312) | (279) | (311) | (279) |
| Operating lease rentals - buildings | (1,206) | (1,117) | (1,206) | (1,117) |
| Operating lease rentals - sites | (2,563) | (2,501) | (2,563) | (2,440) |
| Warehousing costs | (318) | (318) | (318) | (318) |
| Employee benefits expense(Note 10) | (16,930) | (15,153) | (16,853) | (15,153) |
| Auditor's remuneration | (54) | (49) | (48) | (44) |
| Sales and advertising | (7,484) | (7,217) | (7,787) | (7,152) |
| Consultancy including legal fees | (40) | (1,517) | (37) | (1,517) |
| Network operating costs | (14,037) | (13,918) | (13,713) | (13,538) |
| Travel and accommodation | (874) | (790) | (857) | (790) |
| Computer maintenance | (2,220) | (2,246) | (2,220) | (2,246) |
| Office administration | (1,328) | (1,354) | (1,325 | (1,354) |
| Net foreign exchange gains, other than on borrowings and cash and cash equivalents | 64 | (24) | 14 | (24) |
| Other operating expenses* | (6,288) | (4,153) | (5,711) | (4,348) |
| | **(53,590)** | **(50,636)** | **(52,935)** | **(50,320)** |

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

# Notes (Continued)

## 8. Finance income

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs'm | KShs'm | KShs'm | KShs'm |
| Interest income | 2,318 | 1,400 | 2,300 | 1,406 |
| Foreign exchange gain on cash and borrowings | 496 | 488 | 496 | 488 |
| Amortisation of impairment loss on restricted cash | (54) | (58) | (54) | (58) |
| | **2,760** | **1,830** | **2,742** | **1,836** |

## 9. Finance costs

| | | | | |
|---|---|---|---|---|
| Interest expense | (148) | (653) | (148) | (653) |
| Foreign exchange losses on cash and borrowings | (456) | (514) | (409) | (551) |
| Interest on Asset Retirement Obligation (ARO) liability | (51) | - | (51) | - |
| Impairment gain/(loss) on construction and maintenance contract | 135 | (30) | 135 | (30) |
| | **(520)** | **(1,197)** | **(473)** | **(1,234)** |

## 10. Employee benefits expense

The following items are included within employee benefits expense:

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 KShs 'm' | 2018 KShs 'm' | 2019 KShs 'm' | 2018 KShs 'm' |
| Club membership | (133) | (53) | (131) | (53) |
| Employee other administrative costs | (79) | (82) | (78) | (80) |
| Secondees other administrative costs | (234) | (227) | (233) | (168) |
| EPSAP | (450) | (457) | (450) | (457) |
| Leave accrual | (60) | 17 | (60) | (68) |
| NSSF | (13) | (12) | (13) | (12) |
| Pension | (644) | (587) | (642) | (587) |
| Salaries | (13,559) | (12,334) | (13,488) | (12,310) |
| Secondee salaries | (399) | (71) | (399) | (71) |
| Staff medical & Life insurance | (1,359) | (1,347) | (1,359) | (1,347) |
| | **(16,930)** | **(15,153)** | **(16,853)** | **(15,153)** |

| **Number of employees** | Group & Company | |
|---|---|---|
| | **2019** | **2018** |
| Permanent Employees | 4,503 | 4,376 |
| Fixed Term Contract Employee | 1,820 | 1,754 |
| | **6,323** | **6,130** |

## 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 3-year vesting period. The shares are purchased and held by the Trust until the end of the vesting period.

During the year, 9.24 million shares were bought by the Trust, at a cost of KShs 250 million. Additionally, 15.5 million shares historically valued at KShs 347.3 million (2018: 15.1 million shares valued at 268.2 million) vested and were exercised by eligible staff.

The Trust currently holds 21.83 million shares at a total cost of KShs 570.0 million (2018: 28.13 million shares at a cost of KShs 667.5 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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs 'm' | KShs 'm' | KShs 'm | KShs 'm' |
| Current income tax | (28,169) | (24,834) | (27,942) | (24,646) |
| Deferred income tax (Note 17) | (558) | 214 | (561) | 217 |
| **Income tax expense** | **(28,727)** | **(24,620)** | **(28,503)** | **(24,429)** |
| Profit before income tax | 91,218 | 79,909 | 90,469 | 78,243 |
| Tax calculated at the applicable income tax rate of 30% (2018: 30%) | (27,365) | (23,973) | (27,140) | (23,473) |
| Tax effect of: | | | | |
| Income not subject to tax | 56 | 125 | 42 | 2 |
| Expenses not deductible for tax purposes | (1,367) | (960) | (1,367) | (1,153) |
| (Under) / over provision of deferred tax in prior years | (54) | 163 | (41) | 163 |
| Under provision of current tax in prior years | 3 | 25 | 3 | 32 |
| **Income tax expense** | **(28,727)** | **(24,620)** | **(28,503)** | **(24,429)** |

## 13. Earnings per share

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

| | 2019 | 2018 |
|---|---|---|
| Profit attributable to equity holders of the Company (KShs million) | 62,491 | 55,289 |
| Weighted average number of ordinary shares in issue (million) | 40,065 | 40,065 |
| Basic earnings per share (KShs) | 1.56 | 1.38 |
| Diluted earnings per share (KShs) | 1.56 | 1.38 |

# Notes (Continued)

## 14. Share capital and share premium

| | Number of shares (million) | Ordinary shares KShs'm | Share premium KShs'm | Total KShs'm |
|---|---|---|---|---|
| At April 1 2017, March 31 2018 and March 2019 | 40,065 | 2,003 | 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 (2018: 40,065,428,000) ordinary shares with a par value of KShs 0.05 each.

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 August 30 2019, a total dividend of KShs 1.87 per share will be proposed. This comprises a final dividend in respect of the year ended March 31 2019 of KShs 1.25 per share (2018: KShs 1.10 per share) amounting to a total of KShs 50 billion (2018: KShs 44 billion) and a special dividend of KShs 0.62 per share (2018: Nil) amounting to KShs 25 billion to be paid from the retained earnings of the Company as at 31 March 2019.

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:

| | 2019 KShs'm | 2018 KShs'm |
|---|---|---|
| Final dividend | (44,071) | (38,863) |

# Notes (Continued)

## 16. Borrowings

The Group has a short-term revolving facility with Standard Chartered Bank of Kenya totaling USD 40,000,000 with a maturity date of October 2019 at an interest rate of 1.125% above the 6 months US Libor payable semi-annually. This facility was fully drawn as at March 31 2019.

As at March 31 2019, the Group had undrawn credit facilities with various banks totalling KShs 36,332 million (2018: KShs 36,340 million).

The movement in borrowings is as below:

| | Group and Company | |
|---|---|---|
| | 2019 KShs'm | 2018 KShs'm |
| Opening balance – April 1 | 4,040 | 16,544 |
| Additions | 8,028 | 18,606 |
| Repayments | (8,036) | (31,110) |
| Closing balance – March 31 | **4,032** | **4,040** |

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:

| | 2019 KShs'm | 2018 KShs'm |
|---|---|---|
| Deferred tax assets: | | |
| – Deferred tax assets to be recovered after 12 months | 587 | 817 |
| – Deferred tax assets to be recovered within 12 months | 1,937 | 1,966 |
| | **2,524** | **2,783** |
| Deferred tax liabilities: | | |
| – Deferred tax liability to be recovered after 12 months months | (921) | (606) |
| – Deferred tax liability to be recovered within 12 months | (1) | (17) |
| | (922) | (623) |
| **Net deferred income tax asset** | **1,602** | **2,160** |

Deferred income tax is calculated using the enacted income tax rate of 30% (2018: 30%).

| | 2019 | 2018 |
|---|---|---|
| At start of year | 2,160 | 1,946 |
| (Charge) / credit to statement of comprehensive income (Note 12) | (558) | 214 |
| **At end of year** | **1,602** | **2,160** |

# Notes (Continued)

**17 Deferred income tax (continued)**

**(a) Group (continued)**

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

| Year ended March 31 2019 | April 1 2018 KShs'm | Credit/ (charged) to SOCI KShs'm | March 31 2019 KShs'm |
|---|---|---|---|
| **Deferred income tax liabilities** | | | |
| Property, plant and equipment | (606) | (315) | (921) |
| Unrealised foreign exchange gains | (17) | 16 | (1) |
| | (623) | (299) | (922) |
| **Deferred income tax assets** | | | |
| Unrealised foreign exchange losses | 3 | (2) | 1 |
| Tax losses | - | 18 | 18 |
| Other temporary differences | 2,780 | (275) | 2,505 |
| | 2,783 | (259) | 2,524 |
| **Net deferred income tax asset** | **2,160** | **(558)** | **1,602** |

| Year ended March 31 2018 | April 1 2017 KShs'm | Credit/ (charged) to SOCI KShs'm | March 31 2018 KShs'm |
|---|---|---|---|
| **Deferred income tax liabilities** | | | |
| Property, plant and equipment | (432) | (174) | (606) |
| Unrealised foreign exchange gains | (16) | (1) | (17) |
| | (448) | (175) | (623) |
| **Deferred income tax assets** | | | |
| Unrealised foreign exchange losses | - | 3 | 3 |
| Other temporary differences | 2,394 | 386 | 2,780 |
| | 2,394 | 389 | 2,783 |
| **Net deferred income tax asset** | **1,946** | **214** | **2,160** |

# Notes (Continued)

## 17 Deferred income tax (continued)

### (b) Company

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

| | 2019 KShs'm | 2018 KShs'm |
|---|---|---|
| Deferred tax assets: | | |
| – Deferred tax assets to be recovered after 12 months | 587 | 804 |
| – Deferred tax assets to be recovered within 12 months | 1,917 | 1,964 |
| | **2,504** | **2,768** |
| Deferred tax liabilities: | | |
| – Deferred tax liability to be recovered after 12 months months | (938) | (625) |
| – Deferred tax liability to be recovered within 12 months | - | (16) |
| | (938) | (641) |
| **Net deferred income tax asset** | **1,566** | **2,127** |

Deferred income tax is calculated using the enacted income tax rate of 30% (2018: 30%).

| | 2019 KShs'm | 2018 KShs'm |
|---|---|---|
| At start of year | 2,127 | 1,910 |
| (Charge) / credit to statement of comprehensive income (Note 12) | (561) | 217 |
| **At end of year** | **1,566** | **2,127** |

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

| **Year ended March 31 2019** | **April 1 2018 KShs'm** | **Credit/ (charged) to SOCI KShs'm** | **March 31 2019 KShs'm** |
|---|---|---|---|
| **Deferred income tax liabilities** | | | |
| Property, plant and equipment | (625) | (313) | (938) |
| Unrealised foreign exchange gains | (16) | 16 | - |
| | (641) | (297) | (938) |
| **Deferred income tax assets** | | | |
| Unrealised foreign exchange losses | 3 | (1) | 2 |
| Other temporary differences | 2,765 | (263) | 2,502 |
| | 2,768 | (264) | 2,504 |
| **Net deferred income tax asset** | **2,127** | **(561)** | **1,566** |

# Notes (Continued)

**17. Deferred income tax (continued)**

**(b) Company (continued)**

| **Year ended March 31 2018** | **April 1 2017 KShs'm** | **Credit/ (charged) to SOCI KShs'm** | **March 31 2018 KShs'm** |
|---|---|---|---|
| **Deferred income tax liabilities** | | | |
| Property, plant and equipment | (454) | (171) | (625 |
| Unrealised foreign exchange gains | (16) | - | (16) |
| | **(470)** | **(171)** | **(641)** |
| **Deferred income tax assets** | | | |
| Unrealised foreign exchange losses | - | 3 | 3 |
| Other temporary differences | 2,380 | 385 | 2,765 |
| | 2,380 | 388 | 2,768 |
| **Net deferred income tax asset** | **1,910** | **217** | **2,127** |

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

# Notes (Continued)

## 18. Property, plant and equipment

| (a) Group | Network infrast ructure | Capital work in progress (CWIP)* | Network maint enance spares | Lease hold improve ments | Vehicles & equip ment | Fibre | Total |
|---|---|---|---|---|---|---|---|
| | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm |
| **At April 1 2017** | | | | | | | |
| Cost | 231,826 | 19,197 | 1,333 | 5,973 | 53,413 | 15,370 | 327,112 |
| Accumulated depreciation | (167,112) | - | (694) | (4,399) | (36,265) | (1,443) | (209,913) |
| Net book amount | 64,714 | 19,197 | 639 | 1,574 | 17,148 | 13,927 | 117,199 |
| **Year ended March 31 2018** | | | | | | | |
| Opening net book amount | 64,714 | 19,197 | 639 | 1,574 | 17,148 | 13,927 | 117,199 |
| Additions | - | 36,227 | 195 | - | - | - | 36,422 |
| Transfers from CWIP | 17,299 | (40,382) | - | 737 | 17,698 | 4,648 | - |
| Disposal - cost | - | - | - | - | (59) | - | (59) |
| Depreciation charge | (18,444) | - | (125) | (558) | (12,021) | (760) | (31,908) |
| Depreciation on disposal | - | - | - | - | 55 | - | 55 |
| **Closing net book amount** | **63,569** | **15,042** | **709** | **1,753** | **22,821** | **17,815** | **121,709** |
| **At March 31 2018** | | | | | | | |
| Cost | 249,125 | 15,042 | 1,528 | 6,710 | 71,052 | 20,018 | 363,475 |
| Accumulated depreciation | (185,556) | - | (819) | (4,957) | (48,231) | (2,203) | (241,766) |
| **Net book amount** | **63,569** | **15,042** | **709** | **1,753** | **22,821** | **17,815** | **121,709** |

**18. Property, plant and equipment (continued)**

**(a) Group (continued)**

| | Network infrast ructure | Capital work in progress (CWIP)* | Network maint enance spares | Lease hold improve ments | Vehicles & equip ment | Fibre | Total |
|---|---|---|---|---|---|---|---|
| | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm |
| **Year ended March 31 2019** | | | | | | | |
| Opening net book amount | 63,569 | 15,042 | 709 | 1,753 | 22,821 | 17,815 | 121,709 |
| Additions | - | 37,244 | 9 | - | - | - | 37,253 |
| Transfers from CWIP | 17,177 | (39,023) | - | 330 | 16,292 | 5,224 | - |
| Disposal - cost | (519) | - | - | (1) | (327) | - | (847) |
| Asset retirement - cost | (42,396) | - | - | - | - | - | (42,396) |
| Depreciation charge | (17,786) | - | (140) | (538) | (14,246) | (950) | (33,660) |
| Depreciation on disposal | 410 | - | - | 1 | 351 | - | 762 |
| Depreciation on retired assets | 42,396 | - | - | - | - | - | 42,396 |
| Closing net book amount | **62,851** | **13,263** | **578** | **1,545** | **24,891** | **22,089** | **125,217** |
| **At March 31 2019** | | | | | | | |
| Cost | 223,387 | 13,263 | 1,537 | 7,039 | 87,017 | 25,242 | 357,485 |
| Accumulated depreciation | (160,536) | - | (959) | (5,494) | (62,126) | (3,153) | (232,268) |
| **Net book amount** | **62,851** | **13,263** | **578** | **1,545** | **24,891** | **22,089** | **125,217** |

# Notes (Continued)

## 18. Property, plant and equipment (continued)

| (b) Company | Network infrastructure | Capital work in progress (CWIP)* | Network maintenance spares | Lease hold improvements | Vehicles & equipment | Fibre | Total |
|---|---|---|---|---|---|---|---|
| | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm |
| **At April 1 2017** | | | | | | | |
| Cost | 231,689 | 19,197 | 1,333 | 5,973 | 53,310 | 15,364 | 326,866 |
| Accumulated depreciation | (166,976) | - | (694) | (4,399) | (36,170) | (1,437) | (209,676) |
| Net book amount | 64,713 | 19,197 | 639 | 1,574 | 17,140 | 13,927 | 117,190 |
| **Year ended March 31 2018** | | | | | | | |
| Opening net book amount | 64,713 | 19,197 | 639 | 1,574 | 17,140 | 13,927 | 117,190 |
| Additions | - | 36,227 | 195 | - | - | - | 36,422 |
| Transfer from CWIP | 17,299 | (40,382) | - | 737 | 17,698 | 4,648 | - |
| Disposal - cost | - | - | - | - | (59) | - | (59) |
| Depreciation charge | (18,444) | - | (125) | (558) | (12,012) | (760) | (31,899) |
| Depreciation on disposals | - | - | - | - | 55 | - | 55 |
| **Closing net book amount** | **63,568** | **15,042** | **709** | **1,753** | **22,822** | **17,815** | **121,709** |
| **At March 31 2018** | | | | | | | |
| Cost | 248,988 | 15,042 | 1,528 | 6,710 | 70,949 | 20,012 | 363,229 |
| Accumulated depreciation | (185,420) | - | (819) | (4,957) | (48,127) | (2,197) | (241,520) |
| **Net book amount** | **63,568** | **15,042** | **709** | **1,753** | **22,822** | **17,815** | **121,709** |

18. Property, plant and equipment (continued)

(b) Company (continued)

| | Network infrast ructure | Capital work in progress (CWIP)* | Network maint enance spares | Leasehold improve ments | Vehicles & equip ment | Fibre | Total |
|---|---|---|---|---|---|---|---|
| | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm |
| **Year ended March 31 2019** | | | | | | | |
| Opening net book amount | 63,569 | 15,042 | 709 | 1,753 | 22,821 | 17,815 | 121,709 |
| Additions | - | 36,848 | 9 | - | - | - | 36,857 |
| Transfer from CWIP | 17,177 | (39,023) | - | 330 | 16,292 | 5,224 | - |
| Disposal - cost | (519) | - | - | (1) | (327) | - | (847) |
| Asset retirement - cost | (42,396) | - | - | - | - | - | (42,396) |
| Depreciation charge | (17,786) | - | (140) | (538) | (14,246) | (950) | (33,660) |
| Depreciation on disposals | 410 | - | - | 1 | 351 | - | 762 |
| Depreciation on retired assets | 42,396 | - | - | - | - | - | 42,396 |
| **Closing net book amount** | **62,851** | **12,867** | **578** | **1,545** | **24,891** | **22,089** | **124,821** |
| **At March 31 2019** | | | | | | | |
| Cost | 223,250 | 12,867 | 1,537 | 7,039 | 86,914 | 25,236 | 356,843 |
| Accumulated depreciation | (160,399) | - | (959) | (5,494) | (62,023) | (3,147) | (232,022) |
| **Net book amount** | **62,851** | **12,867** | **578** | **1,545** | **24,891** | **22,089** | **124,821** |

* 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.

## 19. Indefeasible rights of use (IRUs)

| (a) Group | TEAMS | SEACOM | KPLC | ETISALAT | TATA | EATCL | Total |
|---|---|---|---|---|---|---|---|
| | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm |
| **Year ended March 31 2018** | | | | | | | |
| Opening net book amount | 2,436 | 997 | 538 | 69 | 115 | - | 4,155 |
| Amortisation charge | (163) | (77) | (42) | (7) | (12) | - | (301) |
| Closing net book amount | 2,273 | 920 | 496 | 62 | 103 | - | 3,854 |
| **At March 31 2018** | | | | | | | |
| Cost | 3,253 | 1,535 | 838 | 112 | 184 | 91 | 6,013 |
| Accumulated amortization | (980) | (615) | (342) | (50) | (81) | (91) | (2,159) |
| | 2,273 | 920 | 496 | 62 | 103 | - | 3,854 |
| **Year ended March 31 2019** | | | | | | | |
| Opening net book amount | 2,273 | 920 | 496 | 62 | 103 | - | 3,854 |
| Amortisation charge | (163) | (77) | (42) | (7) | (12) | - | (301) |
| **Closing net book amount** | **2,110** | **843** | **454** | **55** | **91** | **-** | **3,553** |
| **At March 31 2019** | | | | | | | |
| Cost | 3,253 | 1,535 | 838 | 112 | 184 | 91 | 6,013 |
| Accumulated amortization | (1,143) | (692) | (384) | (57) | (93) | (91) | (2,460) |
| **Net book amount** | **2,110** | **843** | **454** | **55** | **91** | **-** | **3,553** |

**19. Indefeasible rights of use (IRUs) (continued)**

| (b) Company | TEAMS | SEACOM | KPLC | ETISALAT | TATA | Total |
|---|---|---|---|---|---|---|
| | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm | KShs'm |
| **Year ended March 31 2018** | | | | | | |
| Opening net book amount | 2,436 | 997 | 538 | 69 | 115 | 4,155 |
| Amortisation charge | (163) | (77) | (42) | (7) | (12) | (301) |
| Closing net book amount | 2,273 | 920 | 496 | 62 | 103 | 3,854 |
| **At March 31 2018** | | | | | | |
| Cost | 3,253 | 1,535 | 838 | 111 | 184 | 5,921 |
| Accumulated amortization | (980) | (615) | (342) | (49) | (81) | (2,067) |
| | 2,273 | 920 | 496 | 62 | 103 | 3,854 |
| **Year ended March 31 2019** | | | | | | |
| Opening net book amount | 2,273 | 920 | 496 | 62 | 103 | 3,854 |
| Amortisation charge | (163) | (77) | (42) | (7) | (12) | (301) |
| **Closing net book amount** | **2,110** | **843** | **454** | **55** | **91** | **3,553** |
| **At March 31 2019** | | | | | | |
| Cost | 3,253 | 1,535 | 838 | 112 | 184 | 5,922 |
| Accumulated amortization | (1,143) | (692) | (384) | (57) | (93) | (2,369) |
| **Net book amou nt** | **2,110** | **843** | **454** | **55** | **91** | **3,553** |

## 20. Investment property

| Group and Company | 2019 | 2018 |
|---|---|---|
| | KShs'm | KShs'm |
| At 1 April | 845 | 845 |
| Fair value adjustment | - | - |
| **At March 31** | **845** | **845** |

The fair value measurement of the investment property as at March 31 2019 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.

Details of the Group's investment property and information about fair value hierarchy as at March 31 2019 is as follows

| Non- financial asset | Fair Value as at March 31 2019 KShs'm | Fair value hierarchy | Valuation technique (s) and key inputs | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Investment property | 845 | Level II | Open market value basis - highest and best use model | Not applicable | Not applicable |

# Notes (Continued)

## 21. Intangible assets

| (a) Group | License fees KShs'm | Total KShs'm |
|---|---|---|
| **Year ended March 31 2018** | | |
| Opening net book amount | 10,115 | 10,115 |
| Amortisation | (1,359) | (1,359) |
| **Closing net book amount** | **8,756** | **8,756** |
| **At March 31 2018** | | |
| Cost | 18,983 | 18,983 |
| Accumulated amortization | (10,227) | (10,227) |
| **Net book amount** | **8,756** | **8,756** |
| **Year ended March 31 2019** | | |
| Opening net book amount | 8,756 | 8,756 |
| Amortisation | (1,370) | (1,370) |
| **Closing net book amount** | **7,386** | **7,386** |
| **At March 31 2019** | | |
| Cost | 18,983 | 18,983 |
| Accumulated amortization | (11,597) | (11,597) |
| **Net book amount** | **7,386** | **7,386** |

| (b) Company | 2019 KShs'm | 2018 KShs'm |
|---|---|---|
| Opening net book amount | 8,749 | 10,107 |
| Amortisation charge | (1,369) | (1,358) |
| **Closing net book amount** | **7,380** | **8,749** |
| Cost | 18,960 | 18,960 |
| Accumulated amortisation | (11,580) | (10,211) |
| **Net book amount** | **7,380** | **8,749** |

## 22. Investments

### (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 | |
|---|---|---|
| | 2019 KShs'm | 2018 KShs'm |
| At start of year | 24 | 846 |
| Additional investment (Instaconnect Limited) | 407 | - |
| Impairment (One Communications Limited) | - | (742) |
| Impairment (East African Tower Company Limited) | - | (80) |
| **At end of year** | **431** | **24** |

The Company's interest in its subsidiaries was as follows

| | Year end | % interest held | Company 2019 KShs'm | Company 2018 KShs'm |
|---|---|---|---|---|
| | | | KShs'm | KShs'm |
| One Communications Limited and its subsidiaries* | March 31 | 100 | - | - |
| Packet Stream Data Networks Limited | March 31 | 100 | - | - |
| IGO Wireless Limited | March 31 | 100 | - | - |
| Instaconnect Limited | March 31 | 100 | 411 | 4 |
| East Africa Tower Company Limited | March 31 | 100 | - | - |
| Safaricom Money Transfer Services Limited | Dec 31 | 100 | 20 | 20 |
| | | | **431** | **24** |

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

The Company rolled out the international money transfer business through its 100% owned subsidiary, Instaconnect Limited, and injected additional capital by acquiring assets worth KShs 397 million and a cash transfer of KShs 10 million.

The additional investment has been recognised as capital reserve in Instaconnect Limited's financial statements. We expect that due to the above investment, there will be more activity that will have a positive impact on the reported results of FY20 from the operations of the new businesses.

Safaricom Money Transfer Services Limited has a December 31 year end and derives its revenues from the provision of international money transfer services. The fluctuation of the results of the subsidiary is not expected to have a significant impact on the results of the Group. As such, the unaudited 3 months results have been incorporated to the Group's financial statements as at March 31 2019.

# Notes (Continued)

**22. Investments (continued)**

**(b) Investment in associate – Group and Company**

The movement in investment in associate is as follows:

| | 2019<br>KShs'm | 2018<br>KShs'm |
|---|---|---|
| At start of year | 145 | 135 |
| Share of profit after tax | 5 | 10 |
| **At end of year** | **150** | **145** |

The investment in associate represents the investment of 32.5% (2018: 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 June 30 year end and derives its revenues from the provision of submarine fibre optic cable system. Changes in the risk and fluctuation of the results of the associate is not expected to have a significant impact on the results of the Group. As such, the unaudited 9 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 March 31 2019 and March 31 2018 which is accounted for using the equity method.

| **Summarised statement of financial position** | 2019<br>KShs'm | 2018<br>KShs'm |
|---|---|---|
| **Total equity** | **294** | **336** |
| **Non-current assets** | 8 | 10 |
| **Current assets** | | |
| Cash and cash equivalents | 626 | 567 |
| Other current assets | 100 | 41 |
| **Total current assets** | **726** | **608** |
| **Current liabilities** | (440) | (282) |
| **Net current assets** | **286** | **326** |
| **Net assets** | **294** | **336** |

# Notes (Continued)

**22. Investments (continued)**

**(b) Investment in associate (continued)**

| **Summarised statement of comprehensive income for the 9 months period ended March 31** | **2019** | **2018** |
|---|---|---|
| | **KShs'm** | **KShs'm** |
| Revenue | 221 | 231 |
| Other Income | 12 | - |
| Operating expenses | (144) | (155) |
| Administrative expenses | (32) | (48) |
| Total expenses | (176) | (203) |
| Profit before tax | 57 | 28 |
| Income tax expense | - | - |
| Profit after tax | 57 | 28 |
| Share of profit before tax (32.5%) | 19 | 9 |
| (Loss) / profit for the 3 months ended 30 June (2018 and 2017 respectively) | (14) | 1 |
| **Share of profit of associate** | **5** | **10** |

The information above reflects the amounts presented in the management accounts of the associate and not 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.

## 23. Prepaid operating lease rentals – Group and Company

Prepaid operating lease rentals relate to payments made in advance for the rental of sites on which the Company's equipment is located. The analysis of prepaid operating lease rentals is as follows:

| | **2019 KShs'm** | **2018 KShs'm** |
|---|---|---|
| At start of year | 709 | 494 |
| Additions | 1,385 | 1,400 |
| Amortisation charge for the year | (1,358) | (1,185) |
| At end of year | 736 | 709 |
| Current portion reflected in prepayments | (679) | (664) |
| **Prepaid operating lease rentals** | **57** | **45** |

## 24. Inventories – Group and Company

| | **Group & Company** | |
|---|---|---|
| | **2019** | **2018** |
| | **KShs 'm'** | **KShs 'm'** |
| Handsets and accessories | 1,610 | 995 |
| Scratch cards | 75 | 98 |
| Starter packs | 202 | 188 |
| Stationery and other stocks | 10 | 8 |
| Set top boxes | 20 | 85 |
| Less: Provision for obsolescence | (201) | (119) |
| | 1,716 | 1,255 |
| Inventory work-in-progress | 59 | 350 |
| | **1,775** | **1,605** |

## 25. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs'm | KShs'm | KShs'm | KShs'm |
| **Current:** | | | | |
| Trade receivables | 9,169 | 8,304 | 8,682 | 7,912 |
| Less: Provision for impairment losses | (1,726) | (2,041) | (1,726) | (2,041) |
| | 7,443 | 6,263 | 6,956 | 5,871 |
| Receivable from related parties (Note 31 (viii)) | 2,117 | 1,942 | 1,803 | 1,502 |
| Less: Provision for impairment losses | (11) | (30) | (11) | (30) |
| | 2,106 | 1,912 | 1,792 | 1,472 |
| Other receivables | 2,971 | 2,343 | 2,867 | 2,327 |
| Less: Provision for impairment losses | - | (1) | - | (1) |
| | 2,971 | 2,342 | 2,867 | 2,326 |
| Prepayments | 3,871 | 3,270 | 3,856 | 3,260 |
| Construction and maintenance contract receivable | 1,799 | 2,269 | 1,799 | 2,269 |
| Less: Provision for impairment losses | (64) | (199) | (64) | (199) |
| Net construction and maintenance contract receivable | 1,735 | 2,070 | 1,735 | 2,070 |
| | **18,126** | **15,857** | **17,206** | **14,999** |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs'm | KShs'm | KShs'm | KShs'm |
| At start of year | 2,271 | 1,410 | 2,271 | 1,410 |
| Provisions made in the year<br>– trade and other receivables | 3,387 | 2,298 | 3,387 | 2,298 |
| – related parties | 11 | 30 | 11 | 30 |
| Release prior year provisions | (3,542) | (1,173) | (3,542) | (1,173) |
| Receivables written off during the year as uncollectible | (326) | (294) | (326) | (294) |
| | **1,801** | **2,271** | **1,801** | **2,271** |

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 2.77 billion was received during the year and the outstanding balance at the year end was KShs 1.8 billion. Due to the extended payment terms of the contract, a provision for impairment of KShs 64 million has been made in arriving at the outstanding receivable.

# Notes (Continued)

## 26. Cash and cash equivalents and restricted cash

**a) Cash and cash equivalents**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **KShs'm** | **KShs'm** | **KShs'm** | **KShs'm** |
| Cash at bank and in hand | 20,030 | 9,335 | 19,828 | 9,043 |
| Investment in short term treasury bills | - | 162 | - | - |
| | **20,030** | **9,497** | **19,828** | **9,043** |
| **b) Restricted cash** | | | | |
| Restricted cash | 2,896 | 2,563 | 2,896 | 2,563 |
| Impairment loss adjustment at inception (c) | (1,050) | (979) | (1,050) | (979) |
| | **1,846** | **1,584** | **1,846** | **1,584** |
| **c) Deferred restricted cash asset** | | | | |
| Impairment loss adjustment at inception (b) | 1,050 | 979 | 1,050 | 979 |
| Amortisation | (154) | (100) | (154) | (100) |
| **Net deferred restricted cash asset** | **896** | **879** | **896** | **879** |

Restricted cash relates to deposits held with Housing Finance Group Limited, Commercial Bank of Africa (CBA) 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.

## 27. Other financial assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **KShs'm** | **KShs'm** | **KShs'm** | **KShs'm** |
| Government securities at amortised cost | 4,043 | - | 3,867 | - |
| Deposits with financial institutions | 4,000 | - | 4,000 | - |
| | **8,043** | **-** | **7,867** | **-** |

## 28. (a) Payables and accrued expenses

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Trade payables | 3,811 | 3,208 | 3,764 | 3,063 |
| Due to related companies (Note 31 (ix)) | 1,198 | 956 | 1,468 | 974 |
| Accrued liabilities | | | | |
| - Network infrastructure | 4,526 | 7,230 | 4,526 | 7,230 |
| - Inventory | 491 | 389 | 491 | 389 |
| - Other expenses | 11,361 | 9,371 | 11,393 | 9,365 |
| Other payables | | | | |
| - Indirect and other taxes payable | 3,942 | 2,544 | 3,927 | 2,526 |
| - M-PESA agent accrual | 2,044 | 1,827 | 2,044 | 1,827 |
| - Other accrued payables | 1,331 | 942 | 1,298 | 936 |
| | **28,704** | **26,467** | **28,911** | **26,310** |

# Notes (Continued)

**28. (a) Payables and accrued expenses (continued)**

| Non-current | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs'm | KShs'm | KShs'm | KShs'm |
| At April 1 2018 | - | - | - | - |
| Charge for the year | 1,209 | - | 1,209 | - |
| Payments for the year | (78) | - | (78) | - |
| **At March 31** | **1,131** | **-** | **1,131** | **-** |

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

**28. (b) Provisions for liabilities**

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs'm | KShs'm | KShs'm | KShs'm |
| At April 1 | 4,028 | 2,766 | 4,028 | 2,766 |
| Charge for the year | 906 | 1,262 | 906 | 1,262 |
| Payments / release for the year | (1,040) | - | (1,040) | - |
| **At March 31** | **3,894** | **4,028** | **3,894** | **4,028** |

The Group faces exposure to claims and other liabilities arising from the normal course of business. These claims and other liabilities normally takes 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's advice, the outcome of existing claims and obligations will not give rise to any significant loss beyond the recorded provisions at 31 March 2019. 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.

# Notes (Continued)

## 29. (a) Contract assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs'm | KShs'm | KShs'm | KShs'm |
| Contract assets - Dealer connection commissions | 2,250 | - | 2,250 | - |
| Contract assets - SIM activation cost | 700 | - | 700 | - |
| **Total contract assets** | **2,950** | **-** | **2,950** | **-** |
| The movement of the contract assets is as below: | | | | |
| Opening balance – April 1 | - | - | - | - |
| Opening adjustments on adoption of IFRS 15 | 2,803 | - | 2,803 | - |
| Additions in the year | 3,056 | - | 3,056 | - |
| Amortised as costs in the year | (2,909) | - | (2,909) | - |
| **Closing balance – March 31** | **2,950** | **-** | **2,950** | **-** |
| Current portion | 1,985 | - | 1,985 | - |
| Non-current portion | 965 | - | 965 | - |
| | **2,950** | **-** | **2,950** | **-** |

### (b) Contract liabilities

| | Group 2019 KShs'm | Group 2018 KShs'm | Company 2019 KShs'm | Company 2018 KShs'm |
|---|---|---|---|---|
| Contract liabilities – customer loyalty programmes | 3,854 | 4,041 | 3,854 | 4,041 |
| Contract liabilities – deferred airtime revenue | 2,388 | 2,944 | 2,388 | 2,944 |
| Contract liabilities – deferred connection revenue | 1,378 | 98 | 1,378 | 98 |
| Contract liabilities – deferred NPS revenue | 648 | 243 | 648 | 243 |
| Contract liabilities – integrated products | 764 | 395 | 764 | 395 |
| Contract liabilities – fixed data | 482 | 369 | 439 | 314 |
| Contract liabilities – fibre & collocation revenue | 422 | 756 | 422 | 756 |
| Contract liabilities – bulk SMS | 63 | - | 63 | - |
| Contract liabilities – bundled handsets resources | 13 | - | 13 | - |
| Contract liabilities – ETU access fee | 5 | - | 5 | - |
| Contract liabilities – PRSP initial set up fee | 2 | - | 2 | - |
| **Total contract liabilities** | **10,019** | **8,846** | **9,976** | **8,791** |
| The movement of the contract liabilities is as below: | | | | |
| Opening balance – April 1 | 8,846 | 7,735 | 8,791 | 7,735 |
| Opening adjustments on adoption of IFRS 15 | 790 | - | 790 | - |
| Additions in the year | 170,133 | 149,257 | 169,558 | 148,545 |
| Recognised as revenue in the year | (169,750) | (148,146) | (169,163) | (147,489) |
| **Closing balance – March 31** | **10,019** | **8,846** | **9,976** | **8,791** |
| Current portion | 9,280 | 8,846 | 9,237 | 8,791 |
| Non-current portion | 739 | - | 739 | - |
| | **10,019** | **8,846** | **9,976** | **8,791** |

# Notes (Continued)

## 30. Cash generated from operations

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs' m | KShs' m | KShs' m | KShs' m |
| Profit before income tax | 91,218 | 79,909 | 90,469 | 78,243 |
| Adjustments for: | | | | |
| Interest income (Note 8) | (2,318) | (1,400) | (2,300) | (1,406) |
| Interest expense (Note 9) | 148 | 653 | 148 | 653 |
| Depreciation on property, plant and equipment (Note 18) | 33,660 | 31,908 | 33,660 | 31,899 |
| Amortisation of intangible assets (Note 21) | 1,370 | 1,359 | 1,369 | 1,358 |
| Share of profit from associate (Note 22 (b)) | (5) | (10) | (5) | (10) |
| Amortisation of IRUs (Note 19) | 301 | 301 | 301 | 301 |
| Gain on disposal of property, plant and equipment (Note 5 (b)) | (160) | (18) | (160) | (18) |
| Fair valuation of restricted cash (Note 8) | 54 | 58 | 54 | 58 |
| Impairment (gain) /loss on of construction contract receivable | (135) | 30 | (135) | 30 |
| Interest on ARO liability | 51 | - | 51 | - |
| Impairment of investment in One Communications and East African Tower Company Limited (Note 22 (a)) | - | - | - | 822 |
| Change in operating assets and liabilities: | | | | |
| -Movement in provision for other liabilities (Note 28(b)) | (185) | 1,262 | (185) | 1,262 |
| -Movement in contract liabilities | 382 | - | 395 | - |
| -Movement in contract assets | (147) | - | (147) | - |
| -Movement in receivables and prepayments | (2,134) | 1,948 | (2,072) | 2,330 |
| -Movement in inventories | (170) | (234) | (170) | (234) |
| - Movement in non-current prepaid operating lease rentals (Note 23) | (12) | (44) | (12) | (44) |
| -Movement in payables and accrued expenses | 3,368 | 1,508 | 3,732 | 1,228 |
| **Cash generated from operations** | **125,286** | **117,230** | **124,993** | **116,472** |

# 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 license 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 owns the M-PESA solution, has entered into a managed services agreement with the Company under which VSSL agrees to provide the M-PESA solution to the Company against which a license fee is charged quarterly. The license fee is based on 2% of the M-PESA transaction revenue effective April 1 2017.

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 April 1, 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 VGSL UK 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.

# Notes (Continued)

**31 Related party transactions (continued)**

The following relationships exist within Safaricom PLC:

| Related parties | Held by | Percentage of interest held as at 31 March 2019 | 2018 |
|---|---|---|---|
| **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% |
| **Associate** | | | |
| The East African Marines Systems Limited (TEAMS) | Safaricom PLC | 32.5% | 32.5% |

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

The following transactions were carried out with related parties:

**(i) Sale of goods and services**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **KShs'm** | **KShs'm** | **KShs'm** | **KShs'm** |
| Vodafone Roaming Services S.à r.l | 73 | 62 | 73 | 62 |
| Vodacom Tanzania Public Limited Company | 65 | 67 | 65 | 67 |
| M-PESA Holding Co. Limited | 72,718 | 61,176 | 72,083 | 60,693 |
| Vodacom South Africa Limited | 210 | 91 | 210 | 91 |
| Vodafone UK | 215 | 184 | 215 | 184 |
| Vodafone Group Enterprises | 171 | 179 | 171 | 179 |
| Vodacom Business (Kenya) Limited | 7 | 6 | 7 | 6 |
| Vodafone Egypt Telecom. S.A.E. | 4 | - | 4 | - |
| Vodafone Network PTY Ltd | 1 | - | 1 | - |
| Vodafone Sverige AB | 1 | - | 1 | - |
| Vodafone Qatar Q.S.C. | 1 | - | 1 | - |
| Safaricom Money Transfer Services Limited | - | - | 251 | 163 |
| Instaconnect | - | - | 62 | - |
| One Communications Limited | - | - | 449 | 566 |
| | **73,466** | **61,765** | **73,593** | **62,011** |

# Notes (Continued)

**31 Related party transactions (continued)**

**ii) Purchase of goods and services**

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **KShs'm** | **KShs'm** | **KShs'm** | **KShs'm** |
| Vodafone Sales and Services Limited | 3,856 | 2,247 | 3,856 | 2,247 |
| Vodafone Group Services Limited | 696 | 411 | 696 | 411 |
| Vodafone Roaming Services S.à r.l | 104 | 129 | 104 | 129 |
| Vodafone UK | 19 | 20 | 19 | 20 |
| Vodacom South Africa Limited | 36 | 4 | 36 | 4 |
| Vodacom Tanzania Public Limited Company | 317 | 299 | 317 | 299 |
| Vodafone D2 GMBH | - | 1 | - | 1 |
| Vodafone Egypt Telecom. S.A.E. | 6 | - | 6 | - |
| Vodafone Network PTY Ltd | 3 | - | 3 | - |
| Vodafone Qatar Q.S.C. | 6 | - | 6 | - |
| One Communications Limited | - | - | 684 | 721 |
| | **5,043** | **3,111** | **5,727** | **3,832** |

**iii) Directors' remuneration**

| | Group and Company | |
|---|---|---|
| | **2019** | **2018** |
| | **KShs'm** | **KShs'm** |
| Fees for services as director | 35 | 28 |
| Salaries | 152 | 147 |
| Bonuses | 47 | 47 |
| Value for non-cash benefits | 65 | 63 |
| Employee Performance Share Award Plan | 40 | 43 |
| | **339** | **328** |
| **iv) Key management compensation** | | |
| Salaries and other short-term employment benefits | 951 | 842 |
| Employee Performance Share Award Plan | 142 | 211 |
| Pension contribution | 19 | 14 |
| Termination benefits | 47 | 15 |
| | **1,159** | **1,082** |

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 March 31 2019 (2018: Nil).

**vi) Loans to directors of the Company**

There are no loans to directors of the Company at March 31 2019 (2018: Nil).

# Notes (Continued)

**31 Related party transactions (continued)**

**vii) Donations to Safaricom Foundation**

Donations made during the year amounted to KShs 466 million (2018: KShs 378 million).

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs'm | KShs'm | KShs'm | KShs'm |
| Vodafone Roaming Services S.à r.l | 8 | 6 | 7 | 6 |
| Vodafone Group Enterprises | 18 | 44 | 18 | 44 |
| M-PESA Holding Co. Limited | 1,975 | 1,803 | 1,473 | 1,218 |
| Vodacom Tanzania Public Limited Company | 5 | 6 | 5 | 6 |
| Vodacom South Africa Limited | 47 | 55 | 47 | 55 |
| Vodafone UK | 63 | 26 | 63 | 26 |
| Vodacom Business (Kenya) Limited | - | 1 | - | 1 |
| Vodafone Egypt Telecom. S.A.E. | 1 | 1 | 1 | 1 |
| One Communications Limited | - | - | 79 | 105 |
| East African Towers Company Limited | - | - | 16 | - |
| Instaconnect Limited | - | - | 62 | - |
| Safaricom Money Transfer Services Limited | - | - | 32 | 40 |
| | **2,117** | **1,942** | **1,803** | **1,502** |

The receivables arise mainly from trading, are unsecured and bear no interest. A provision of KShs 11 million (2018: KShs 30 million) (Note 25) is held against receivables from related parties.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs'm | KShs'm | KShs'm | KShs'm |
| Vodafone Sales and Services Limited | 823 | 380 | 823 | 380 |
| Vodafone Group Services Limited | 332 | 316 | 332 | 316 |
| Vodafone Roaming Services S.à r.l | 7 | 20 | 7 | 20 |
| Vodacom Tanzania Public Limited Company | 27 | 37 | 27 | 37 |
| Vodacom South Africa Limited | - | 2 | - | 2 |
| Vodafone UK | 3 | 1 | 3 | 1 |
| Vodafone Network PTY Ltd | 1 | 1 | 1 | 1 |
| VODAFONE SVERIGE AB | 1 | 1 | 1 | 1 |
| VODAFONE D2 GMBH | 1 | 1 | 1 | 1 |
| Vodafone Qatar Q.S.C. | 3 | 8 | 3 | 8 |
| One Communications Limited | - | - | 238 | 207 |
| Safaricom Money Transfer Services Limited | - | 189 | 32 | - |
| | **1,198** | **956** | **1,468** | **974** |

# Notes (Continued)

**31. Related party transactions (continued)**

**x) Loan to related party (continued)**

| | Company | |
|---|---|---|
| | **2019 KShs'm** | **2018 KShs'm** |
| Safaricom Money Transfer Services Limited | - | 122 |
| | **-** | **122** |

In 2016, the Company gave a five-year revolving loan facility to Safaricom Money Transfer Services Limited, at an interest rate based on 91-day Treasury bill rate plus 500 basis points. During the year, KShs 5.3 million has been charged as interest on this loan (2018: KShs 28.8 million) and KShs 122 million (2018: KShs 225 million) was repaid towards the outstanding loan balance.

In the period ended March 31 2018, the outstanding amount of the loan awarded to One Communications Limited was fully repaid, KShs 126.9 million.

## 32. Contingent liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. At March 31 2019, a guarantee of KShs 20 million (2018: KShs 20 million) had been given to Citibank NA against credit cards for the use by senior staff during travel and a guarantee of KShs 170.8 million (2018: KShs 214.9 million) to various suppliers for goods and services regularly provided to the Company.

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 | |
|---|---|---|
| | **2019 KShs'm** | **2018 KShs'm** |
| Property, plant and equipment | 8,974 | 8,034 |
| **Operating lease commitments** | | |
| Not later than 1 year | 2,099 | 1,269 |
| Between 1 year and 5 years | 7,701 | 5,908 |
| Later than 5 years | 4,475 | 3,185 |
| | **14,275** | **10,362** |

Operating lease commitments relate to contracted leases for facilities and site rentals at the statement of financial position date. The lease terms are between 6 years and 20 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.

# Appendix 1 - Shareholding

The ten largest shareholders in the Company (ordinary shares only) and the respective number of shares held as at March 31 2019 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 NOMUNEES NON-RESD. A/C 9069 | 622,279,049 |
| 4. | KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 1019D | 297,519,400 |
| 5. | STANDARD CHARTERED KENYA NOMINEES LTD,A/C KE19796 | 238,150,500 |
| 6. | STANBIC NOMINEES LTD A/C NR1030824 | 138,080,500 |
| 7. | KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B | 137,796,186 |
| 8. | STANDARD CHARTERED NOMINEES ACCOUNT KE14442 | 131,432,704 |
| 9. | STANDARD CHARTERED NOMINEES RESD A/C KE11443 | 117,779,707 |
| 10. | STANDARD CHARTERED KENYA NOMINEES LTD A/C KE003310 | 107,700,092 |
| 11. | OTHERS | 8,252,117,282 |
| | **Total** | **40,065,428,000** |

**Distribution of shareholders**

| | Number of shareholders | Number of shares | % Shareholding |
|---|---|---|---|
| 1 to 1000 | 365,409 | 218,589,163 | 0.55% |
| 1001 – 10,000 | 172,477 | 492,225,749 | 1.23% |
| 10,001 – 100,000 | 19,607 | 493,600,729 | 1.23% |
| 100,001 – 1,000,000 | 1,816 | 504,359,065 | 1.26% |
| 1,000,001 – 10,000,000 | 518 | 1,822,748,045 | 4.55% |
| 10,000,001 – 100,000,000 | 180 | 4,616,762,454 | 11.52% |
| 100,000,001 – 1,000,000,000 | 9 | 1,894,570,215 | 4.73% |
| 1,000,000,001 – 100,000,000,000 | 2 | 30,022,572,580 | 74.93% |
| **Total** | **560,018** | **40,065,428,000** | **100.00%** |

# Appendix 2 - Statement of comprehensive income based on IAS 18

| | Group | | Company | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | KShs'm | KShs'm | KShs'm | KShs'm |
| Service revenue | 240,304 | 224,535 | 239,440 | 224,053 |
| Handset and other revenues | 9,585 | 8,980 | 9,646 | 9,041 |
| Construction revenue | 603 | 202 | 603 | 202 |
| **Total Revenue** | **250,492** | **233,717** | **249,689** | **233,296** |
| Other income | 464 | 510 | 465 | 597 |
| Direct costs | (71,818) | (70,555) | (72,450) | (71,360) |
| Construction costs | (603) | (202) | (603) | (202) |
| Other expenses | (53,590) | (50,636) | (52,935) | (50,320) |
| **Earnings before interest, taxes, depreciation and amortization (EBITDA)** | **124,945** | **112,834** | **124,166** | **112,011** |
| Depreciation of property, plant and equipment | (33,660) | (31,908) | (33,660) | (31,899) |
| Amortization – Indefeasible Rights of Use (IRUs) | (301) | (301) | (301) | (301) |
| Amortization - intangible assets | (1,370) | (1,359) | (1,369) | (1,358) |
| Impairment of investment in subsidiaries | - | - | - | (822) |
| **Operating profit** | **89,614** | **79,266** | **88,836** | **77,631** |
| Finance income | 2,760 | 1,830 | 2,742 | 1,836 |
| Finance cost | (520) | (1,197) | (473) | (1,234) |
| Share of profit of associate | 5 | 10 | 5 | 10 |
| **Profit before income tax** | **91,859** | **79,909** | **91,110** | **78,243** |
| Income tax expense | (28,460) | (24,620) | (28,235) | (24,429) |
| **Profit and total comprehensive income for the year attributable to the owners of the Company** | **63,399** | **55,289** | **62,875** | **53,814** |
| **Earnings per share** | | | | |
| Basic and diluted (KShs per share) | **1.58** | **1.38** | **1.57** | **1.34** |

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

## 2003

**54% 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 2million
- 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 1st March 2007
- First to market with 3G

## 2008

**59.2% Market Share**

- Safaricom IPO government sold 25% and diluted to 35% ownership
- 10million subscribers
- KShs 61billion 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**

- 17million 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 107billion revenue

## 2013

**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**

- 21million 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 SDG's - First company in Kenya to link its growth strategy to the UN's 17 Sustainable Development Goals (SDGs)

## 2017

**71.9% Market Share**

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

## 2018

**67% 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

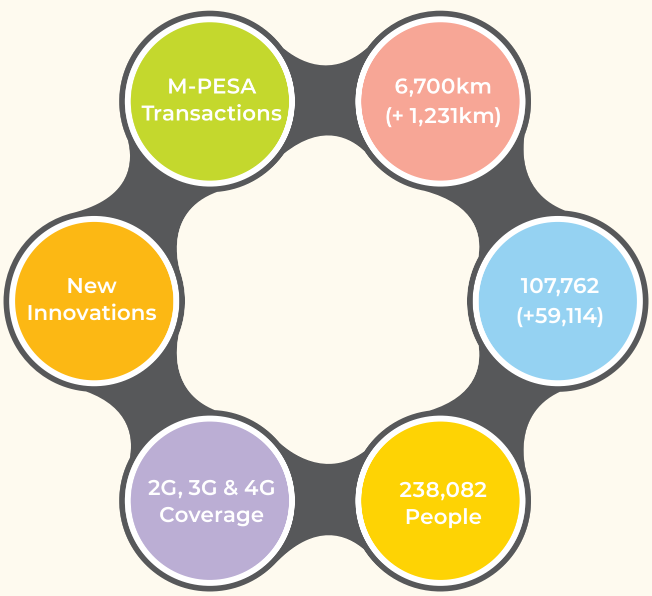
# Graphs

## FY19 IN REVIEW

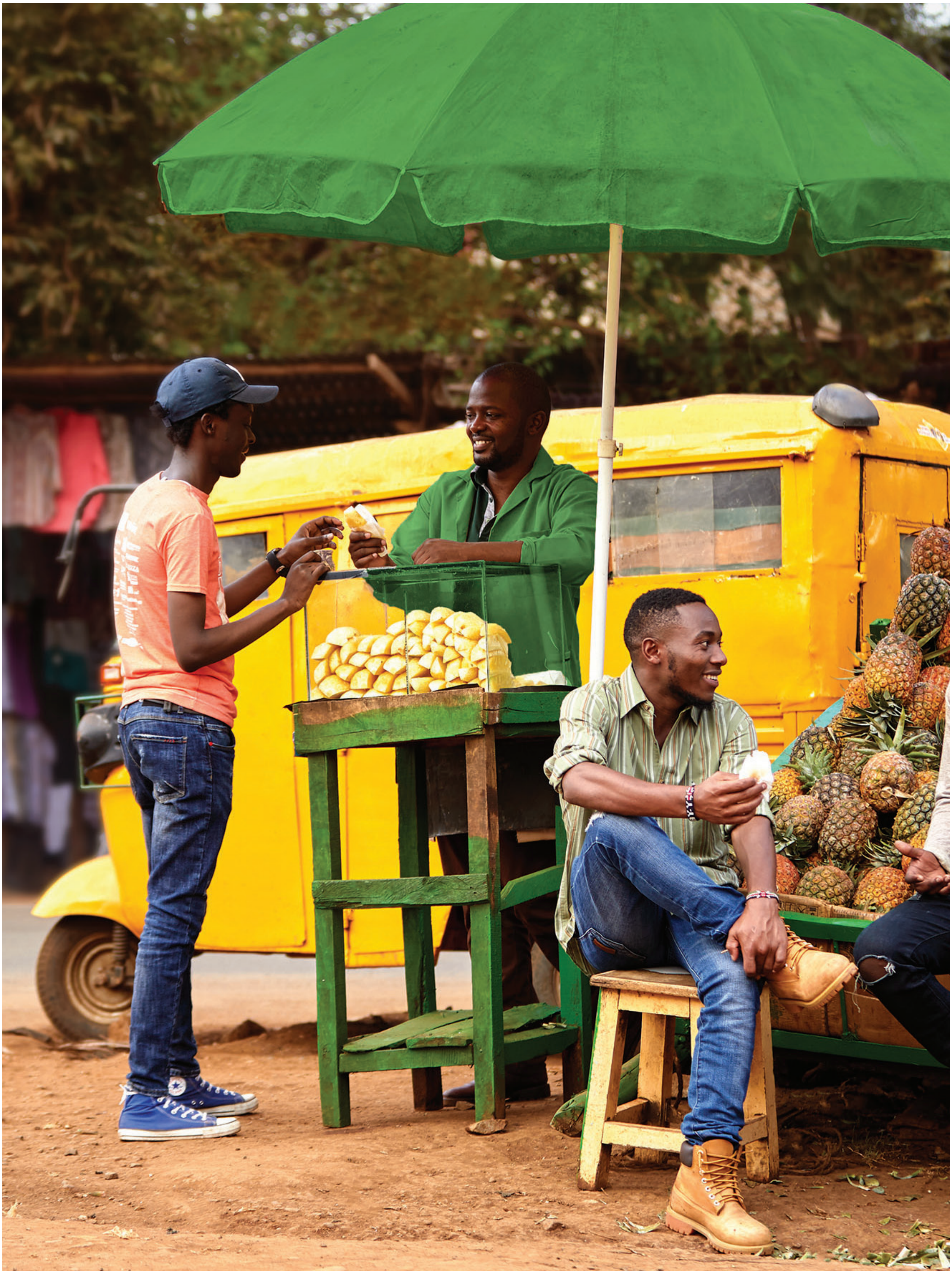
### PEOPLE

- Total customers: 31.8m (+7.7%)
- M-PESA customers (30 day active): 22.6m (+10.2%)
- Mobile data customers (30 day active): 18.8m (+6.6%)
- Customer satisfaction score (consumer NPS): 61 (up from 54 in FY18)
- Network NPS: 80
- M-PESA Global: 33.7% (KShs 101billion) of all diaspora remittances transacted through M-PESA
- Fuliza: 12 overdrafts processed per second
- 94% of staff are likely to recommend Safaricom as a great place to work (down from 97% in FY18)
- 18 dismissals for fraud (down from 43 in FY18)
- Differently-abled employees: 2.1% of workforce (up from 1.7%)
- Female employees: 50% of total workforce (same as FY18), 34% of senior management (up from 32% in FY18)
- Pre-qualified women-owned or women-led suppliers: 178

### INFRASTRUCTURE




- Cumulative fibre optic cable footprint: 6,700kms (+ 1,231km in FY19)
- Residential homes connected to fibre: 107,762 (+59,114)
- Enterprise buildings passed by fibre optic network in FY19: 2,424
- Enterprise customers connected to fibre optic network in FY19: 5,992
- Universal Service Fund activity expanded mobile network coverage for 238,082 people
- 96% of the population has 2G coverage same as FY18, 93% has 3G up from 86% and 57% has 4G up from 35% in FY18
- New innovations: Zuri chatbot, Jitambulishe voice biometrics, interactive voice IVR
- M-PESA transactions: 1,200 transactions per second (TPS), up from 900 in FY18



# 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 ser, 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. |

## Unaudited Information

| Name | Definition |
|---|---|
| **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. |
| **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. |

# Board Member Profiles

## Executive Directors

| Name | Skills and Experience |
|---|---|
| **Michael Joseph** (73)<br>Director (Interim Chief Executive Officer) | Michael Joseph is the current Interim Chief Executive Officer, a position held since July 1, 2019 following the passing on of Bob Collymore. He will continue to hold this position until the Board communicates in due course, on a permanent appointment. Michael joined the Board on September 8, 2008 and he is also the Chairman of Kenya Airways.<br>Previously, Michael was the CEO 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.<br>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. Mr. Joseph a U.S citizen has a BSc (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. (UK).<br>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 company in the East African region. |
| **Sateesh Kamath** (46)<br>Chief Financial Officer & Executive Director | Sateesh Kamath is responsible for leading Finance operations and is in charge of Financial Planning & Analysis, Investor Relations, Internal Audit and Financial Reporting.<br>He joined Safaricom PLC on August 1, 2016 from Vodacom Tanzania Ltd., where he was the Chief Financial Officer and Executive Director on the board of Vodacom Tanzania.<br>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.<br>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.<br>He holds a Bachelor of Commerce Degree from Mahatma Gandhi University (First Class) and his also a Qualified Accountant from the Institute of Cost and Works Accountants of India. |

## Executive Directors

| Name | Skills and Experience |
| --- | --- |
| **Bob Collymore *** (60)<br>Appointed CEO in November 2010-June 2019 | Previously worked in the UK, Japan, and South Africa in a number of senior executive roles in Marketing, Purchasing, Retail, Governance and Corporate Affairs. He had more than 30 years of commercial experience working in senior executive roles in the telecommunications sector<br>**Other current appointments**<br>· Board member of Acumen, the United Nations Global Compact Board<br>· Member of the B TEAM, a not-for-profit initiative formed by a global group of business leaders<br>· Board Member Kenya Vision 2030<br>· Founder Trustee in the National Road Safety Trust and Chairman of the TEAMS Board<br>· UN Commission on Life Saving commodities for women and children |

* Robert Collymore ceased to be a Director on 1 July 2019 and consequently Sateesh Kamath ceased to be his alternate.

## Non-Executive Directors

| Name | Skills and Experience |
| --- | --- |
| **Esther Koimett** (63)<br>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 and Managing Director, Kenya Post Office Savings Bank. |
| **Kathryne Maundu** (40)<br>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 mandate.<br>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.<br>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. |

# Board Member Profiles (continued)

## Non-Executive Directors

| Name | Skills and Experience |
| --- | --- |
| **Nicholas Nganga** (81)<br>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** (50)<br>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.<br>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 has 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.<br>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. |
| **Mohamed Shameel Aziz Joosub** (48)<br>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 re-appointed to the Vodacom Group Board in September 2012 after his return from Spain. |
| **Linda Watiri Muriuki** (55)<br>Non–Executive Director | Linda Watiri Muriuki serves as the Senior Partner at LJA Associates. She is a practicing Advocate of the High Court of Kenya with over 28 years' experience and ranked by Chambers and Partners in 2015 and 2016.<br>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. |

## Non-Executive Directors

| Name | Skills and Experience |
|---|---|
| **Linda Watiri Muriuki** (55)<br>Non–Executive Director | Linda is a Commissioner for Oaths, Notary Public, Certified Public Secretary (Kenya) a member of the Institute of Directors (K) and the Law Society of Kenya. |
| **Till Streichert** (45)<br>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.<br>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. |

## Independent Non-Executive Directors

| Name | Skills and Experience |
|---|---|
| **Prof. Bitange Ndemo** (60)<br>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 centers on the link between ICT and small and medium enterprises in Kenya.<br>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** (59)<br>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.<br>In recognition of her contribution to the economic development of the Country, she was awarded the Moran of the Burning Spear (MBS) in 2005.<br>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 2 Independent Directors who duly represent the interests of the minority shareholders who hold 25% of the Company's shareholding.

# Senior Management Profiles

| Name | Skills and Experience |
| --- | --- |
| **Joseph Ogutu**<br>Chief Special Projects Officer | Joseph Ogutu is responsible for Special Projects including the Foundations. He joined Safaricom as Chief Corporate Affairs Officer in May 2005 from Telkom Kenya where he was the Principal Assistant to the Managing Director and Chief Strategy and Regulatory Officer. He then served as Chief Human Resource Officer from 2008 before taking on the role of Director, Resources in the March 2011 company reorganisation. In October 2012, Mr. Ogutu was appointed as the Director, Strategy & innovation where he worked closely with the CEO in formulating strategic direction for the business and focusing on developing Safaricom's position as an industry leader in driving innovation in products and services. He currently also serves as the Chairman of Safaricom Foundation and sits in the board of TEAMS Limited.<br><br>Mr. Ogutu has had a dynamic career in the telecommunications industry spanning more than 25 years of which the last 12 have been at Executive Committee level. During this period, he was actively involved in the reform of the sector including the drafting of the Postal and Telecommunication Policy Paper that led to the restructuring of the defunct Kenya Posts and Telecommunications Corporation and subsequent establishment of CCK, Telkom Kenya and Postal Corporation of Kenya. He has also been involved in the establishment of the institutional framework for the Eastern Africa Submarine Cable System (Eassy).<br><br>Mr. Ogutu is a Kenyan citizen and a Graduate of Economics from the University of Nairobi. |
| **Stephen Chege**<br>Chief Corporate Affairs Officer | With a deep background in Regulatory and Legal affairs, Stephen Chege 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; Corporate Responsibility (incorporating the Safaricom and M-PESA Foundations as well as Sustainability Reporting); Corporate Communications; as well as International Carriers and Roaming functions.<br><br>Stephen has a wealth of experience spanning over 15 years in 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 Chief Corporate Affairs Officer.<br><br>An advocate of the High Court of Kenya, Stephen holds a Master of Laws (LL.M) Degree 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, where he nurtures his ambition to provide access to education for young, disadvantaged children. Stephen is currently a member of the Taskforce established under the Kenyan ICT Ministry to develop the Policy Framework and Critical Infrastructure Bill for the protection of critical ICT infrastructure. |

| Name | Skills and Experience |
|---|---|
| **Paul Kasimu**<br>Chief Human Resources Officer | Paul Kasimu is responsible for talent and organisational effectiveness. He is in charge of Talent Acquisition & Capability, Corporate Centers, Essential Services & Facilities, Health, Safety & Wellness and responsible for driving the Corporate Culture.<br><br>Paul joined Safaricom in July 2017 from East African Breweries where he was the Group HR Director since May 2011.<br><br>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.<br><br>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**<br>Chief Customer Officer | Sylvia Mulinge is currently the Chief Customer Officer, responsible for leading Safaricom's obsession on Customer Experience as a key differentiator of its overall company strategy. She is in charge of Consumer Business, Brand Marketing, Brand Experience, Digital Transformation, Sales & Distribution, Operations and Commercial Planning & Pricing.<br><br>She joined Safaricom in February 2006 from Unilever and rose from the role of Prepay Product Manager to Head of Retail, Director of Enterprise Business before transitioning to manage the Consumer Business as Director of Consumer Business, a role she held for 3 years before transitioning to her current role as Chief Customer Officer. She has held various leadership roles for the last 8 years.<br><br>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.<br><br>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, being named 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. |

# Senior management Profiles (continued)

| Name | Skills and Experience |
|---|---|
| **Nicholas Mulila**<br>Chief Corporate Security Officer | Nicholas Mulila is the Chief Corporate Security Officer at Safaricom PLC responsible for the Business Risk Management Strategy, Cyber Security Management, Revenue Assurance, AML/CTF Program, Insurance, Ethics & Compliance and Physical Security.<br>He joined Safaricom in 2001 as a Senior Management Accountant in the Finance Division and has risen steadily through the ranks to serve the ompany in various capacities including the positions of Principal Business Planning & Forecasting Accountant, Head of Corporate Strategy, Head of Commercial Planning & Pricing, Executive Business Analyst, Director Risk Management and currently Chief Corporate Security Officer.<br>Nicholas has 20 years' experience in Strategy Formulation and Execution, Financial Management, Business Analysis, Risk Management and Corporate Governance.<br>Prior to joining Safaricom, Nicholas had worked for General Motors (EA) and Eastern Produce (K) Ltd., where he held various positions in Finance.<br>Mr. Mulila holds a Master's of Business Administration Degree in Strategy, and a Bachelor of Commerce Degree (Accounting option) from the University of Nairobi. He is a Professional Accountant and Co. Secretary, a member of the Institute of Certified Public Accountants of Kenya (ICPAK) as well as the Institute of Certified Secretaries of Kenya (ICSK). He is also member of the American Society for Industrial Security International (ASIS) and a member of the Institute of Directors (Kenya). |
| **Rita Okuthe**<br>Chief Enterprise Business Officer | Rita Okuthe is the Chief Enterprise Business Officer at Safaricom PLC.<br>In her current role, Rita leads Safaricom's Enterprise transformation to deliver business platforms for corporates, SMEs and the public sector.<br>She joined Safaricom as Head of Consumer Segments, in August 2009 before being appointed Director of Marketing. In March 2015, she became Director of the company's Enterprise Business Unit, a position that has since been renamed Chief Enterprise Business Officer.<br>She is currently a Trustee of the Safaricom Foundation as well as SOS Children's Home in Kenya. She also serves on several boards including Kenya Pipeline, Mezzanine Group (a subsidiary of Vodacom SA) and Kenya Advertising Standards Board. She is a Women Corporate Directors (WCD) and a Sponsor of WIT (Women in Technology) at Safaricom PLC. Rita has a Degree in Economics and an MSc in Marketing. She has also been voted one of the Top 50 Global Chief Marketing Officers by the Global Telecoms Magazine for her extensive contributions in building the Safaricom brand and enhancing revenues.<br>Rita has a passion for empowering women and children through maternal and child health programs across the country, she enjoys reading as well as playing the piano. |

| Name | Skills and Experience |
|---|---|
| **Sitoyo Lopokoiyit**<br>Chief Financial Services Officer | Sitoyo Lopokoiyit joined Safaricom PLC on 1 April, 2018, having previously served as M-Commerce Director at Vodacom Tanzania PLC Ltd. from October 2015. As the Chief Financial Services Officer, he is responsible for growing M-PESA to a fully-fledged financial platform.<br>He is in charge of New Business Ventures, Product Management & Development for both Consumer and Enterprise. During his time at Vodacom, he oversaw the delivery of several transformative products and services; led the turnaround strategy and execution for M-PESA, which has resulted in an accelerated growth of M-PESA in Tanzania. Some of the initiatives he led include: delivery of G2 platform, the M-PESA App, interoperable transactions for both peer to peer transfers and merchant payments, business to business payments, M-PESA CVM and merchant payments. Prior to joining Vodacom Tanzania PLC, he was the Head M-PESA Strategy and Business Development at Safaricom.<br>Sitoyo has over 10 years' senior managerial experience from different fields including Oil & Gas (Chevron and Total Kenya Ltd.) and in the retail industry with Uchumi Supermarkets in Kenya. He has worked extensively in the East Africa Region as well as in Mauritius and Reunion.<br>Sitoyo holds a Bachelor of Commerce (Hons) Degree in Marketing from the University of Nairobi (2000) and an MSc in Information Technology Management and Organisational Change from Lancaster University in UK. |
| **Thibaud Rerolle**<br>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.<br>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 Prepatory School in France. Thibaud is married with children. He is fluent in 6 languages. |
| **Debora Mallowah**<br>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, responsibile 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.<br>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.<br>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. |

# Brand Assets Sponsorships

## SAFARICOM ATHLETICS SERIES

Safaricom Athletics Series is an initiative created to leverage on the Athletics properties that Safaricom has been supporting since inception. The series was launched in 2014 to cover track and field events, long distance races and relays.

The series brings together different athletics organisations governed by the National Athletics Federation; Athletics Kenya and is aimed at promoting the growth and nurturing of athletics talent countrywide. It is built on our promise of being a caring and trusted Kenyan brand and we strive to provide Kenyans with opportunities to grow themselves both individually and as a community and has been instrumental in growing the brand equity scores amongst the mass and youth segments.

### Events in the Series

1. Henry Wanyoike Road Race
2. Iten Road Race
3. Kisii Half Marathon
4. Mombasa International Marathon
5. Isaiah Kiplagat Memorial Ndalat Gaa Cross Country
6. Madoka Half Marathon
7. Imenti Road Race
8. Kisumu County Marathon
9. Kenya Police Track and Field Trials
10. Kenya Prisons Track and Field Trials
11. Deaf Championship Trials

Kenyan athletes are known worldwide for their prowess in the sport. As a brand, we continue to support their endeavors because we are optimistic of their and the nation's success.

Several household names have been discovered through the series. These include names like Daniel Kiptum the reigning gold medalist of the 2017 Deaf Half Marathon, Symon Kubai, the 10,000 & 5,000 metres gold medalist and Geoffrey Kamworor World Half Marathon Champion - 2014-2018.

Over KShs 370million has been invested in the asset since its inception and most of these funds have gone directly into prize money for the athletes.


*We have really benefited from the marathon funds. We normally use the Lewa funded schools for the adult learning since we don't have independent centres. The funds that we get from the Safaricom Marathon have really helped adult education grow." – Linet Mwendwa, Supervisor Lewa Adult Literacy Program*

## SAFARICOM MARATHON

Undoubtedly once of the rarest races worldwide, running among wild animals roaming freely, the Safaricom Marathon continues to play a big role in transforming lives.

The race comprises of 3 categories:

- The 5kms Children's fun run in 2 categories - 10 to 14 year olds & 15-17 year olds
- Safaricom Half Marathon - 21kms (Teams race)
- Safaricom Full Marathon - 42kms

The marathon's key focus has been to raise funds for wildlife protection and in the endeavor to support the communities living in and around the various conservancies supported by the funds.

Safaricom takes its stand and is empathetic to the plight of the community around it, given that dwindling wildlife numbers have a direct negative impact on our stakeholders hence the need for us to continuously play a part in conservation efforts. Since inception, the Safaricom Marathon has managed to raise over US$ 7,000,000 which has gone into wildlife conservation, construction and equipping of schools, provision of equipment at health facilities and engaging in sustainable harvest and use of water. The event has grown from 200 runners in 2000 raising US$ 50,000 to 1,400 runners raising an average of US$ 650,000 annually.

Three-time winner of the ladies full marathon category Ms. Frida Lodepa is a household name in Kenyan Athletics also having bagged a number of international titles including in the Penang and Kilimanjaro Marathons has featured in our own Safaricom Athletics Series. Philemon Baaru is a darling of the crowds and the current holder of the highest number of titles bagged under the Safaricom Marathon having won the title six times. Philemon hails from Naromoru area.

The Safaricom Marathon has had great impact on the communities around it including in:

- Protection of endangered species like the Grevy Zebra, the Leather Back Turtle Zebra and the Mountain Bongo
- Reduction of Rhino poaching in the rangelands from the new high-tech security systems
- 40,000 people accessing better healthcare
- 10,000 children accessing quality education
- 50,000 people annually benefitting from agroforestry, irrigation and infrastructure initiatives

On average, 500,000 lives are touched through the various initiatives.


*"This year, thanks to the funds from Safaricom, our goal is to distribute white canes to enhance mobility for visually impaired people. This will have a positive impact on their lives because they will be able to move around on their own in their places of work, business and school." - Henry Wanyoike, World Record Holder and Founder of the Henry Wanyoike Foundation*

# Brand Assets Sponsorships (continued)

## SAFARICOM TWAWEZA LIVE

In 2017, Safaricom launched a new brand positioning known as 'Twaweza.' The positioning was based on a strong insight about Safaricom's customers which is "Kenya is bubbling with possibilities and Kenyans are relentless in their pursuit for creating a better life for themselves and their families. However, they sometimes lack the opportunities and platforms to help them live out their passions." Safaricom brings technology that connects people to people, people to opportunity and people to knowledge. This, with the hope that it allows people to live their passions today and build lasting success for tomorrow.

Safaricom Twaweza Live, is as a regional transformational pillar that uses customer engagement, music and CSI (Community Social Investment), to bring to life the ethos of Twaweza. The approach taken was to target major towns and regions within Kenya and embark on a two-week takeover that brought elements of each pillar to life.

Under the pillar of customer engagement, we drove the ethos of people to knowledge as Safaricom packaged several product offers including device (mobile phone) offers and regional based data offers strictly geo-targeted to the region to enable our customers access modern device services.

Further to driving product offers, we drove customer experience through a regional service caravan that engaged customers and helped take services to some of the most remote and inaccessible areas of the country. This helped customers who had no access to our retail shops or care centres, get access to our services.

We also held customer engagement forums for our ringback tone service, SKIZA, that helps artists monetise their music and earn a living and taught upto 500 artists per region how they can put their music on the platform. To learn more about SKIZA, please click here: https://www.safaricom.co.ke/personal/get-more/entertainment/skiza.

Further to that and realising that agriculture is the largest contributor to our GDP as a country, we leveraged the Twaweza Live platform to engage the thousands of farmers in each region to learn about how they can get access to affordable quality inputs, loans and expanded markets, using DigiFarm - a product of Safaricom.

To learn more about DigiFarm, please click here: https://www.safaricom.co.ke/sustainabilityreport_2017/innovation/digifarm-and-connected-farmer/

Under the pillar of Community Social Investment, we drove the ethos of connecting people to opportunity, by carrying out free medical camps for our needy customers who otherwise had no access to quality affordable healthcare which is an issue in Kenya (insurance penetration is below 5%).

Together with the medical camps, executed in partnership with Diabetes Management Institute, we treated and diagnosed an average of 2,500 people per region and total of over 10,000 Kenyans across the year. The camps were able to treat and/or diagnose various ailments for needy customers including but not limited to diabetes, cancer screening, simple dental procedures, etc.

Under the pillar of music, we drove the ethos of connecting people to people and people to opportunities, by holding talent searches for dancers and musicians and putting together a large showcase concert that highlighted all the work done in the preceeding two weeks of Twaweza Live. In building up to the concert, we held a regional talent audition, where we identified upcoming musicians, MC's and instrumentalists.

Coupled to this, we also brought together the country's biggest artists and musicians and curated a live musical performance to cap off each regional engagement, that fused together performances of the local musicians identified at our talent auditions, with the national mega stars on the Twaweza Live platform.

The upcoming regional artists were also able to gain mentorship and record new music with their more seasoned idols. The artists and musicians were also used to engage customers within our Safaricom retail shops, as well as to take part in the medical camps.

In totality, a total of over 40 musicians and artists were empowered to perform on the platform and gain exposure.

*"Setbacks are temporary. Success is a matter of innate talent and being daring enough to take chances, without the fear of what others will say or think of you "*

*- Isaac Mwendia - Twaweza Live talent audition participant*

## CHAPA DIMBA NA SAFARICOM

Season 2 of the Chapa Dimba Na Safaricom is a national football tournament for male and female youth aged between 16-20 years. The aims of the tournament are 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 tournament was launched in July 2018 and run until June 2019, engaging approximately 1,500 boys and girl's teams from across the country with over 33,000 players taking part in the tournament and over 5,000 games played.

The winners of the tournament were rewarded with KShs 1,000,000 in prize money. Further to this, 32 high potential players (4 from every region) were scouted to take part in a 10-day training camp in Spain with tournament partners La Liga. The 10-day training camp took place in Barcelona and saw the squad train with La Liga coaches, as well as take part in games against tier 1 and tier 2 age grade La Liga teams. Beyond this, our Chapa Dimba All-Star players have already been taken up to play in the Kenya Premiere League this season. Ibrahim Ochieng who played for the winning team, Manyatta Boys, has been signed by Western Stima with many more signings in the offing! Of the 1,868 teams that took part, 282 were from Western Region, 482 were from Rift Valley, 258 were from Nyanza, 149 were from the Coast region, 192 were from Eastern, 144 were from North Eastern, 179 were from Central province and 182 teams came from Nairobi. Recruitment for the tournament took place from September 2018, with the grassroots tournament kicking off in October 2018. 8 regional finals built up to the Season 2 National Final played in Meru, at Kinoru Stadium. Manyatta Boys from Kisumu emerged victorious in the boy's final, while Kitale Queens pipped Acakoro Queens to emerge as the girls Season 2 winners.

# Brand Assets Sponsorships (continued)

## BLAZE BYOB

BLAZE, the youth network, was launched on 27th May 2016. The brand now has 3.7 million youth customers and was formed to cater to the needs of Kenyan youth. Specifically, BLAZE aims to empower young people through the provision of affordable products and services, as well as a mentorship and training platform known as Be Your Own Boss (BYOB).

Be Your Own Boss has been delivered through 3 key engagement points, namely:- BYOB Summits, BYOB Creation camps and the BYOB TV Show. The BYOB summits are large inspirational symposiums that aim to connect 18 young entrepreneurs and training partners, with young people who are on the journey to discovering their passion typically attracting up to 8,000 youth per event. The objective is to inspire youth to take up entrepreneurship, as well as engage with our training partners like Centonomy, Google and Wezesha for further training and empowerment opportunities. The BYOB Creation Camps, aim to then further train those with business ideas/fledgling business, on the basics of entrepreneurship, through a 3-day accelerator program. Through the TV Show, the best 12 contestants picked off the summits and creation camps to take part in a competitive entrepreneurship challenge reality format. So far, 24 contestants have taken part in the TV Show (12 in Season 1 and 12 in Season 2) – off a total of 1,800 applications for the TV Show in both years.

KShs 4.9m has been given out to businesses through the creation camps funding. KShs 16m has been given to the BYOB TV Show contestants across both Seasons, as well as training on self-development, personal branding and financial management. Season 2 winner, Brian Rono, is a successful farmer who has successfully began to harvest and sell potatoes on his farm in Eldoret, while former contestant Kelvin Musyoka, has successfully set up a fashion accessories line, Rembo International, that has supplied local clientele including the Embassy of Israel and PACE Africa among others, while internationally, he has showcased at the Africa Festival in the UK. In 2018, BLAZE BYOB engaged a total of 22,000 youth through mentorship summit events, and trained close to 700 youth at our 3-day creation camps using a specially designed entrepreneurship curriculum.

*"After participating in the show, I realised that my business idea is valid and that there are opportunities out here. I learnt the spirit of competitiveness, hard work and team work,"*
*- Kelvin Musyoka, Season 2 BYOB TV Show contestant*

## SAFARICOM YOUTH ORCHESTRA

The Safaricom Youth Orchestra was formed in 2014, with the aim to provide quality orchestral musical instruction to Kenyan school aged children aged 10-17 years drawn from different backgrounds to obtain skills necessary to become Kenya's next generation of professional musicians.

We have seen great strides made through the interactions to shape them into respectable members of the society through leadership development, music mastery and imparted social skills.

The orchestra has performed at the Safaricom International Jazz Festival alongside local and international Jazz artistes and pair with the Safaricom Choir annually to perform to an audience drawn from Safaricom customers to usher in the festive season.

*"It's been an amazing 5 years of service to the Safaricom Youth Orchestra. We've taught, mentored, networked and impacted on great young talents. So humbling to see a great bunch of them graduate every year for the last 5 years."*

*- Dr. Donald Otoyo*

# Brand Assets Sponsorships (continued)

## THE SAFARICOM CHOIR

The Safaricom Choir was formed in 2009 with an aim to provide an avenue for team building and morale boosting for employees interested in choral music.

Since its formation, the choir has grown from strength to strength in their music mastery displayed through performances at the Safaricom Classical Music Festivals, Groove Awards, Safaricom's Annual General Shareholders Meetings, solo performances and joint performances with the Safaricom Youth Orchestra. The Choir has hosted various music workshops moderated by internationally renown music scholars and taken part in corporate launches.

The interactions of the choir have seen a rise in positive outlook in its members manifested in:

· Reduced stress levels at work

· Increased productivity

· Stronger individual relationships

· Endurance and discipline

*"At the SAFARICOM Choir Concert at Oshwal Center...What a Choir! What a Setting! What an audience! This should be a GREAT show"*

*– Jeff Koinange*

## SAFARICOM JAZZ

Since its inception in February 2014, the Safaricom International Jazz Festival has evolved into an unmissable celebration of live music. Now in it's 6th year of existence, the Festival prides itself in bringing together talented musicians from all over the world and has played a significant role in nurturing the Kenyan jazz scene, making the genre more accessible to fans and bringing together music lovers for a good cause.

The 2018 week-long Jazz Festival that was headlined by Grammy award winning artist Marcus Miller. At the top of his game for over 30 years, Miller is the winner of the 2013 Edison Award for Lifetime Achievement in Jazz (Holland), winner of the 2010 Victoire du Jazz (France) and in 2013, was appointed a UNESCO Artist For Peace. The Festival also featured supporting performances from Kenyan guitarist Kato Change, Ghetto Classics (Kenya), the Safaricom Youth Orchestra (Kenya), Jazzrausch Bigband (Germany), Toine Thys Trio feat. Herve Samb (Belgium), Yazmin Lacey (United Kingdom), Viviane (Portugal) and the Omri Mor Trio (Israel).

Earlier in May (2018), we also celebrated the International Day of Jazz with Manu Dibango (Senegal) and a host of other leading Kenyan and African Artists.

But Jazz is about more than the music, dancing and laughter. All proceeds go towards supporting Ghetto Classics, a non-profit, community-based programme that seeks to transform the lives of youth from underprivileged backgrounds by introducing them to the world of live jazz and classical music. Over the past 6 years, close to KShs 80m has been raised for the Ghetto Classics program through the proceeds of the Festival and other Jazz related events. This has allowed the Ghetto Classics program to scale across 3 cities – Nairobi, Mombasa and Kisumu, engaging approximately 3,000 youth. Through the power of Safaricom Jazz, lives are being transformed one note and one beat at a time.

*"My brothers and I no longer live on the streets without shelter and food. Thanks to the support of the Ghetto Classics program, my siblings and I have a place to live, we are now in school and are learning how to play music with Ghetto Classics." – Kevin Obara, Beneficiary of Ghetto Classics*

# 05

## OUR ADMINISTRATION

# Notice and Agenda of the 2019 AGM

## TO ALL SHAREHOLDERS

Notice is hereby given that the Annual General Meeting of Safaricom PLC for the year 2019 will be held at Bomas of Kenya, Nairobi on Friday, 30 August 2019 at 11:00 a.m. to conduct the following business:-

### ORDINARY BUSINESS

1. To receive, consider and adopt the audited Financial Statements for the year ended 31 March 2019 together with the Chairman's, Directors' and Auditors' reports thereon.
2. Dividend

   a) To approve a final dividend of KShs 1.25 per share for the Financial Year ended 31 March 2019 as recommended by the Directors. The dividend will be payable on or about 30 November 2019 to the Shareholders on the Register of Members as at the close of business on 2 September 2019.

   b) To note that a special dividend of KShs 0.62 per share for the Financial Year ended 31 March 2019, as approved by the Directors on 2 May 2019 and payable from retained earnings, will be payable on or about 30 November 2019 to the Shareholders on the Register of Members as at the close of business on 2 September 2019.
3. Directors

   a) To re-appoint Dr. Bitange Ndemo who retires at this meeting in accordance with the provisions of Articles 90 and 91 of the Company's Articles of Association and being eligible, offers himself for re-election.

   b) To re-appoint Ms. Rose Ogega who retires at this meeting having been appointed in the course of the financial year and being eligible, offers herself for re-election.
4. In accordance with the provisions of Section 769 of the Companies Act, 2015, the following Directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:-

   - Dr. Bitange Ndemo
   - Mrs. Esther Koimett
   - Mr. Mohamed Joosub
   - Dr. Till Streichert
   - Ms. Rose Ogega
5. To approve the Directors' Remuneration Report and the remuneration paid to the Directors for the year ended 31 March 2019.
6. To note that Messrs PricewaterhouseCoopers continue in office as Auditors by virtue of Section 721 (2) of the Companies Act, 2015 and to authorise the Directors to fix the Auditors' remuneration for the ensuing financial year.
7. Any other business of which due notice has been given.

### SPECIAL BUSINESS

8. Change to the Company's Articles of Association
   To consider and if thought fit to pass the following resolution as a special resolution, as recommended by the Directors:-
   Article 89 (a) be amended by deleting the phrase 'ten (10)' and replacing it with the phrase 'eleven (11)' and to add the phrase 'a majority of' so that Article 89 (a) will read as follows:- "Unless and until otherwise from time to time determined by a special resolution of the Company, the number of Directors (excluding alternates) shall not be less than seven (7) nor more than eleven (11) in number and shall include independent non-executive directors a majority of who shall be of Kenyan citizenship."

BY ORDER OF THE BOARD

KATHRYNE MAUNDU (MS)

COMPANY SECRETARY

Date: 31 JULY 2019

**NOTES:**

(i) A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company. A form of proxy may be obtained from the Company's website www.safaricom.co.ke or at Safaricom House, Waiyaki Way, Westlands, Nairobi, or from any of the Safaricom shops countrywide.

(ii) In the case of a member being a corporate, the proxy form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.

(iii) All proxy forms should be sent by post to Image Registrars, P.O. Box 9287-00100, Nairobi. Alternatively, duly signed proxy forms can be scanned and emailed to info@image.co.ke in PDF format. Proxy forms must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting.

(iv) In accordance with Article 145 of the Company's Articles of Association, a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company's website (www.safaricom.co.ke) from 31 July 2019 or from the Registered Office of the Company i.e. Safaricom House, Waiyaki Way, Westlands, Nairobi. An abridged version of the Financial Statements for the year ended 31 March 2019 has been published with this notice.

(v) Registration of members and proxies attending the Annual General Meeting will commence at 7.00 a.m. on 30 August 2019. Production of a National Identity Card, a passport, a current Central Depository Statement of Account for shares held in the Company, or other acceptable means of identification will be required.

(vi) The preferred method of paying dividends which are below KShs 70,000 is through M-PESA. Shareholders who wish to receive their dividend through M-PESA and who have not registered for this mode of payment should contact Image Registrars, Mobile: +254 709 170000/ +254 709 170041; Email: info@image.co.ke or Safaricom PLC's Investor Relations Team (Tel: +254 427 6218/4233/4260; Mobile: +254 722 006218/4233/4260 or Email: investorrelations@safaricom.co.ke).

(vii) Transport will be provided to Shareholders on the day of the meeting from the Kenyatta International Conference Centre (KICC) parking bay to the Bomas of Kenya from 7.00 a.m. to 10.00 a.m. and back to the KICC parking bay after the close of the meeting.

# Corporate Information


## Registered Office
Safaricom House, Waiyaki Way, Westlands
P.O. Box 66827-00800, Nairobi
Telephone: +254 722 00 3272
Website: www.safaricom.co.ke

## Registrars
Image Registrars Limited
5th Floor, Barclays Plaza, Loita Street
P.O. Box 9287-00100, Nairobi
Telephone: +254 709 170 000
Email: info@image.co.ke
Website: www.image.co.ke

## Shareholder Related Issues
Telephone: +254 709 170 041
Email: safaricomshares@image.co.ke

## Investor Relations
Safaricom House, Waiyaki Way, Westlands
P.O. Box 66827-00800, Nairobi
Telephone: +254 722 00 6218/4233/4746
Email: investorrelations@safaricom.co.ke
Website: www.safaricom.co.ke/investorrelations

## Auditors
PricewaterhouseCoopers
PwC Tower, Waiyaki Way, Westlands
P.O. Box 43963-00100, Nairobi
Tel: +254 (20) 285 5000
Fax: +254 (20) 285 5001
Email: PwC.kenya@ke.PwC.com

# Proxy Form

I/We: ____________________________________________________________________________________________

Share A/c No.____________________________________________________________________________________

Of (address) _____________________________________________________________________________________

Being a member(s) of Safaricom PLC, hereby appoint ________________________________________________

Or failing him/her the duly appointed chairman of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company, to be held on Friday, 30 August 2019 and at any adjournment thereof.

As witness, I/We lay my/our hand(s) this ________________________________ day of _____________________ 2019

Signature ______________________________________________________

Signature ______________________________________________________

Signature ______________________________________________________

## NOTES:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a Limited Company, this form must be completed under its common seal or under the hand of an office or attorney duly authorised in writing.
3. Proxies must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting. All proxies should be sent by post to Image Registrars of P.O. Box 9287, 00100 Nairobi. Alternatively, duly signed proxies can be scanned and emailed to info@image.co.ke in PDF format.

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