04

OUR FINANCIALS

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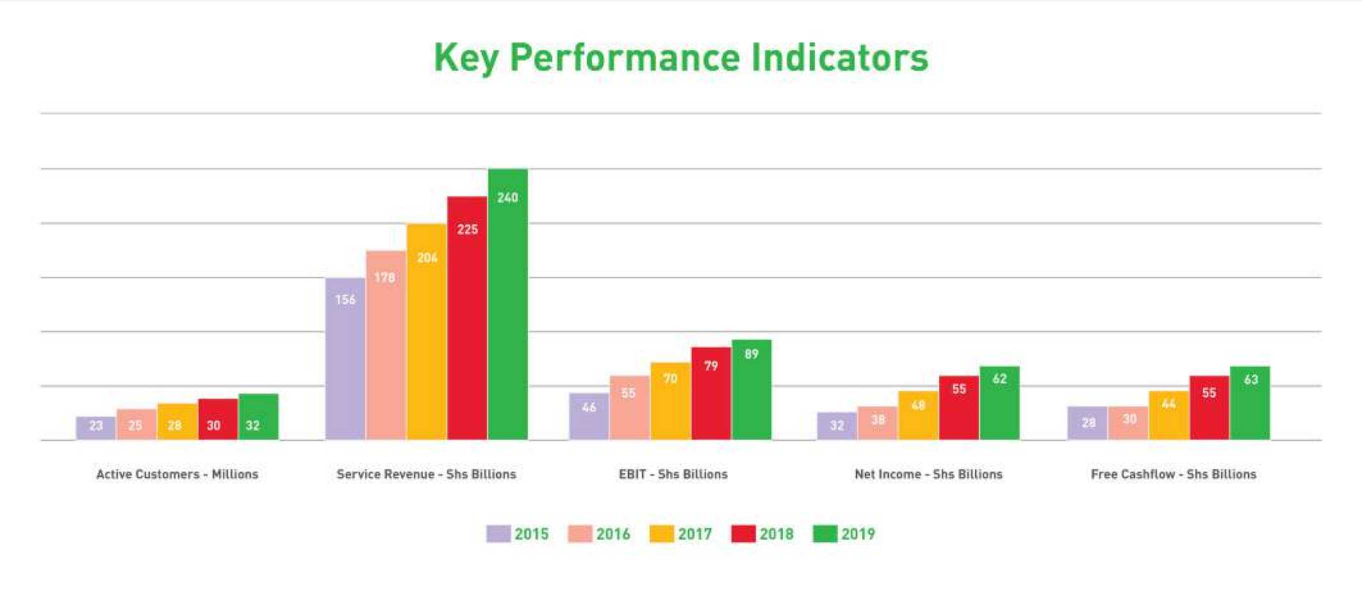
The directors submit their report together with the audited financial statements for the year ended March 31 2019 which disclose the state of affairs of Safaricom PLC (the "Company" or "Safaricom") and its subsidiaries (together, the "Group").

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. 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). 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. 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. 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. 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. 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. 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. 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. Further, we carry out proactive intelligence gathering, screening and security surveillance. 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. 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

Name	Salary	Directors' Fees	Bonus	Non- Cash Benefits	EPSAP*	Totals
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 The high volume of transactions and the multiple revenue streams make revenue recognition complex. 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. 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. 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. We tested revenue through a combination of controls testing and substantive audit procedures which included: • testing the design and operating effectiveness of the controls over the continued integrity of the IT systems that relate to revenue; • testing the IT general and application controls on the revenue billing systems and their interfaces with the general ledger; • 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; • 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; • 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 • 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 There are a number of areas where management judgement impacts the carrying value of network infrastructure assets and their respective depreciation profiles. These include: • the decision to capitalise or expense costs; • the annual asset life review, including the impact of changes in the Group's strategy; and • the timeliness of transfers from capital work in progress. 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. We checked the appropriateness of the useful lives of network infrastructure assets and related depreciation policies. On a sample basis, we tested the additions and the timing of capitalisation of network infrastructure assets by tracing to supporting documentation. We tested the aging and valuation of network infrastructure assets classified as capital work in progress at year end. We assessed the reasonableness of the carrying values of network infrastructure assets. 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.

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.

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

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#

Notes (Continued)

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.

Notes (Continued)

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.

Notes (Continued)

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.

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.

Notes (Continued)

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.

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**

Notes (Continued)

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	Between 1 and 5 years	Total
	KShs'm	KShs'm	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%

Notes (Continued)

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.

Notes (Continued)

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**

Notes (Continued)

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 KShs'm	2018 KShs'm	2019 KShs'm	2018 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**

Notes (Continued)

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%).

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	2018
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**

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**

Notes (Continued)

18. Property, plant and equipment (continued)

(a) Group (continued)

	Network infrastructure	Capital work in progress (CWIP)*	Network maintenance spares	Leasehold improvements	Vehicles & equipment	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	Leasehold 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**

Notes (Continued)

18. Property, plant and equipment (continued)

(b) Company (continued)

	Network infrastructure KShs'm	Capital work in progress (CWIP)* KShs'm	Network maintenance spares KShs'm	Leasehold improvements KShs'm	Vehicles & equipment KShs'm	Fibre KShs'm	Total KShs'm
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 KShs'm	SEACOM KShs'm	KPLC KShs'm	ETISALAT KShs'm	TATA KShs'm	EATCL KShs'm	Total 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**

Notes (Continued)

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

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**

Notes (Continued)

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	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 KShs'm	2018 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 KShs'm	2018 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 – 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 KShs'm	2018 KShs'm	2019 KShs'm	2018 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	**2018**
	KShs'm	**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**