06

OUR FINANCIALS

REPORT OF THE DIRECTORS
BUSINESS REVIEW

The directors submit their report together with the audited financial statements for the year ended 31 March 2021, which disclose the state of affairs of Safaricom PLC (the "Company" or "Safaricom") and its subsidiaries (together, the "Group").

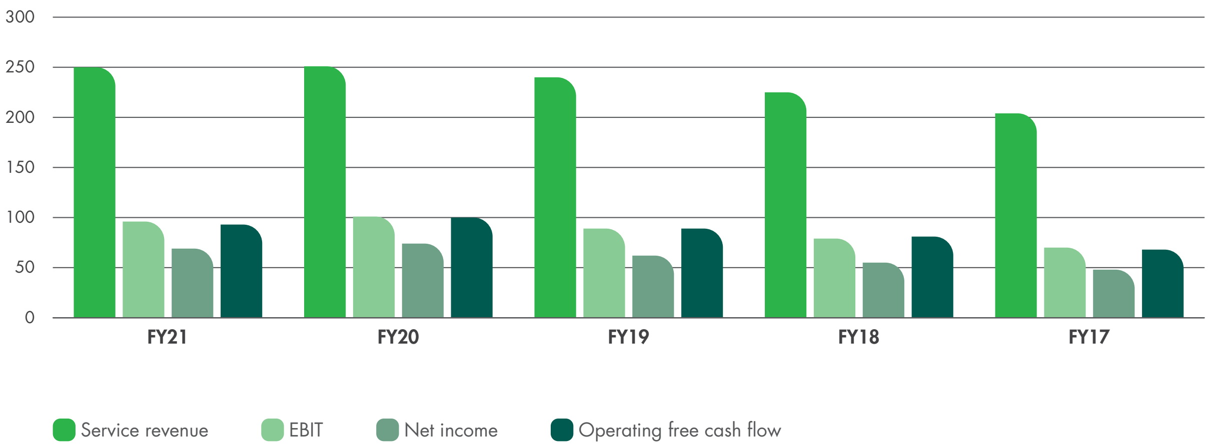
Business review

Safaricom purpose is to Transform Lives. We provide voice, data, financial services and enterprise solutions for a range of subscribers, small businesses, large corporates' and government institutions, using a variety of platforms. We have purposed to serve our customers in a Simple, Transparent and Honest manner.

Our corporate strategy is guided by four transformative pillars; Strengthen the Core, to be a financial services provider, win in select digital ecosystems and achieve cost leadership. These pillars will help us transform into a purpose-led technology company.

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

Key performance **indicators**
Amounts in KShs billions



	FY21	FY20	FY19	FY18	FY17
Service revenue	**250**	251	240	225	204
EBIT	**96**	101	89	79	70
Net income	**69**	74	62	55	48
Operating free cash flow	**93**	100	89	81	68

Service revenue declined 0.3% YoY in FY21, with a decline of 4.8% YoY in H1 FY21 and 4.0% growth in H2 FY21. Recovery in H2 was driven by return to charging on zero-rated M-PESA transactions in Q4, double-digit growth in mobile data, fixed data growth alongside growth in customers and usage. In the year, one-month active customers grew 9.9% YoY to 31.45 million adding 2.8 million customers to the base.

To cushion Kenyans from rapid transmission of the Coronavirus, guided and in collaboration with the Central Bank of Kenya, the industry waived fees on; Person to Person (P2P) transactions of KShs 1,000 and below, Bank to M-PESA wallet and M-PESA wallet to Bank transfers (C2B and B2C). In addition, we zero-rated paybills and tills for hospitals and dispensaries as well as Lipa na M-PESA transactions below KShs 1,000. This was lifted from 1 January 2021.

REPORT OF THE DIRECTORS
BUSINESS REVIEW continued

On resumption to charging, we reduced P2P transaction charges by upto 45% for low value transaction bands below KShs 7,500 and retained unlimited M-PESA Kadogo transactions. M-PESA wallet to Bank and Bank to M-PESA wallet (C2B and B2C) transactions continue to be free.

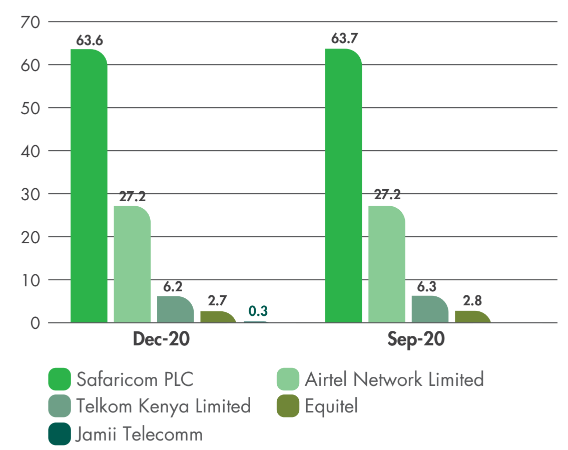
M-PESA revenue declined 2.1% YoY with a decline of 14.5% YoY in H1 FY21 and recorded significant recovery in H2 FY21 growing 10.1% YoY supported by resumption to charging from 1 January 2021. Total M-PESA transaction value grew 58.2% YoY to KShs 22.04 trillion while volume of transactions grew 29.8% YoY to 11.68 billion. The business added 3.4 million one-month active M-PESA customers up 13.6% YoY to 28.31 million in FY21 and M-PESA now accounts for 33.0% of service revenue.

Mobile data revenue grew 11.5% YoY sustaining the double-digit growth trend from prior year driven by sustained momentum in customer growth and usage. Distinct data bundle customers grew 12.4% YoY to 16.71 million while one-month active chargeable mobile data customers grew 2.1% YoY to 20.04 million. Active 4G devices grew 39.8% YoY to 8.5 million while data customers using more than 1GB in our network grew 31.1% YoY to 6.1 million.

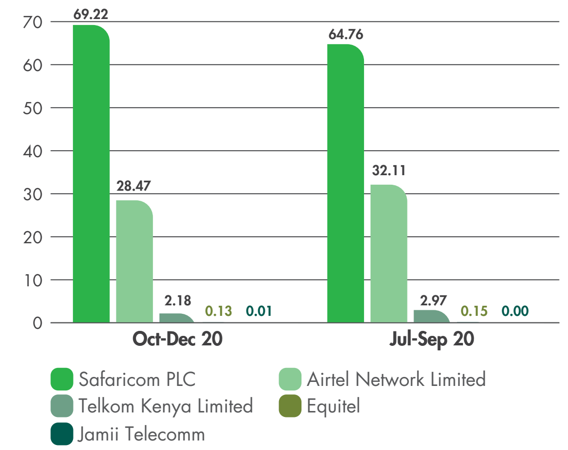
Fixed service and wholesale transit revenue grew 6.0% YoY to KShs 9.5bn, supported by growth in Fibre To the Home (FTTH) revenue which grew 49.1% YoY to KShs 3.5bn driven by working and schooling from home trends across our customers and increased penetration of homes connected which increased 15.6 percentage points (ppt) to 58.5% for the period. FTTH customers grew 31.5% YoY to 137.39k.

Capital expenditure in the network for the year ended March 31 2021 stood at KShs 34.96 billion with an investment of KShs 22.75 billion in H1 FY21 increasing 25.5% YoY and KShs 12.21 billion in H2 FY21 declining 32.1% YoY. Overall capex spend declined 3.2% YoY in FY21. We accelerated capital investment in H1 FY21 to meet increased demand for connectivity at the onset of the pandemic and will continue to efficiently enhance our network in support of growth of traffic and scaling into a digital IT network.

Market shares **in mobile**
Subscriptions per operator (%)



Local mobile **voice traffic**
By operator (market share) (%)



Source: CA, Operators' Returns

ICT industry/Sector statistics

The sector continued to perform well as per the information shared by the Communications Authority of Kenya (CA). A performance overview and trends of the ICT sector based on sector report for the second quarter of the 2020/21 released by CA the period 1 October to 31 December 2020, Safaricom Market share in mobile subscription declined slightly from 63.7% to 63.6%. However, Safaricom recorded a 4.46% growth in local mobile voice traffic to close at 69.22% in second quarter (October to December 2020).

In October 2020, we celebrated our 20th anniversary by renewing our commitment to our customers as we ushered in our third decade of growth. Through a brand campaign dubbed 'Twende Tukiuke', a callout to go beyond what is thought possible, we used the celebrations to showcase the power of mobile technology in transforming lives. The phrase is inspired by the resilience of Kenyans who wake up every day to make a positive impact on those around them.

REPORT OF THE DIRECTORS

BUSINESS REVIEW continued

In the past two decades, Safaricom has grown from a telecommunication service provider and is evolving to be a technology company. Our customers have been a key part of this journey. We are cognisant that technology can further support Kenya's economic growth, and this will be our launchpad for the next 20 years.

Our next phase of growth will be driven by a vision to become a purpose-led technology company by 2025. This will see us continue our innovation tradition and simplify our products and services in line with our FOR YOU brand promise. We will also continue to support the growth of SMEs and MSMEs, which are the engines of economic growth in our country, by offering enhanced financial services and connectivity solutions.

We continue to partner with communities across the country to bring their dreams to life in the areas of health, education and empowerment through our Safaricom and M-Pesa Foundations. We also continue to explore innovative partnership models which bring together philanthropy, strategic investments, shared value and issue-based advocacy for continued connection with communities.

The period under review was a challenging one by all accounts, for us as a business and for our society at large due to the COVID-19 crisis. Supporting our stakeholders build resilience as we emerge from the economic crisis brought about by the pandemic remains one of our key priorities.

We take our social and moral responsibility to manage our impacts very seriously. We recognise that environmental and social 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 (SDGs) we are committed to maximising our positive impact while mitigating our negative ones. We aim to achieve this through the continued alignment of our strategy and operations with our nine SDGs by;

- Leveraging our mobile technologies to transform lives by improving access to quality and affordable health care services and by promoting well being for all through product partnerships such as M-tiba and through our corporate social investments under our Safaricom and M-PESA Foundations. (SDG 3)
- Expanding access to education through innovative solutions, our network and through partnerships such as Shupavu 291, connectivity for schools and our various programmes under the Elimu pillar of our Safaricom and M-PESA Foundations. (SDG 4)
- Transitioning to use of clean energy at our sites and leveraging technology to provide clean energy solutions, including payment solutions for local and renewable energy solutions. To this end, we have committed to be a Net-zero emitting company by 2050. (SDG 7)
- Provide decent work within Safaricom and its broader ecosystem, including enforcing effective health and safety practices both internally and by suppliers while at the same time contributing to the local and national economy through innovative solutions to increase employment and facilitate economic activity amongst suppliers and clients. (SDG 8)
- Delivering connectivity and innovative products and services, that will provide unmatched solutions to meet the needs of Kenyans. (SDG 9)
- Reducing inequalities by enabling equal access to opportunities to everyone, especially to vulnerable groups, using Safaricom leadership, network, solutions and technology. (SDG 10)
- Manage our operations responsibly decreasing our environmental impact and promoting responsible behaviors among all our stakeholders. We have committed to eliminate single use plastics in our operations by 2025. (SDG 12)
- Manage our operations responsibly and ethically and fight corruption in all its forms. (SDG 16)
- Partner and build collective capacity of people, organisations and nations to promote and advance the SDGs. (SDG 17)

The focus areas during the year included:

- Net zero commitment by 2050 - so far, we have planted 750,000 trees as part of our commitment to grow 5 million trees in 5 years.
- Advocacy and thought leadership on sustainability and Sustainable Development Goals – We launched the Safaricom Sustainable Future Series which is a thought leadership platform for business leaders on various sustainability related issues.
- ISO 14001:2015 by British Standards Institute which we use to measure our performance against the requirements of the Environment Management Standards.
- Compliance – ensuring compliance with the relevant environmental regulations in order to secure licence for 5G.
- Supporting our stakeholders navigate through the challenges brought about by the COVID-19 crisis.

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

REPORT OF THE DIRECTORS
BUSINESS REVIEW continued

Our risk management framework

Safaricom remains 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 towards risk management is given, driving a positive risk culture across the organisation.

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 organisational arrangements for identifying, treating, reporting, monitoring, reviewing and continually improving risk management throughout the organisation.

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

Establishing the context

We begin by defining the external and internal parameters to be taken into account when managing risk and setting the scope and risk criteria for the risk management policy.

Our external context includes our external stakeholders, local, national, and international environment, and other external factors that influence our objectives. The internal context on the other hand includes our internal stakeholders, our approach to governance, our contractual relationships, our capabilities, culture, and standards.

IDENTIFY

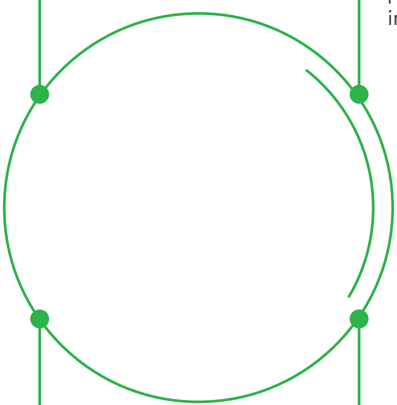
Risk assessments are conducted twice every year, in conjunction with the business units and other stakeholders.

We undertake ad hoc risk assessments that are necessitated by the ever-changing environment we operate in.

MEASURE

We have a standardized risk-scoring and categorisation process that makes reference to our risk appetite that has been set by the Board.

The measurement takes into account both the probability of occurrence and potential impact should the risk crystalise.



MANAGE

We manage risk by implementation of appropriate mitigations and controls to eliminate the risk or reduce the impact of likelihood of the risk.

Effectiveness of control and oversight is tested across the "three lines of defense"

MONITOR AND REPORT

We have adopted a continual and iterative process to monitor risks, effectiveness of controls and provision of continuous reporting to our Board and Executive Committee on how effectively risks are being managed.

Risk appetite statement

Safaricom recognises that risk is an integral part of creating value, as such we have developed processes to ensure all major risks are proactively managed. We will ensure that our customers get quality and reliable products and services by employing best practices across all touch points. We hold our management team, employees and business partners to the highest standards of integrity and will constantly ensure principles of good corporate governance are upheld.

REPORT OF THE DIRECTORS
BUSINESS REVIEW continued

Our principal risks and what we are doing about them

Our risk identification and mitigation processes have been designed to be responsive to the ever-changing environment that we operate in.

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

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

REGULATORY RISK

Opportunity

Enhanced collaboration with our regulators to ease some regulatory pressures while ensuring that satisfactory measures are taken to safeguard our customers and other stakeholders' interests.

Context	Mitigation
We operate in a complex and heavily regulated environment. A breach of these regulatory requirements could expose Safaricom to significant financial implications, reputational damage and/or suspension of our licence. The nature of products and services that we provide require that we comply with a wide range of rules and laws from our regulators namely Communications Authority of Kenya (CA), Competition Authority of Kenya (CAK) and Central Bank of Kenya (CBK).	We continue to build and maintain proactive and constructive relationships with the regulators and government, informed by a shared understanding of the need for inclusive economic development. Participating in industry forums and other policy forums as well as contributing to discussions on emerging legislation and regulations as we prepare to comply with the same. Our products and services are carefully and continuously monitored to ensure they do not contravene any regulations. Strengthened focus placed on ensuring robust governance processes and strong management of regulatory compliance in place.

SLOWED ECONOMIC GROWTH

Opportunity

The push for business reinvention to combat the challenging economic environment has resulted in positive innovations that not only cushion against the economic shocks but also creates products that meet our customers' needs, enhanced service offering to our customers and new market ventures.

Context	Mitigation
The negative Impact of COVID-19, inflationary pressures and the subdued agricultural production continued to characterise our economic environment. As a result of the pandemic, the economy continued to experience slowed business activities increased levels of unemployment and Inflation that resulted in reduced consumer purchasing power. It is projected that the economy will recover at a slow and gradual rate as more and more restrictions are lifted and businesses recover.	We continue to proactively monitor these factors, implement measures to mitigate the effects and cushion the business from adverse effects. Enhanced value propositions to cater for reduced purchasing power and providing the customer with ability to only spend what they have. We Include contingencies in our business plans to provide for the negative operational impacts that could arise from lower economic growth and changes in interest, inflation and exchange rates.

REPORT OF THE DIRECTORS
BUSINESS REVIEW continued

MARKET DISRUPTION

Opportunities

The competitive and disruptive environment has yielded innovations that are setting us apart, allows us to be agile and drive partnerships while providing our customers with world-class experience.

Context	Mitigation
In our shift from a more conventional telco to a digital services provider, we are facing strengthened competition both for customer and for digital talent from various nontraditional sources. Competition in the telecommunication industry is on the rise in terms of product and service offerings. Dynamic market needs, ever-changing consumer trends, entrance of new players in the market coupled with speed of new disruptive technologies have also intensified the competition with customer value proposition being the competitive edge. We face increased competition from a variety of new technology platforms, which aim to build alternative communication, which could potentially affect our customer relationships.	Our strategies to manage competition focus on growing and retaining our customers by; • Developing insights using big data into our customer's needs, wants and behaviors and provide propositions to lead in chosen segments. • Offering quality services and leveraging on strategic partnerships within different sectors to ensure we provide our customers with relevant products and services. • Embedding a purpose led culture that drives innovation and partnership. • We continue to be innovative and adopt an agile operating model to be able to respond rapidly to the ever-changing customers' needs. • 4G acceleration to provide our customers with quality service.

CYBER THREATS AND DATA PRIVACY RISK

Opportunity

Protecting our customers personal data is crucial to being a trusted provider and supporting our enterprise customers by providing managed security services to safeguard their business operations.

Context	Mitigation
An external cyberattack, insider threat or supplier breach (malicious or accidental) could cause service interruption or the loss of confidential data. Cyber threats could lead to major customer, financial, reputational and regulatory impact including potential costs associated with fraud and/or extortion. Implementation of the General Data Protection Regulations (GDPR) in 2018 as well as enactment of the Kenya Data protection Act 2019 continues to raise the bar on data protection. There are strong obligations placed on data controllers and processors requiring them to abide by principles of meaningful user consent, collection limitation, purpose limitation, data minimization and data security.	Robust cyber security controls complemented by the 24/7 Cyber Defense Center to ensure we safeguard the services that we offer. Our networks and infrastructure are built with security in mind with layers of security control applied to all applications and infrastructure. Our ISO 27001 Information Security Certification is an independent confirmation to our customers that we have implemented appropriate processes and controls relating to product and services to protect the privacy of their information. Data Protection Impact Assessment across our operations done in compliance with the Data protection Act. Dedicated team in place to handle customer privacy concerns. Ongoing proactive monitoring of access to customer data with real-time logging and monitoring to identify, prevent and respond to attempted data breaches.

REPORT OF THE DIRECTORS
BUSINESS REVIEW continued

TECHNOLOGY RESILIENCE

Opportunities

Extensive investment in a robust network architecture driven by customer need to ensure we meet customer expectations all the time. In addition, we have strong technology redundancies to minimize technology failures.

Context	Mitigation
Our customer value proposition is based on the reliable availability of our high-quality network. A major failure in critical network or information technology assets for example, through natural disasters, insufficient preventative maintenance, or malicious attack would have a profound impact on our customers.	Invest in maintaining and upgrading our network on an ongoing basis, with comprehensive business continuity and disaster recovery plans in place. Investments to ensure adequate redundancy capabilities and elimination of any single point of failure.

INSECURITY & TERRORISM

Opportunities

Our existing community interactions has embedded our brand creating a sense of ownership and protection. Our collaborations with government and other agencies to combat crime and insecurity enable us to take part in creating a better environment for all.

Context	Mitigation
Increased general insecurity due to COVID-19 and slowed economic growth and continued terror threats on our assets leading to service disruptions and increased cost of operations.	Continuous intelligence gathering and taking relevant actions. Continuous collaboration with Ministry of Interior, Kenya Defense Forces (KDF) for security operations support.

PARTNERSHIP MANAGEMENT AND 3RD PARTY RISK

Opportunities

The growing supplier base through innovations is creating an array of alternatives within our market space safeguarding our supplier resiliency model.

Context	Mitigation
We are increasingly engaging in strategic partnerships to drive our goals. The third-party exposure may lead to third-party risks such as reputational, health and safety, compliance and financial.	We have implemented a holistic risk management processes to identify, assess, and mitigate third-party risks. We have a refined partnership model and an overarching partnership management framework that oversees our supply chain and partnership resiliency.

RESULTS AND DIVIDEND

The profit for the year is KShs 68,676 million (2020: KShs 73,658 million) and has been added to retained earnings.

During the year, an interim dividend of KShs 0.45 per Ordinary share amounting to KShs 18.03 billion (2020: KShs Nil) was declared. At the annual general meeting to be held on 30 July 2021, a final dividend in respect of the year ended 31 March 2021 of KShs 0.92 per Ordinary share amounting to a total of KShs 36.86 billion is to be proposed for approval. This brings the total dividend for the year to KShs 54.89 billion (2020: KShs 56.09 billion) which represents KShs 1.37 per share in respect of the year ended 31 March 2021 (2020: KShs 1.40 per share).

REPORT OF THE DIRECTORS
DIRECTORS

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

Name	Representing	Nationality	Date of Appointment
Michael Joseph[1]	Chairman and Non-Executive Director	Kenyan/American	8 September 2008
Nicholas Nganga[1]	Chairman and Non-Executive Director	Kenyan	6 May 2004
Peter Ndegwa	Chief Executive Officer (CEO) and Executive Director	Kenyan	1 April 2020
Dilip Pal	Chief Finance Officer and alternate to the CEO	Indian	1 November 2020
Permanent Secretary (PS), National Treasury[2]	Non-Executive Director	Kenyan	1 August 2020
Prof. Dulacha Galgalo Barako[2]	Alternate to PS, National Treasury	Kenyan	1 August 2020
Cabinet Secretary (CS), National Treasury[2]	Non-Executive Director	Kenyan	10 February 2021
Christopher Kirigua[2]	Alternate to CS, National Treasury	Kenyan	10 February 2021
Esther Koimett[2]	Alternate to CS, National Treasury	Kenyan	5 November 2013
Francesco Bianco	Non-Executive Director	Italian	20 March 2020
Linda Muriuki	Non-Executive Director	Kenyan	31 August 2017
Mohamed Joosub	Non-Executive Director	South African	31 August 2017
Bitange Ndemo	Independent Director	Kenyan	2 March 2017
Rose Ogega	Independent Director	Kenyan	2 March 2017
Till Streichert[3]	Non-Executive Director	German	8 May 2018
Sitholizwe Mdlalose[3]	Non-Executive Director	British	29 July 2020
Raisibe Morathi[3]	Non-Executive Director	South African	1 November 2020
Winnie Ouko[3]	Independent Director	Kenyan	10 February 2021

1 Michael Joseph was appointed as the Chairman of the Board with effect from 1 August 2020. Nicholas Nganga retired as a Director and Chairman of the Board with effect from 1 August 2020.
2 The CS, National Treasury was appointed as a Non-Executive Director of the company effective 10 February 2021. The PS, National Treasury ceased to be a Director of the Company with effect from 10 February 2021.
2 Ms Esther Koimett retired as an Alternate Director to the Cabinet Secretary, National Treasury with effect from 1 August 2020.
2 Christopher Kirigua was appointed as alternate Director to the CS, National Treasury with effect from 10 February 2021. Prof. Dulacha Galgalo Barako ceased from being the alternate Director to the PS, National Treasury with effect from 10 February 2021.
3 Till Streichert ceased to be a Director in the Company with effect from 30 June 2020.
3 Sitholizwe Mdlalose, Raisibe Morathi and Winnie Ouko were appointed as Directors within the current financial year as indicated in the table above.

REPORT OF THE DIRECTORS

DIRECTORS continued

STATEMENT AS TO DISCLOSURE TO THE GROUP'S AND COMPANY'S AUDITOR

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

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

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

TERMS OF APPOINTMENT OF THE AUDITOR

The term of audit engagement of Messrs Ernst and Young LLP began in the current financial year's audit work following their appointment by the Shareholders as the Company's auditor in accordance with the provisions of Section 721 of the Kenyan Companies Act, 2015. This was done with effect from the conclusion of the Annual General Meeting of the Company that was held on 30 July 2020.

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.

By order of the Board

Ms Kathryne Maundu
Company Secretary
12 May 2021

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 Group and 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 12 May 2021 and signed on its behalf by:

Michael Joseph
Chairman and Non-Executive Director

Peter Ndegwa
Chief Executive Officer

DIRECTORS' REMUNERATION REPORT
INFORMATION NOT SUBJECT TO AUDIT

The Company's Board composition as at 31 March 2021 is as below:

Name	Representing	Nationality	Date of Appointment
a) Seven Non-Executive Directors			
Michael Joseph	Chairman and Non-Executive Director	Kenyan and American	1 August 2020 (as Chairman)
Cabinet Secretary (CS), National Treasury	Non-Executive Director	Kenyan	10 February 2021
Christopher Kirigua	Alternate to CS, National Treasury	Kenyan	10 February 2021
Francesco Bianco	Non-Executive Director	Italian	20 March 2020
Linda Muriuki	Non-Executive Director	Kenyan	31 August 2017
Mohamed Joosub	Non-Executive Director	South African	31 August 2017
Sitholizwe Mdlalose	Non-Executive Director	British	29 July 2020
Raisibe Morathi	Non-Executive Director	South African	1 November 2020
b) Three Independent Non-Executive Directors			
Bitange Ndemo	Independent Non-Executive Director	Kenyan	2 March 2017
Rose Ogega	Independent Non-Executive Director	Kenyan	12 February 2019
Winnie Ouko	Independent Non-Executive Director	Kenyan	10 February 2021
c) Two Executive Directors			
Peter Ndegwa	Chief Executive Officer (CEO) and Executive Director	Kenyan	1 April 2020
Dilip Pal	Chief Finance Officer and alternate to the CEO	Indian	1 November 2020

Non-Executive Directors' remuneration

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

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

The below is the current agreed fees and allowances structure:

- Annual Directors fees paid to the Chairman of the Board agreed at KShs 5,700,000 per annum (2020: KShs 5,700,000 per annum);
- Annual Directors fees paid to each Non-Executive Director agreed at KShs 2,200,000 per annum (2020: KShs 2,200,000);
- Sitting allowance payable to the Chairman of the Board retained at KShs 85,000 per meeting (2020: KShs 85,000);
- Sitting allowance payable to the Chair of a Committee retained at KShs 74,150 per meeting (2020: KShs 74,150);
- Sitting allowance payable to each Non-Executive Director retained at KShs 60,000 per meeting (2020: KShs 60,000).

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

The annual 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.

DIRECTORS' REMUNERATION REPORT
INFORMATION NOT SUBJECT TO AUDIT continued

Executive Director's remuneration

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

Besides 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 no 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 30 July 2020, voting was done by the ballot to approve the Directors' Remuneration Report.

The results of the vote were as below:

Agenda	Vote	Total votes	As a percentage of the total votes cast
Directors' Remuneration report	For	34,369,504,910	99.969%
	Against	5,192,045	0.015%
	Spoilt Votes	–	–
	Withheld	5,512,947	0.016%
Total		**34,380,209,902**	100%

At the Annual General Meeting scheduled to be held on 30 July 2021, the Directors' Remuneration Report for the year ended 31 March 2021 will be presented to the Shareholders for approval.

DIRECTORS' REMUNERATION REPORT
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 31 March 2021 and comparative figures for the year ended 31 March 2020.
The aggregate Directors' emoluments are shown in Note 31(iii).

Directors' remuneration for the year ended 31 March 2021

Executive Directors

Name	Salary KShs'm	Directors' fees KShs'm	Bonus KShs'm	Non-cash benefits KShs'm	EPSAP* KShs'm	Total KShs'm
Peter Ndegwa	102.30	–	90.00	9.24	–	201.54
Sateesh Kamath	31.23	–	5.61	6.89	2.79	46.52
Michael Joseph	–	–	127.57	–	–	127.57
Dilip Pal	29.19	–	20.00	5.75	–	54.94
Total	**162.72**	**–**	**243.18**	**21.88**	**2.79**	**430.57**
Non-executive Directors						
Nicholas Nganga	–	5.20	–	0.05	–	5.25
Michael Joseph	–	6.17	–	0.13	–	6.30
Bitange Ndemo	–	4.06	–	0.01	–	4.07
Rose Ogega	–	5.64	–	0.15	–	5.79
Linda Muriuki	–	3.85	–	0.05	–	3.90
Mohamed Joosuub	–	3.22	–	–	–	3.22
Esther Koimett	–	1.08	–	0.05	–	1.13
National Treasury	–	2.20	–	–	–	2.20
Till Streichert	–	1.28	–	–	–	1.28
Francesco Bianco	–	3.22	–	–	–	3.22
Dulacha Galgalo Barako	–	0.60	–	–	–	0.60
Christopher Kirigua	–	0.06	–	0.02	–	0.08
Winnie Ouko	–	–	–	–	–	–
Sitholizwe Mdlalose	–	1.70	–	–	–	1.70
Raisibe Morathi	–	0.43	–	–	–	0.43
Total	**–**	**38.71**	**–**	**0.46**	**–**	**39.17**
Grand Total	**162.72**	**38.71**	**243.18**	**22.34**	**2.79**	**469.74**

* EPSAP – Employee Performance Share Award Plan.

DIRECTORS' REMUNERATION REPORT
INFORMATION SUBJECT TO AUDIT continued

Directors' remuneration for the year ended 31 March 2020

Executive Directors

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

* EPSAP – Employee Performance Share Award Plan.

On behalf of the Board

Ms. Linda Muriuki
Ag. Chairperson, Board Nominations and Remuneration Committee
12 May 2021

REPORT OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF SAFARICOM PLC

Opinion

We have audited the accompanying consolidated and separate financial statements of Safaricom PLC (the ''Company'') and its subsidiaries (together, the ''Group'') set out on pages 160 to 234, which comprise the consolidated and separate statements of financial position as at 31 March 2021 and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Safaricom PLC as at 31 March 2021, and its consolidated and separate financial performance and consolidated and separate 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 Consolidated and Separate Financial Statements section of our report.

We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' Code for Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of financial statements of the Group and Company and in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits of the Group and the Company and in Kenya. 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 consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

The Key Audit Matter applies equally to the audit of the consolidated and separate financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Revenue recognition – occurrence, completeness and measurement of recorded revenue given the complexity of products, systems and IFRS 15: Revenue from contracts with customers. The occurrence and accuracy of amounts recorded as revenue is an inherent industry risk due to the complexity of the billing systems arising from changes in products and plans – including multiple element arrangements, the number of products sold and the tariff structure changes during the year.	• We understood and tested the design and operating effectiveness of management's controls over the transfer of revenue information between the multiple systems involved in recording revenue; • We tested the controls in place over the authorisation of rate changes and a review of the new products recorded in the billing systems;

REPORT OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF SAFARICOM PLC continued

Key Audit Matters continued

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
The application of the revenue recognition accounting standard IFRS 15: Revenue from contracts with customers, requires the use of complex rating, billing and accounting systems. The complexity is compounded by the significant number of revenue transactions that are accounted for on an annual basis. We therefore considered revenue recognition to be a matter of most significance to our current year audit. The significant accounting policies and detailed disclosures on revenue recognition are included in Note 2(e) – Revenue recognition, Note 5(a) – Revenue from contracts with customers and Note 29(b) – Contract liabilities disclosures.	• We involved our internal IT audit specialists to test the IT general and key automate controls of the rating and billing environments, as well as assessed the completeness of the relevant revenue reports utilised for audit purposes; • We obtained understanding and tested management's key controls over the transfer of revenue information between the multiple systems involved in recording revenue; • We tested the end-to-end reconciliation from rating and billing systems to the journals processed in the general ledger; • We performed analytical review procedures over significant revenue streams by identifying the drivers that resulted in changes year on year to establish detailed monthly and annual expectations. Where movement were outside our precision level set, we performed substantive audit procedures; • We performed a three-way correlation between revenue, deferred revenue, trade receivables and cash; • We reviewed the reconciliation of the aggregate of the prepaid and hybrid customers per the charging system to the deferred revenue balance; • We selected and tested a sample of enterprise revenue contracts and assessed, in line with the requirements of IFRS 15: Revenue from contracts with customers, that contracts with customers were valid, that performance obligations were agreed by both parties and that revenue was appropriately recognised; • We tested the standalone selling prices as input into the system and agreed the logic behind the standalone selling prices to the relevant IFRS 15: Revenue from contracts with customers, requirements; • We tested management reconciliations for interconnect/ roaming revenue to third party confirmations; • We tested a sample of journal entries, processed in relation to non-standard revenue including manual ERP journals by reviewing supporting documentation to ensure that the journals were supported by an underlying business rationale, were accounted for correctly, in the correct period and appropriately authorised; and • We examined and assessed the accounting policies applied and disclosures in terms of the recognition of revenue for compliance with IFRS 15: Revenue from contracts with customers and industry guidance.

REPORT OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF SAFARICOM PLC continued

Other matter

The consolidated and separate financial statements of Safaricom PLC for the year ended 31 March 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 April 2020.

Other Information

The Directors' are responsible for the other information. The other information comprises Report of the Directors', Statement of Directors' responsibilities, Directors' remuneration report and the appendices which we obtained prior to the date of this report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date. Other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon, other than that prescribed by the Kenyan Companies Act, 2015, as set out below.

In connection with our audit of the consolidated and separate 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 consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and Company'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 and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 and Company'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 and Company'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 consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements continued

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 consolidated and separate 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, actions taken to eliminate threats or related safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate 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

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

i) in our opinion, the information given in the report of the directors on pages 142 to 150 is consistent with the consolidated and separate financial statements.

ii) in our opinion, the auditable part of directors' remuneration report on page 152 to 155 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Allan Gichuhi practicing certificate number 1899.

For and on behalf of Ernst & Young LLP

Certified Public Accountants

Nairobi, Kenya

12 May 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	GROUP 2021 KShs'm	GROUP 2020 KShs'm	COMPANY 2021 KShs'm	COMPANY 2020 KShs'm
Revenue from contracts with customers	5(a)	**261,462.3**	260,463.8	**259,296.3**	259,078.7
Revenue from other sources	5(b)	**2,564.2**	2,091.9	**3,153.4**	2,326.8
Total revenue		**264,026.5**	**262,555.7**	**262,449.7**	**261,405.5**
Direct costs	6(a)	**(80,852.8)**	(75,284.9)	**(80,334.1)**	(75,468.7)
Expected credit losses on financial assets	6(b)	**(3,009.7)**	(1,669.6)	**(3,863.7)**	(1,418.7)
Other expenses	7	**(46,034.8)**	(47,559.7)	**(45,168.6)**	(47,023.1)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**134,129.2**	**138,041.5**	**133,083.3**	**137,495.0**
Depreciation of property and equipment	18	**(32,624.5)**	(31,964.8)	**(32,570.4)**	(31,925.3)
amortisation – Indefeasible Rights of Use (IRUs)	19	**(406.5)**	(301.0)	**(406.5)**	(301.0)
amortisation – intangible assets	21	**(1,628.5)**	(1,359.1)	**(1,628.1)**	(1,358.0)
amortisation – Right of Use (ROU) assets	22(a)	**(3,304.8)**	(2,922.8)	**(3,304.8)**	(2,922.8)
Operating profit		**96,164.9**	**101,493.8**	**95,173.5**	**100,987.9**
Finance income	8	**2,198.4**	3,518.8	**2,177.0**	3,494.5
Finance cost	9	**(4,220.8)**	(2,596.6)	**(4,405.5)**	(2,585.5)
Share of (loss)/profit of associates	23(b)	**(192.9)**	60.9	**(192.9)**	60.9
Share of (loss)/profit of joint venture	23(b)	**(314.1)**	3,296.1	**(314.1)**	3,296.1
Profit before income tax		**93,635.5**	**105,773.0**	**92,438.0**	**105,253.9**
Income tax expense	12(a)	**(24,959.3)**	(32,115.1)	**(24,481.4)**	(31,969.7)
Profit for the year attributable to the owners of the Company		**68,676.2**	**73,657.9**	**67,956.6**	**73,284.2**
Other comprehensive income		**–**	–	**–**	–
Total comprehensive income for the year attributable to the owners of the Company		**68,676.2**	**73,657.9**	**67,956.6**	**73,284.2**
Basic and diluted earnings per share (KShs per share)	13	**1.71**	**1.84**	**1.70**	**1.83**

STATEMENT OF FINANCIAL POSITION

	Notes	GROUP 2021 KShs'm	GROUP 2020 KShs'm	COMPANY 2021 KShs'm	COMPANY 2020 KShs'm
Share capital	14	**2,003.3**	2,003.3	**2,003.3**	2,003.3
Share premium	14	**2,200.0**	2,200.0	**2,200.0**	2,200.0
Retained earnings		**96,571.8**	82,785.2	**94,105.6**	81,038.6
Proposed dividend	15	**36,860.2**	56,091.6	**36,860.2**	56,091.6
Total equity		**137,635.3**	**143,080.1**	**135,169.1**	**141,333.5**
Non-current liabilities					
Payables and accrued expenses	28(a)	**–**	985.4	**–**	985.4
Contract liabilities	29(b)	**2,436.1**	983.4	**2,436.1**	983.4
Provisions for liabilities	28(b)	**3,151.4**	–	**3,151.4**	–
Lease liability	22(b)	**11,954.2**	11,675.3	**11,954.2**	11,675.3
		17,541.7	**13,644.1**	**17,541.7**	**13,644.1**
Total equity and non-current liabilities		**155,177.0**	**156,724.2**	**152,710.8**	**154,977.6**
Non-current assets					
Deferred income tax	17	**5,467.2**	1,104.7	**5,465.8**	937.4
Property and equipment	18	**133,833.7**	129,337.2	**133,519.3**	128,968.7
Right of use (ROU) assets	22(a)	**14,762.8**	15,242.9	**14,762.8**	15,242.9
Indefeasible rights of use (IRUs)	19	**2,845.6**	3,252.1	**2,845.6**	3,252.1
Investment property	20	**845.0**	845.0	**845.0**	845.0
Intangible assets	21	**8,475.5**	6,026.2	**8,471.5**	6,021.8
Investment in subsidiaries	23(a)	**–**	–	**431.3**	431.3
Investment in associates and joint venture	23(b)	**4,458.2**	4,965.1	**4,458.2**	4,965.1
Loan to subsidiary	31(x)	**–**	–	**236.2**	–
Contract assets	29(a)	**1,491.2**	881.7	**1,491.2**	881.7
Restricted cash	26(b)	**1,982.0**	1,911.7	**1,982.0**	1,911.7
Deferred restricted cash asset	26(c)	**558.7**	836.1	**558.7**	836.1
		174,719.9	**164,402.7**	**175,067.6**	**164,293.8**
Current assets					
Net cash and cash equivalents	26(a)	**26,736.1**	26,759.7	**26,035.9**	25,859.7
Other financial assets	27	**–**	188.6	**–**	–
Receivables and prepayments	25	**22,347.9**	17,190.3	**20,225.5**	16,801.9
Inventories	24	**2,487.0**	1,859.4	**2,441.2**	1,793.1
Current income tax	12(b)	**7.2**	260.4	**–**	251.8
Loan receivable from related party	31(x)	**1,287.8**	–	**1,287.8**	–
Contract assets	29(a)	**3,043.4**	2,563.8	**3,043.4**	2,563.8
		55,909.4	**48,822.2**	**53,033.8**	**47,270.3**

STATEMENT OF FINANCIAL POSITION continued

	Notes	GROUP 2021 KShs'm	GROUP 2020 KShs'm	COMPANY 2021 KShs'm	COMPANY 2020 KShs'm
Current liabilities					
Payables and accrued expenses	28(a)	**34,021.4**	29,920.1	**34,068.4**	30,153.8
Current income tax	12(b)	**260.3**	112.9	**151.6**	–
Borrowings	16	**14,772.0**	8,000.0	**14,772.0**	8,000.0
Dividend payable	15	**8,684.1**	1,045.1	**8,684.1**	1,045.1
Lease liability	22(b)	**4,119.5**	3,549.4	**4,119.5**	3,549.4
Provisions for liabilities	28(b)	**2,561.5**	4,462.3	**2,561.5**	4,462.3
Contract liabilities	29(b)	**11,033.5**	9,410.9	**11,033.5**	9,375.9
Total current liabilities		**75,452.3**	**56,500.7**	**75,390.6**	**56,586.5**
Net current liabilities		**(19,542.9)**	**(7,678.5)**	**(22,356.8)**	**(9,316.2)**
		155,177.0	**156,724.2**	**152,710.8**	**154,977.6**

The financial statements on pages 160 to 234 were approved for issue by the Board of Directors on 12 May 2021 and signed on its behalf by:

Chairman and Non-Executive Director

Michael Joseph

Chief Executive Officer

Peter Ndegwa

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2020	Notes	Share capital KShs'm	Share premium KShs'm	Retained earnings KShs'm	Proposed dividend KShs'm	Total equity KShs'm
At start of year		2,003.3	2,200.0	65,218.9	74,922.4	144,344.6
Profit for the year		–	–	73,657.9	–	73,657.9
Transactions with owners:						
Dividend:						
– Total final and special dividend for 2019	15	–	–	–	(74,922.4)	(74,922.4)
– Proposed final dividend for 2020	15	–	–	(56,091.6)	56,091.6	–
		–	–	(56,091.6)	(18,830.8)	(74,922.4)
At end of year		**2,003.3**	**2,200.0**	**82,785.2**	**56,091.6**	**143,080.1**
Year ended 31 March 2021						
At start of year		**2,003.3**	**2,200.0**	**82,785.2**	**56,091.6**	**143,080.1**
Profit for the year		**–**	**–**	**68,676.2**	**–**	**68,676.2**
Transactions with owners:						
Dividend:						
– Declared final dividend for 2020	15	**–**	**–**	**–**	**(56,091.6)**	**(56,091.6)**
– Interim dividend declared	15	**–**	**–**	**(18,029.4)**	**–**	**(18,029.4)**
– Proposed final dividend for 2021		**–**	**–**	**(36,860.2)**	**36,860.2**	**–**
		–	**–**	**(54,889.6)**	**(19,231.4)**	**(74,121.0)**
At end of year		**2,003.3**	**2,200.0**	**96,571.8**	**36,860.2**	**137,635.3**

COMPANY STATEMENT OF CHANGES IN EQUITY continued

Year ended 31 March 2020	Notes	Share capital KShs'm	Share premium KShs'm	Retained earnings KShs'm	Proposed dividend KShs'm	Total equity KShs'm
At start of year		2,003.3	2,200.0	63,846.0	74,922.4	142,971.7
Profit for the year		–	–	73,284.2	–	73,284.2
Transactions with owners:						
Dividend:						
– Total final and special dividend for 2019	15	–	–	–	(74,922.4)	(74,922.4)
– Proposed final dividend for 2020	15	–	–	(56,091.6)	56,091.6	–
		–	–	(56,091.6)	(18,830.8)	(74,922.4)
At end of year		**2,003.3**	**2,200.0**	**81,038.6**	**56,091.6**	**141,333.5**
Year ended 31 March 2021						
At start of year		**2,003.3**	**2,200.0**	**81,038.6**	**56,091.6**	**141,333.5**
Profit for the year		**–**	**–**	**67,956.6**	**–**	**67,956.6**
Transactions with owners:						
Dividend:						
– Declared final dividend for 2020	15	**–**	**–**	**–**	**(56,091.6)**	**(56,091.6)**
– Interim dividend declared	15	**–**	**–**	**(18,029.4)**		**(18,029.4)**
– Proposed final dividend for 2021		**–**	**–**	**(36,860.2)**	**36,860.2**	**–**
		–	**–**	**(54,889.6)**	**(19,231.4)**	**(74,121.0)**
At end of year		**2,003.3**	**2,200.0**	**94,105.6**	**36,860.2**	**135,169.1**

STATEMENT OF CASH FLOWS

	Notes	GROUP 2021 KShs'm	GROUP 2020 KShs'm	COMPANY 2021 KShs'm	COMPANY 2020 KShs'm
Cash flows from operating activities					
Cash generated from operations	30(a)	**132,551.8**	139,604.2	**132,866.4**	138,635.6
Movement in restricted cash		**180.1**	(67.9)	**180.1**	(67.9)
Interest received		**1,566.7**	2,940.9	**1,547.0**	2,917.1
Income tax paid	12(b)	**(28,921.2)**	(32,114.6)	**(28,606.4)**	(31,845.9)
Net cash generated from operating activities		**105,377.4**	110,362.6	**105,987.1**	109,638.9
Cash flows from investing activities					
Purchase of property and equipment		**(35,568.4)**	(36,098.5)	**(35,568.4)**	(36,087.5)
Proceeds from disposal of property and equipment		**84.6**	69.8	**84.6**	70.6
Acquisition of intangible assets	21	**(4,077.8)**	–	**(4,077.8)**	–
Disposal of other financial assets	27	**188.6**	7,854.4	**–**	7,866.8
Loan to joint venture		**(1,288.7)**	–	**(1,288.7)**	–
Investment in associates and joint venture		**(0.1)**	(1,457.8)	**(0.1)**	(1,457.8)
Net cash used in investing activities		**(40,661.8)**	(29,632.1)	**(40,850.4)**	(29,607.9)
Cash flows from financing activities					
Dividend paid	15	**(66,482.0)**	(73,877.3)	**(66,482.0)**	(73,877.3)
Repayment of lease liabilities – principal	22(b)	**(2,550.6)**	(2,509.4)	**(2,550.6)**	(2,509.4)
Repayment of lease liabilities – interest	22(b)	**(1,324.0)**	(1,233.4)	**(1,324.0)**	(1,233.4)
Interest paid		**(1,154.6)**	(348.8)	**(1,135.9)**	(347.6)
Proceeds from short-term borrowings	16	**44,970.0**	20,132.0	**44,970.0**	20,132.0
Repayments of short-term borrowings	16	**(38,198.0)**	(16,164.0)	**(38,198.0)**	(16,164.0)
Loan to subsidiary		**–**	–	**(240.0)**	–
Net cash used in financing activities		**(64,739.2)**	(74,000.9)	**(64,960.5)**	(73,999.7)
Increase in cash and cash equivalents		**(23.6)**	6,729.6	**176.2**	6,031.3
Movement in cash and cash equivalents					
At start of year		**26,759.7**	20,030.1	**25,859.7**	19,828.4
Increase in cash and cash equivalents		**(23.6)**	6,729.6	**176.2**	6,031.3
At end of year*	26(a)	**26,736.1**	**26,759.7**	**26,035.9**	**25,859.7**

* 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
PO Box 66827-00800
Nairobi

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

For Kenya Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and 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 for investment property that has been measured at fair value.

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.

New and amended standards

The following amendments became effective during the period:

New standards or amendments	Effective for annual period beginning on or after
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
COVID-19 - Related Rent Concessions (Amendments to IFRS 16)	1 June 2020

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(a) Basis of preparation continued

These amendments and interpretations apply for the first time in the period, but do not have an impact on the financial statements of the Group and Company. Below are the new standards or amendments which affect the Group and the Company:

COVID-19-Related Rent Concessions (Amendments to IFRS 16)
On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no significant impact on the financial statements of the Group and Company.

Amendments to IAS 1 and IAS 8 Definition of Material
The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no significant impact on the Group and Company financial statements.

Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework.

The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the Group and Company.

Standards issued but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are listed below:

New standards or amendments	Effective for annual period beginning on or after
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	1 January 2022
AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
AIP IAS 41 Agriculture – Taxation in fair value measurements	1 January 2022
IFRS 17 Insurance Contracts	1 January 2023
Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)	To be determined

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The following standards and interpretations are expected to affect the Group and Company financial statements when they become effective.

2 Summary of significant accounting policies continued

(a) Basis of preparation continued

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group and Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group and Company is currently assessing the impact of these amendments.

(b) Consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 March 2021. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it has power over the investee, when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date in which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively. When the proportion of the equity held by non-controlling interests' changes, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The Group

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(b) Consolidation continued

recognises directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

(ii) Investment in associates

Associates are all entities over which the Group has significant influence but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. This is generally the case where the Group holds between 20% and less than 50% of the voting rights of the entity. In assessing existence of significant influence, the Group considers among other parameters whether there is:

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

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

Investments in associates are accounted for using the equity method of accounting. The initial investment is recognised at cost of acquisition and any share of profit or loss from the investment is reflected as changes in the value of the investment. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

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. Dividend received or receivable from associates are recognised as a reduction in the carrying amount of the investment. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

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) Investment in joint ventures

The Group assesses its joint arrangements to determine whether they are joint ventures or joint operations. A joint venture arises from a joint arrangement where the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The resultant share of operational results, assets and liabilities of joint ventures are incorporated in the consolidated annual financial statements from the date on which the Group has joint control and derecognised on the date when the Group ceases to have such control. Upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(b) Consolidation continued

(iv) Separate financial statements

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

(c) Segment reporting

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

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(e) Revenue recognition

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

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

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

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

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

The Group accounts for a contract with a customer only when:

(i) There is evidence of an arrangement,

(ii) The Group can identify each party's rights regarding the goods and services to be transferred,

(iii) The contract has commercial substance and collectability is reasonably assured.

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(e) Revenue recognition continued

The transaction price is allocated between performance obligations based on relative standalone selling prices as determined at contract inception.

Since the timing and classification of revenue recognised for a contract will often be dependent on the standalone selling prices that are identified for each performance obligation, the determination of standalone selling prices is critical.

The standalone selling price of a performance obligation is the observable price for which the good or service is sold by the Group in similar circumstances to similar customers. If a standalone selling price is not directly observable, then it is estimated. Estimations consider all relevant facts and circumstances and maximise the use of observable inputs.

Customers typically pay in advance for prepay mobile services and monthly for other communication services. Customers typically pay for handsets and other equipment either up-front at the time of sale or over the term of the related service agreement.

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

Voice and SMS revenue

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

The headline voice tariff for prepay customers is called Uwezo and Advantage tariff for Postpay customers. The on-net and off-net rate is KShs 4.3 per minute during the peak hours (8:00 am to 10:00 pm) and KShs 2.2 per minute 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.

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

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 vary 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

(e) Revenue recognition continued

Data revenue

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

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

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

The validity of purchased but 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. Like voices and SMS, the Group introduced no expiry data bundles dubbed Neo data, the new data tariff now allows customers to buy data for any amount they wish.

The Group has in place My Data Manager, a tool that gives subscribers power to control data bundle usage and allows them to restrict browsing out of bundle which enables them to take control of their browsing and internet usage.

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

The price charged is based on the bandwidth and speed contracted by the customer. The price is charged upfront for a standard period of 30 days and the customer can renew the subscription by making a payment. The amount charged is deferred and 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, FLEX, Songa Music App and Platinum products under this category.

All in One monthly bundles are available to all Safaricom customers (prepay, postpaid and hybrid) and they have a simplified journey that seeks to offer the consumer the best choice for 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 bundle have a validity of 30 days.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(e) Revenue recognition continued

Integrated bundles continued

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# or downloading the App from Google Play store. There are affordable daily, weekly and monthly propositions available and subscribers will be required to utilise their mobile data bundle resources to stream and download the songs. Normal mobile data rates will apply.

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

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

The price charged on these bundles is deferred on purchase and 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 partnership with Kenya lenders, NCBA and KCB Bank, the Group operates 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.

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

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

The partnership is part of Safaricom's contribution to attainment of the Sustainable Development Goals, particularly goals 3, 4, 7, 8, 9, 10, 12, 16 and 17.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(e) Revenue recognition continued

M-PESA revenue continued

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

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

Other service revenue

This includes access fees charged on emergency top up service when a customer borrows airtime (Okoa Jahazi) and data bundles (Okoa Data) with the debt being repayable within five days. It also includes 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.

Loyalty programme

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

The Group has in place the 'Bonga everywhere' scheme where subscribers can 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.

Costs to obtain a contract (Contract assets)

Contract assets relate to cost of SIM card and Connection commissions payable to dealers for acquiring customers on behalf of the Group. These are recognised as contract assets in the statement of financial position when the related payment obligation is recorded. Contract assets are then amortized over the customer life as determined by the Group. The contract assets are subject to impairment. Refer to Note 2(i).

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.

The Group is responsible for the overall development of the project and identifies various goods and services to be provided, including design work, procurement of materials, site preparation and foundation pouring, framing and plastering, mechanical and electrical work, installation of fixtures and finishing work. In such contracts, the Group determined that the goods and services are not distinct and generally accounts for them as a single performance obligation. As per the terms of construction contract, the Group has determined that control is transferred over time. As such revenues from construction is recognized over time.

Construction costs incurred are accumulated under inventory work in progress until when they are billed.

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(e) Revenue recognition continued

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.

Miscellaneous income

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

(f) Property and equipment

All categories of property and equipment are initially recorded at cost. Following initial recognition, property and equipment are carried at cost, net of accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

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

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

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

The assets residual values, useful lives and methods of depreciation 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 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.

The carrying amount of an item of property and equipment is derecognized on disposal; or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property and equipment is included in profit or loss when the item is derecognized. The gain or loss from the derecognition is calculated as the net disposal proceeds (usually income from sale of item) less the carrying amount of the item.

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.

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 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.

2 Summary of significant accounting policies continued

(f) Property and equipment continued

Asset Retirement Obligations continued

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

Where the impact is material, the provision, as originally established, should be discounted using the appropriate discount rate. This discount should be unwound through the finance cost in the income statement over the period to the lease termination date.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

(g) Investment property

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

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

An investment property is 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 profit or loss and other comprehensive income in the period in which the property is de-recognised.

(h) Intangible assets – Network licenses

Separately acquired trademarks and licenses are measured on initial recognition at cost. Following initial recognition, they are carried at cost, net of accumulated amortization and accumulated impairment losses, if any. 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. Currently Safaricom Plc is licenced under the Unified Licence Framework which is technology and service neutral.

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.

Safaricom has the following licences:

- 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.

In addition, Safaricom has the following spectrum licences:

- Spectrum licence 2G (900, 1800 MHz) licence;
- Spectrum licence 3G (2100 MHz) licence;
- Spectrum licence (3500 MHZ) licence;
- 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 under the Unified Licensing Framework for a period of 10 years and will expire in June 2024. The 3G licence will expire in June 2022. The 4G Licence was issued in 2016 and will expire in 2026.

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(h) Intangible assets – Network licenses continued

Licence fees are amortised on a straight-line basis over the life of the licence. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

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

The following licence is also in place:

Subscription Broadcasting Licence issued by Communication Authority of Kenya on 16 July 2019 to Comtec Integration Systems Limited valid for 10 years.

(i) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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 cost of disposal – and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(j) Accounting for leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over of the lease term.

The right-of-use assets are also subject to impairment. Refer to Note 2(i) and Note 22 (a).

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable). In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

2 Summary of significant accounting policies continued

(j) Accounting for leases continued

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments.

The Group's lease liabilities are shown in Note 22(b).

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of sites, shops, facilities and secondees/expatriates houses (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of sites, shops, facilities and secondees/expatriates houses that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(k) Financial assets

Initial recognition

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

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.

Classification

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.

Subsequent measurement

After initial recognition, financial assets are measured 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.

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(k) Financial assets continued

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 reporting date, those which management has the express intention of holding for less than 12 months from the reporting 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 the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset or when the Group has no reasonable expectations of recovering the asset.

(l) Indefeasible rights of use

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

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

(m) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the weighted average method. The cost of inventories comprises purchase price and other costs incurred in bringing each product to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

(n) Payables and accrued expenses

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

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Payables are derecognised when the obligation under the liability is discharged or cancelled or expires or when an existing financial liability is replaced by another from the same lender on substantially different terms.

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(o) Share capital

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

Ordinary shares represent the residual economic value of a Company. They carry rights to distribution of profits through dividend, 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.

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(p) Cash and cash equivalents

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

(q) Restricted cash

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

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

The restricted cash is initially measured at fair value using discounted cash flow method. The discount rate used is based on 70 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.

(r) Employees benefits

(i) Retirement benefit obligation

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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due.

(ii) Termination benefits

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

(iii) Other entitlements

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

(s) Share-based payments

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

The process of EPSAP includes the Group purchasing shares from the market pro-rata to vesting period and then issuing the same to eligible employees after a 3-year vesting period at no cost. The shares are purchased through a Trust and held until the end of the vesting period. The cost of purchase is charged to profit or loss.

(t) Current and deferred income tax

The income tax expense for the year comprises current and deferred tax. Income tax is 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 reporting 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.

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(t) Current and deferred income tax continued

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 reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(u) Borrowings

Borrowings are recognised initially at fair value including transaction costs and subsequently stated at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Any differences between proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings. Borrowings are derecognised when the obligation under the liability is discharged or cancelled or expires or when an existing financial liability is replaced by another from the same lender on substantially different terms.

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. The rate used to determine the amount of borrowing costs eligible for capitalisation is the EIR of the specific borrowing. There were no borrowing costs capitalized during the year.

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

(v) Dividend distribution

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

(w) 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.

(x) Comparatives

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year. Refer to Note 22(b) on lease payments split between interest and principal and Note 5(a) Revenue from contracts with customers.

3 Critical accounting estimates and judgements

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

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Income taxes

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 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 (f) above.

IFRS 16 leases

The key areas where estimates and judgement were applied included the interpretation of the requirements to determine the contracts containing leases and separating the lease and the non-lease components of a contract, the determination of the incremental rate of borrowing and the decision to exercise the extension or termination options while determining the lease term. See further details under Note 2 (j), Note 22(a), and Note 22 (b).

Valuation of Bonga points

The price attributed to the awarded Bonga points is determined by historical redemption information. The length of historical period used to determine the price is set by management and is based on previous redemptions rates on airtime, data, SMS or merchandise.

If the value per point was ±2% higher/lower, there would be a decrease/ increase in profit before tax of KShs 77.8 million respectively (2020: KShs 67 million).

NOTES TO THE FINANCIAL STATEMENTS continued

3 Critical accounting estimates and judgements continued

(i) Critical accounting estimates and assumptions continued

Provisions

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

Expected credit losses

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

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

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

- The classification of financial assets, contract assets and liabilities;
- Whether assets are impaired;
- The average customer life; Customer life is based on the average churn period of the customers from the network;
- Impact of application of IFRS 16 – Leases; and
- Impact of application of IFRS 9 – Financial instruments
- 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.
- Changes in the economic environment – Management assessed the impact of the COVID-19 pandemic on the fair value of the Group's financial assets and financial liabilities including any possible impairment of assets. Based on the assessments, management is not aware of any material uncertainties related to these events or conditions that may affect the fair value Group's financial assets and financial liabilities. Refer to note 34 for further COVID-19 pandemic disclosures.
- Assessment of significant influence over an associate – The Group considers that it has significant influence over Circle Gas Limited though it owns less than 20% of the voting rights of the company because of the following reasons:
  - (i) The Group has one Non-Executive Directors' slot in Circle Gas board where Safaricom PLC has one reserved board seat so long as a Trademark Licence and Brand Management Co-operation Agreement made remains in force and Safaricom PLC remains a holder of ordinary shares.
  - (ii) The associate uses Safaricom PLC's trademarks as per agreement in return for a royalty fee agreement and interchange of managerial personnel between the entities.
  - (iii) The associate is riding on Safaricom's network to guarantee connectivity to its smart meters.

(iii) Critical judgement on going concern

The Group's current liabilities exceed its current assets by KShs 19.5bn (2020 net current liabilities position: KShs 7.7bn) at the statement of financial position date as shown on page 167 to 168. For items that significantly impact the net working capital, refer to Notes 24 to 29.

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

- Unused airtime and data bundles by prepaid customers of KShs 2.6bn (2020: 2.5bn). Prepaid airtime when sold to customers is held as a liability in the statement of financial position (deferred revenue) until the customer uses it, at which point revenue is recognized by reducing the liability and reporting revenue. Based on its nature, there are no expected cash outflow since its reduction is based on usage rather than actual cash outflow.

3 Critical accounting estimates and judgements continued

(iii) Critical judgement on going concern continued

- Loyalty points earned by customers (Bonga points) of KShs 4.2 billion (2020: KShs 3.9 billion). Loyalty points are earned when a customer uses a Safaricom service including use of airtime, data or M-PESA. These points are valued and accumulated into the customer account until such a time when the customer opts to redeem the points against merchandise (devices including handsets, accessories and merchandise from appointed Bonga everywhere outlets) or non-merchandise (free airtime and data bundles). Based on its nature, there are no expected cash outflow since its reduction is based on usage rather than actual cash outflow.
- Unutilised resources by the customers of KShs 3.1 billion (2020: KShs 2.1 billion). The Group applies IFRS 15 – Revenue from Contracts with Customers in accounting for bundled resources. During the year the Group introduced the no expiry products under the Neo theme to ensure customers get value for what they buy. As a result, the value of unutilised resources increased sitting as subscriber liability as at 31 March 2021 went up in line with IFRS 15 revenue recognition requirements. Based on its nature, there are no expected cash outflow since its reduction is based on usage rather than actual a cash settlement.

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

Further, the Group finances its long-term projects with short term debt. In the year ended 31 March 2021, the Group borrowed KShs 44.97 billion and repaid KShs 38.19 billion. The outstanding loan amount of KShs 14.77 billion is due for payment by July 2021, and dividend payable of KShs 7.2 billion is due in April 2021. Management is confident that sufficient funds will be available and accessible to meet obligations as they fall due.

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

Based on this, management has assessed that the Group and Company will continue as a going concern. Refer to Note 34 for further COVID-19 pandemic disclosures.

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 manages 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 and non-derivative financial instruments and investing excess liquidity.

Financial assets and financial liabilities have been carried at amortised cost.

Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. 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 by holding adequate foreign currency reserves to meet future cash flow requirements.

The Group does not have any derivative instruments.

If there was a 10% change in the shilling against the US dollar during the year, with all other variables held constant, the pre and post-tax profit for the year would have been KShs 5.9 million and KShs 4.1 million respectively for company (2020: KShs 16.4 million and K Shs 11.5 million) lower/higher, and KShs 126 million and KShs 88 million for Group mainly as a result of US dollar denominated cash and bank balances, receivables and payables.

NOTES TO THE FINANCIAL STATEMENTS continued

4 Financial risk management continued

If there was a 10% change in the shilling against the Euro during the year with all other variables held constant, consolidated pre and post-tax profit for the year would have been KShs 33 million and KShs 23.8 million (2020: KShs 109.4 million and KShs 76.6m) lower/higher, mainly as a result of increased Euro denominated creditors balances. There is no significant difference between Group and Company Euro sensitivity.

The Group's exposure to foreign currency changes for all other currencies is not material.

(ii) Interest rate risk

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

A 100-basis points fluctuation in interest during the year (2020: 100 basis points) would have resulted in a net decrease/increase in consolidated pre and post-tax profit of KShs 153.2 million and KShs 107.3 million respectively (2020: KShs 375.7 million and KShs 263 million).

Credit risk

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

Cash at bank, government securities and deposits with financial institutions

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

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Category 1	**15,864.7**	8,820.8	**15,864.7**	8,632.2
Category 2	**9,043.7**	10,084.9	**8,852.9**	10,019.8
Category 3	**1,832.4**	8,042.6	**1,321.5**	7,207.7
	26,740.8	**26,948.3**	**26,039.1**	**25,859.7**

The Group has used the general approach for measuring the loss allowance for cash at bank, government securities and deposits with financial institutions. No collateral is held on any of the cash at bank, government securities and deposits with financial institutions.

Management has assessed the expected credit losses on cash at bank, government securities and deposits with financial institutions. The loss allowance as at 31 March 2021 are shown in Note 26(a).

Other receivables

Management has assessed the expected credit losses on the other receivables. The loss allowance as at 31 March 2021 are shown in Note 25.

The Group has used the simplified approach or general approach where applicable for measuring the loss allowance for other receivables. In the general approach, the expected credit loss model is based on external ratings for the institutions while for the simplified approach, the Group has established a provision matrix that is based on its historical credit loss experience. No collateral is held on any of the other receivables.

Due from related parties

The Group has used the simplified approach or general approach where applicable for measuring the loss allowance for due from related parties. In the general approach, the expected credit loss model is based on external ratings for the institutions while for the simplified approach, the Group has established a provision matrix that is based on its historical credit loss experience.

No collateral is held on any of the receivables from related parties. The loss allowance as at 31 March 2021 are disclosed in Note 31.

NOTES TO THE FINANCIAL STATEMENTS continued

4 Financial risk management continued

Credit risk continued

Trade receivables

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

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

Postpay debtors comprise 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

4 Financial risk management continued

Credit risk continued

The loss allowance as at year end was determined as shown below for trade receivables.

	GROUP			
At 31 March 2021	**0 – 30 days KShs'm**	**31 – 90 days KShs'm**	**Over 91 days KShs'm**	**Total KShs'm**
Trade receivables	**10,596.2**	**1,086.3**	**4,822.3**	**16,504.8**
Expected credit loss rate	**3.571%**	**54.304%**	**90.152%**	**–**
Loss allowance	**378.4**	**589.9**	**4,347.4**	**5,315.7**
At 31 March 2020				
Trade receivables	7,780.3	971.5	2,099.6	10,851.4
Expected credit loss rate	5.004%	41.195%	97.124%	–
Loss allowance	**389.3**	**400.2**	**2,039.2**	**2,828.7**

	COMPANY			
At 31 March 2021	**0 – 30 days KShs'm**	**31 – 90 days KShs'm**	**Over 91 days KShs'm**	**Total KShs'm**
Trade receivables	**9,043.0**	**1,077.6**	**4,706.0**	**14,826.6**
Expected credit loss rate	**3.888%**	**54.139%**	**89.779%**	**–**
Loss allowance	**351.6**	**583.4**	**4,225.0**	**5,160.0**
At 31 March 2020				
Trade receivables	7,067.1	971.5	2,099.6	10,138.1
Expected credit loss rate	3.777%	41.190%	97.125%	–
Loss allowance	**266.9**	**400.2**	**2,039.2**	**2,706.3**

NOTES TO THE FINANCIAL STATEMENTS continued

4 Financial risk management continued

Credit risk continued

Trade receivables continued

A detailed assessment of the trade receivables as shown below:

	GROUP		
At 31 March 2021	**Gross carrying amount KShs'm**	**Expected credit loss KShs'm**	**Net carrying amount KShs'm**
Dealers	**179.7**	**(5.7)**	**174.0**
Post-pay	**3,144.8**	**(1,078.6)**	**2,066.2**
Roaming and interconnect	**2,954.7**	**(1,312.0)**	**1,642.7**
Other trade receivables	**10,225.6**	**(2,919.4)**	**7,306.2**
Total trade receivables	**16,504.8**	**(5,315.7)**	**11,189.1**
At 31 March 2020			
Dealers	82.5	(1.0)	81.5
Post-pay	2,781.9	(851.1)	1,930.8
Roaming and interconnect	2,488.3	(664.0)	1,824.3
Other trade receivables	5,498.7	(1,312.6)	4,186.1
Total trade receivables	**10,851.4**	**(2,828.7)**	**8,022.7**

	COMPANY		
At 31 March 2021	**Gross carrying amount KShs'm**	**Expected credit loss KShs'm**	**Net carrying amount KShs'm**
Dealers	**179.7**	**(5.7)**	**174.0**
Post-pay	**3,144.8**	**(1,078.6)**	**2,066.2**
Roaming and interconnect	**2,954.7**	**(1,312.0)**	**1,642.7**
Other trade receivables	**8,547.4**	**(2,763.7)**	**5,783.7**
Total trade receivables	**14,826.6**	**(5,160.0)**	**9,666.6**
At 31 March 2020			
Dealers	82.5	(1.0)	81.5
Post-pay	2,781.9	(851.1)	1,930.8
Roaming and interconnect	2,488.3	(664.0)	1,824.3
Other trade receivables	4,785.4	(1,190.2)	3,595.2
Total trade receivables	**10,138.1**	**(2,706.3)**	**7,431.8**

Collateral held on the trade receivables as at 31 March 2021 is KShs 219.2m. (2020. KShs 243.0m). The collaterals relate to bank guarantees issued by dealers on dealer receivables. There is no concentration risk on trade receivables or revenue.

NOTES TO THE FINANCIAL STATEMENTS continued

4 Financial risk management continued

Credit risk continued

Maximum credit exposure

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

	GROUP		
At 31 March 2021	**Gross carrying amount KShs'm**	**Expected credit loss KShs'm**	**Net carrying amount KShs'm**
Cash at bank, government securities and deposits with financial institutions	**26,740.8**	**(4.7)**	**26,736.1**
Trade receivables	**16,504.8**	**(5,315.7)**	**11,189.1**
Due from related parties	**2,475.4**	**(17.4)**	**2,458.0**
Other receivables	**4,087.5**	**(30.4)**	**4,057.1**
Total	**49,808.5**	**(5,368.2)**	**44,440.3**
At 31 March 2020			
Cash at bank, government securities and deposits with financial institutions	26,948.3	–	26,948.3
Trade receivables	10,851.4	(2,828.7)	8,022.7
Due from related parties	1,511.0	(11.7)	1,499.3
Other receivables	4,202.6	–	4,202.6
Total	**43,513.3**	**(2,840.4)**	**40,672.9**

	COMPANY		
At 31 March 2021	**Gross carrying amount KShs'm**	**Expected credit loss KShs'm**	**Net carrying amount KShs'm**
Cash at bank, government securities and deposits with financial institutions	**26,039.1**	**(3.2)**	**26,035.9**
Trade receivables	**14,826.6**	**(5,160.0)**	**9,666.6**
Due from related parties	**2,874.3**	**(911.7)**	**1,962.6**
Other receivables	**3,973.8**	**(21.1)**	**3,952.7**
Total	**47,713.8**	**(6,096.0)**	**41,617.8**
At 31 March 2020			
Cash at bank, government securities and deposits with financial institutions	25,859.7	–	25,859.7
Total trade receivables	10,138.1	(2,706.3)	7,431.8
Due from related parties	1,821.4	(11.7)	1,809.7
Other receivables	4,108.7	–	4,108.7
Total	**41,927.9**	**(2,718.0)**	**39,209.9**

NOTES TO THE FINANCIAL STATEMENTS 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.

	GROUP		
At 31 March 2021	**Less than 1 year KShs'm**	**Over 1 year KShs'm**	**Total KShs'm**
– payables and accrued expenses	**27,981.8**	**–**	**27,981.8**
– lease liabilities note 22(c)	**4,252.0**	**14,661.1**	**18,913.1**
– borrowings	**14,772.0**	**–**	**14,772.0**
Total financial liabilities	**47,005.8**	**14,661.1**	**61,666.9**
At 31 March 2020			
– payables and accrued expenses	26,300.3	985.4	27,285.7
– lease liabilities note 22(c)	3,677.0	14,953.4	18,630.4
– borrowings	8,000.0	–	8,000.0
Total financial liabilities	**37,977.3**	**15,938.8**	**53,916.1**

	COMPANY		
At 31 March 2021	**Less than 1 year KShs'm**	**Over 1 year KShs'm**	**Total KShs'm**
– payables and accrued expenses	**27,991.0**	**–**	**27,991.0**
– lease liabilities note 22(c)	**4,252.0**	**14,661.1**	**18,913.1**
– borrowings	**14,772.0**	**–**	**14,772.0**
Total financial liabilities	**47,015.0**	**14,661.1**	**61,676.1**
At 31 March 2020			
– payables and accrued expenses	26,513.5	985.4	27,498.9
– lease liabilities note 22(c)	3,677.0	14,953.4	18,630.4
– borrowings	8,000.0	–	8,000.0
Total financial liabilities	**38,190.5**	**15,938.8**	**54,129.3**

NOTES TO THE FINANCIAL STATEMENTS continued

4 Financial risk management continued

Liquidity risk continued

Guarantees amounting to KShs 398.8 million (2020: KShs 244.4 million) have been issued by the banks to various suppliers for services provided to the Group (Note 32).

There are also undrawn bank facilities amounting to KShs 27.01 billion (2020: KShs 31.84 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 dividend paid to shareholders.

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

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

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

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

The Group's focus is to minimise funds tied up in working capital, whilst ensuring that it has sufficient financial ability to meet its liabilities as and when they fall due. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

The strategy is to maintain gearing at low levels as demonstrated by the position below:

Gearing ratio

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Net cash – Note 30 (b)	**(4,109.6)**	3,535.0	**(4,809.8)**	2,635.0
Total equity	**(137,635.3)**	(143,080.1)	**(135,169.1)**	(141,333.5)
Total capital	**(141,744.9)**	(139,545.1)	**(139,978.9)**	(138,698.5)
Gearing ratio	**3.0%**	0%	**3.6%**	0%

Fair value estimation

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

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

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

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

For assets classified under level 2, the valuation technique used is the discounted cash flow method. The significant observable input used is the interest rate.

NOTES TO THE FINANCIAL STATEMENTS continued

4 Financial risk management continued

Liquidity risk continued

	GROUP AND COMPANY			
	Level 1 KShs'm	Level 2 KShs'm	Level 3 KShs'm	Total KShs'm
At 31 March 2021				
Restricted and deferred restricted cash asset	–	2,540.7	–	2,540.7
Construction contract receivable	–	1,496.4	–	1,496.4
	–	4,037.1	–	4,037.1
At 31 March 2020				
Restricted and deferred restricted cash asset	–	2,747.8	–	2,747.8
Construction contract receivable	–	601.5	–	601.5
	–	3,349.3	–	3,349.3

The fair valuations on the two instruments are a consideration of the discounted cashflows, utilising a discounting rate. The discounting rate is the yield, if the entity had invested similar values of money in alternative financial instruments. The discounting rate utilised is 4.9% (2020: 6.5%). A 1% fluctuation in the discounting rate would result in a movement in fair value by KShs 1.8 million (2020: KShs 8 million) for restricted cash and KShs 9.5 million (2020: KShs 2 million) for construction contract receivable.

5 Revenue

(a) Revenue from contracts with customers

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

	31 MARCH 2021			31 MARCH 2020		
Group	KShs'm At a point in time	KShs'm Over time	KShs'm Total	KShs'm At a point in time	KShs'm Over time	KShs'm Total
Voice revenue	–	82,552.0	82,552.0	–	86,529.9	86,529.9
Interconnect revenue from local partners	–	6,175.2	6,175.2	–	5,039.3	5,039.3
Messaging revenue	–	13,602.4	13,602.4	–	15,403.5	15,403.5
Mobile data revenue	–	44,793.2	44,793.2	–	40,157.5	40,157.5
Fixed data revenue	–	9,507.2	9,507.2	–	8,966.9	8,966.9
M-PESA revenue	82,647.4	–	82,647.4	84,438.0	–	84,438.0
Other services revenues*	–	7,779.2	7,779.2	–	7,236.5	7,236.5
Mobile Incoming	–	3,295.2	3,295.2	–	3,442.5	3,442.5
Service revenue	**82,647.4**	**167,704.4**	**250,351.8**	**84,438.0**	**166,776.1**	**251,214.1**
Handset revenue	8,511.7	–	8,511.7	6,631.0	–	6,631.0
Connection revenue	–	1,761.1	1,761.1	–	2,034.8	2,034.8
Construction revenue	–	837.7	837.7	–	583.9	583.9
Total revenue	**91,159.1**	**170,303.2**	**261,462.3**	**91,069.0**	**169,394.8**	**260,463.8**

Service revenue streams have been reclassified to align to new Group reporting needs. Appendix 2 shows the comparative based on old revenues classification.

* Other Services Revenues includes Okoa Jahazi fees, roaming revenues, bulk SMS, digital agriculture revenues.

NOTES TO THE FINANCIAL STATEMENTS continued

5 Revenue continued

(a) Revenue from contracts with customers continued

	31 MARCH 2021			31 MARCH 2020		
Company	KShs'm At a point in time	KShs'm Over time	KShs'm Total	KShs'm At a point in time	KShs'm Over time	KShs'm Total
Voice revenue	–	82,552.0	82,552.0	–	86,529.9	86,529.9
Interconnect revenue from local partners	–	6,175.2	6,175.2	–	5,039.3	5,039.3
Messaging revenue	–	13,602.4	13,602.4	–	15,403.5	15,403.5
Mobile data revenue	–	44,793.2	44,793.2	–	40,157.5	40,157.5
Fixed data revenue	–	9,507.2	9,507.2	–	8,966.8	8,966.8
M-PESA revenue	80,635.8	–	80,635.8	83,135.6	–	83,135.6
Other Services Revenues*	–	7,624.8	7,624.8	–	7,153.9	7,153.9
Mobile Incoming	–	3,295.2	3,295.2	–	3,442.5	3,442.5
Service revenue	**80,635.8**	**167,550.0**	**248,185.8**	**83,135.6**	**166,693.4**	**249,829.0**
Handset revenue	8,511.7	–	8,511.7	6,631.0	–	6,631.0
Connection revenue	–	1,761.1	1,761.1	–	2,034.8	2,034.8
Construction revenue	–	837.7	837.7	–	583.9	583.9
Total revenue	**89,147.5**	**170,148.8**	**259,296.3**	**89,766.6**	**169,312.1**	**259,078.7**

Service revenue streams have been reclassified to align to new Group reporting needs. Appendix 2 shows the comparative based on old revenues classification.

* Other Services Revenues includes Okoa Jahazi fees, roaming revenues, bulk SMS, digital agriculture revenues.

(b) Revenue from other sources

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Collocation	2,043.7	1,822.0	2,069.2	1,883.3
Other income				
– Gain on disposal of property and equipment	38.0	56.5	38.0	56.5
– Miscellaneous income*	482.5	213.4	1,046.2	387.0
	2,564.2	2,091.9	3,153.4	2,326.8

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

NOTES TO THE FINANCIAL STATEMENTS continued

6 (a) Direct costs

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
M-PESA commissions	(28,205.6)	(23,823.4)	(28,001.5)	(23,676.3)
Airtime commissions	(9,674.7)	(10,961.9)	(9,674.7)	(10,961.9)
Licence fees	(9,609.2)	(9,794.7)	(9,538.5)	(9,739.8)
Interconnect and roaming costs	(7,681.7)	(7,596.3)	(7,862.7)	(8,129.3)
Handset costs	(8,624.2)	(7,580.8)	(8,624.2)	(7,580.8)
Customer acquisition and retention	(10,057.2)	(8,511.6)	(10,057.2)	(8,511.6)
Promotions and Value-Added Services costs (Voice & SMS)	(4,879.4)	(5,790.2)	(4,879.4)	(5,790.2)
Other direct costs	(1,283.1)	(642.1)	(858.2)	(494.9)
Construction costs	(837.7)	(583.9)	(837.7)	(583.9)
	(80,852.8)	(75,284.9)	(80,334.1)	(75,468.7)

(b) Expected credit losses of financial assets

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Trade and other receivables	(3,004.1)	(1,669.6)	(3,855.8)	(1,418.7)
Loan receivables	(0.9)	–	(4.7)	–
Cash and cash equivalents	(4.7)	–	(3.2)	–
	(3,009.7)	(1,669.6)	(3,863.7)	(1,418.7)

NOTES TO THE FINANCIAL STATEMENTS continued

7 Other expenses

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Repairs and maintenance expenditure on property and equipment	**(323.2)**	(334.1)	**(321.9)**	(333.6)
Operating lease cost – buildings**	**(32.7)**	(48.8)	**(32.7)**	(48.8)
Operating lease cost – sites**	**(604.4)**	(345.1)	**(604.4)**	(345.1)
Inventory storage costs	**(362.1)**	(324.7)	**(362.1)**	(324.7)
Employee benefits expense (Note 10)	**(18,188.1)**	(16,937.5)	**(17,957.9)**	(16,807.1)
Auditor's remuneration	**(55.4)**	(55.6)	**(49.8)**	(49.4)
Sales and advertising	**(4,083.3)**	(5,792.4)	**(4,569.9)**	(6,177.9)
Consultancy including legal fees	**(1,197.9)**	(1,431.4)	**(1,184.2)**	(1,431.0)
Network operating costs	**(13,163.4)**	(13,408.2)	**(13,072.4)**	(13,145.0)
Travel and accommodation	**(457.6)**	(751.4)	**(432.0)**	(738.5)
Computer maintenance	**(2,572.4)**	(2,092.7)	**(2,546.2)**	(2,092.7)
Office administration	**(481.7)**	(1,020.5)	**(472.3)**	(1,016.2)
Net foreign exchange gains, other than on borrowings and cash and cash equivalents	**(610.7)**	172.3	**(648.9)**	131.6
Other operating expenses*	**(3,901.9)**	(5,189.6)	**(2,913.9)**	(4,644.7)
	(46,034.8)	**(47,559.7)**	**(45,168.6)**	**(47,023.1)**

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

** Relates to non-lease components of the lease e.g. services charges, VAT disallowed on payments of leases. The cost is excluded from the measurements of the lease liability as provided for in IFRS 16.

8 Finance income

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Interest income	**1,523.6**	2,940.9	**1,502.7**	2,917.1
Foreign exchange gain on cash and borrowings	**701.8**	639.0	**701.3**	638.5
Adjustments on restricted cash*	**(27.0)**	(61.1)	**(27.0)**	(61.1)
	2,198.4	**3,518.8**	**2,177.0**	**3,494.5**

* Adjustment is in relation to discounting of restricted cash.

NOTES TO THE FINANCIAL STATEMENTS continued

9 Finance costs

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Interest expense	**(1,686.5)**	(348.8)	**(1,667.8)**	(347.6)
Foreign exchange losses on cash and borrowings	**(533.2)**	(601.0)	**(736.6)**	(591.1)
Interest on asset retirement obligation (ARO) liability	**(223.2)**	(57.6)	**(223.2)**	(57.6)
Interest on lease liability	**(1,717.9)**	(1,640.7)	**(1,717.9)**	(1,640.7)
Adjustment on construction contract receivables*	**(60.0)**	51.5	**(60.0)**	51.5
	(4,220.8)	**(2,596.6)**	**(4,405.5)**	**(2,585.5)**

* Adjustment is in relation to discounting of construction contract receivable (national government).

10 Employee benefits expense

The following items are included within employee benefits expense:

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Club membership	**(37.1)**	(61.2)	**(36.8)**	(60.8)
Employee other administrative costs	**(290.5)**	(66.1)	**(290.5)**	(66.1)
Secondees other administrative costs	**(90.8)**	(126.1)	**(90.4)**	(124.2)
Employee Performance Share Award Plan	**(713.1)**	(432.6)	**(707.5)**	(433.7)
Leave provision	**95.9**	(16.9)	**101.2**	(16.3)
NSSF	**(12.4)**	(12.8)	**(12.4)**	(12.8)
Pension	**(725.6)**	(698.8)	**(718.1)**	(695.1)
Salaries	**(15,024.2)**	(13,786.9)	**(14,813.1)**	(13,662.0)
Secondee salaries	**(40.1)**	(292.6)	**(40.1)**	(292.6)
Staff medical & life insurance	**(1,350.2)**	(1,443.5)	**(1,350.2)**	(1,443.5)
	(18,188.1)	**(16,937.5)**	**(17,957.9)**	**(16,807.1)**

	GROUP AND COMPANY	
Number of employees	2021	2020
Permanent employees	**4,457**	4,523
Fixed term contract employee	**1,192**	1,100
	5,649	**5,623**

NOTES TO THE FINANCIAL STATEMENTS 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, 14.9 million shares were bought by the Trust, at a cost of KShs 440.2 million. Additionally, 16.42 million shares historically valued at KShs 480.7 million (2020: 17.83 million shares valued at 438.6 million) vested and were exercised by eligible staff.

The Trust currently holds 15.43 million shares at a total cost of KShs 446.2 million (2020: 16.94 million shares at a cost of KShs 486.7 million).

The Trust is an 'Equity-settled share-based Payment 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 in these financial statements.

12 (a) Income tax expense

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Current income tax	(29,321.8)	(31,616.7)	(29,009.8)	(31,340.8)
Deferred income tax (Note 17)	4,362.5	(498.4)	4,528.4	(628.9)
Income tax expense	**(24,959.3)**	**(32,115.1)**	**(24,481.4)**	**(31,969.7)**
Profit before income tax	93,635.5	105,773.0	92,438.0	105,253.9
Tax calculated at the applicable income tax rate of 9 months – 25%, 3 months – 30% (2020: 30%)	(24,579.3)	(31,731.8)	(24,265.0)	(31,576.2)
Tax effect of:				
Income not subject to tax	1,455.1	2,190.4	1,300.9	2,150.0
Expenses not deductible for tax purposes	(2,098.6)	(2,573.7)	(2,060.9)	(2,543.5)
Over provision of deferred tax in prior years	(25.7)	–	(25.7)	–
Effect of change in tax rate on deferred tax	585.2	–	569.3	–
Deferred tax not recognised in the year	(127.6)	–	–	–
Derecognition of prior year deferred tax	(168.1)	–	–	–
Minimum tax paid as final tax	(0.3)	–	–	–
Income tax expense	**(24,959.3)**	**(32,115.1)**	**(24,481.4)**	**(31,969.7)**

(b) Current income tax payable

At 1 April	147.5	(350.4)	251.8	(253.3)
Current income tax charge	(29,321.8)	(31,616.7)	(29,009.8)	(31,340.8)
Tax paid during the year	28,921.2	32,114.6	28,606.4	31,845.9
At 31 March	**(253.1)**	**147.5**	**(151.6)**	**251.8**
Current asset	7.2	260.4	–	251.8
Current liabilities	(260.3)	(112.9)	(151.6)	–
	(253.1)	**147.5**	**(151.6)**	**251.8**

NOTES TO THE FINANCIAL STATEMENTS continued

13 Earnings per share

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

	GROUP	
	2021 KShs'm	**2020 KShs'm**
Profit attributable to equity holders of the Group (KShs m)	**68,676.2**	73,657.9
Weighted average number of ordinary shares in issue (million)	**40,065**	40,065
Basic earnings per share (KShs)	**1.71**	1.84
Diluted earnings per share (KShs)	**1.71**	1.84
Earnings per share based on normalized profits		
Profit attributable to equity holders of the Group (KShs m)	**68,676.2**	73,657.9
Less; share of profit of joint venture (Bargain profit)	**–**	(3,296.1)
Earnings after tax	**68,676.2**	70,361.8
Earnings per share (basic & diluted)	**1.71**	1.76

14 Share capital and share premium

	Number of shares (million)	Ordinary shares KShs'm	Share premium KShs'm	Total KShs'm
As at 31 March 2020 and 31 March 2021	**40,065**	**2,003.3**	**2,200**	**4,203.3**

The authorised share 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 (2020: 40,065,428,000) ordinary shares with a par value of KShs 0.05 each.

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

15 Dividend

Proposed dividend 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 dividend payable account once approved by shareholders in a general meeting.

During the year, an interim dividend of KShs 0.45 per Ordinary share amounting to KShs 18.03 billion (2020: KShs Nil) was declared. At the annual general meeting to be held on 30 July 2021, a final dividend in respect of the year ended 31 March 2021 of KShs 0.92 per Ordinary Share amounting to a total of KShs 36.86 billion is to be proposed for approval. This brings the total dividend for the year to KShs 54.89 billion (2020: KShs 56.09 billion) which represents KShs 1.37 per share in respect of the year ended 31 March 2021 (2020: KShs 1.40 per share). The company continues to pay out dividend in line with its policy to pay out 80% of net income.

The payment of dividend is subject to withholding tax at the rate of 10% for all non-residents, 5% for Kenyan residents and 0% for resident Kenyan companies with shareholding of 12.5% or more in the Company. Total dividend payouts in the year were as follows:

Movement in the year

	2021 KShs'm	2020 KShs'm
Opening balance – 1 April	1,045.1	–
Declared during the year	56,091.6	74,922.4
Interim dividend declared	18,029.4	–
Paid during the period	(66,482.0)	(73,877.3)
Closing balance – 31 March	**8,684.1**	**1,045.1**

16 Borrowings

The Group has a short-term revolving facility with various financial institutions.

As at 31 March 2021, the Group had undrawn credit facilities with various banks equivalent of KShs 27.01 billion (2020: KShs 31.84 billion). The borrowings are from different financial institutions with varying interest rates.

The movement in borrowings is as below:

	GROUP AND COMPANY	
	2021 KShs'm	2020 KShs'm
Opening balance – 1 April	8,000.0	4,032.0
Additions	44,970.0	20,132.0
Repayments	(38,198.0)	(16,164.0)
Closing balance – 31 March	**14,772.0**	**8,000.0**

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

NOTES TO THE FINANCIAL STATEMENTS continued

17 Deferred income tax

(a) Group

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

	2021 KShs'm	2020 KShs'm
Deferred tax assets:		
– Deferred tax assets to be recovered after 12 months	4,082.0	752.7
– Deferred tax assets to be recovered within 12 months	584.7	2,577.2
	4,666.7	3,329.9
Deferred tax liabilities:		
– Deferred tax liability to be recovered after 12 months	–	(2,225.2)
– Deferred tax liability to be recovered within 12 months	(8.5)	–
– Deferred tax not recognised	(295.7)	–
	(304.2)	(2,225.2)
Net deferred income tax asset	**4,362.5**	**1,104.7**

Deferred income tax is calculated using the enacted income tax rate of 30% (2020: 30%).

	2021 KShs'm	2020 KShs'm
At start of year	1,104.7	1,603.1
Credit/(charge) to statement of profit or loss and other comprehensive income	4,362.5	(498.4)
At end of year	**5,467.2**	**1,104.7**

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

Year ended 31 March 2021	1 April 2020 KShs'm	Credit/ (charged) to SOCI KShs'm	31 March 2021 KShs'm
Deferred income tax liabilities			
Property and equipment	(2,219.8)	3,570.6	1,350.8
Unrealized foreign exchange gains	12.1	(22.7)	(10.6)
Net right of use	(5.5)	398.7	393.2
	(2,213.2)	3,946.6	1,733.4
Deferred income tax assets			
Unrealised foreign exchange losses	38.6	(8.5)	30.1
Tax losses	130.2	112.6	242.8
Other temporary differences	3,149.1	607.5	3,756.6
	3,317.9	711.6	4,029.5
Deferred tax not recognized	–	(295.7)	(295.7)
Net deferred income tax asset	**1,104.7**	**4,362.5**	**5,467.2**

NOTES TO THE FINANCIAL STATEMENTS continued

17 Deferred income tax continued

(a) Group continued

Year ended 31 March 2020	1 April 2019 KShs'm	Credit/(charged) to SOCI KShs'm	31 March 2020 KShs'm
Deferred income tax liabilities			
Property and equipment	(921.1)	(1,298.7)	(2,219.8)
Unrealised foreign exchange gains	(0.7)	12.8	12.1
Net right of use	–	(5.5)	(5.5)
	(921.8)	(1,291.4)	(2,213.2)
Deferred income tax assets			
Unrealised foreign exchange losses	0.9	37.7	38.6
Tax losses	18.4	111.8	130.2
Other temporary differences	2,505.6	643.5	3,149.1
	2,524.9	793.0	3,317.9
Net deferred income tax asset	**1,603.1**	**(498.4)**	**1,104.7**

(b) Company

	2021 KShs'm	2020 KShs'm
Deferred tax assets:		
– Deferred tax assets to be recovered after 12 months	**1,743.8**	752.8
– Deferred tax assets to be recovered within 12 months	**3,734.1**	2,395.6
	5,477.9	3,148.4
Deferred tax liabilities:		
– Deferred tax liability to be recovered after 12 months	**–**	(2,223.8)
– Deferred tax liability to be recovered within 12 months	**(12.1)**	12.8
	(12.1)	(2,211.0)
Net deferred income tax asset	**5,465.8**	**937.4**

Deferred income tax is calculated using the enacted income tax rate of 30% (2020: 30%).

	2021 KShs'm	2020 KShs'm
At start of year	**937.4**	1,566.3
Credit/(charge) to statement of profit or loss and other comprehensive income (Note 12)	**4,528.4**	(628.9)
At end of year	**5,465.8**	**937.4**

NOTES TO THE FINANCIAL STATEMENTS continued

17 Deferred income tax continued

(b) Company continued

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

Year ended 31 March 2021	1 April 2020 KShs'm	Credit/ (charged) to SOCI KShs'm	31 March 2021 KShs'm
Deferred income tax liabilities			
Property and equipment	(2,218.4)	3,568.8	1,350.4
Unrealised foreign exchange gains	12.8	(24.9)	(12.1)
Net Right of Use	(5.5)	398.7	393.2
	(2,211.1)	3,942.6	1,731.5
Deferred income tax assets			
Unrealised foreign exchange losses	38.6	(8.5)	30.1
Other temporary differences	3,109.9	594.3	3,704.2
	3,148.5	585.8	3,734.3
Net deferred income tax asset	937.4	4,528.4	5,465.8

Year ended 31 March 2020	1 April 2019 KShs'm	Credit/ (charged) to SOCI KShs'm	31 March 2020 KShs'm
Deferred income tax liabilities			
Property and equipment	(938.0)	(1,280.4)	(2,218.4)
Unrealised foreign exchange gains	0.4	12.4	12.8
Net Right of Use	–	(5.5)	(5.5)
	(937.6)	(1,273.5)	(2,211.1)
Deferred income tax assets			
Unrealised foreign exchange losses	2.0	36.6	38.6
Other temporary differences	2,501.9	608.0	3,109.9
	2,503.9	644.6	3,148.5
Net deferred income tax asset	**1,566.3**	**(628.9)**	**937.4**

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

NOTES TO THE FINANCIAL STATEMENTS continued

18 Property and equipment

	GROUP						
	Network infrastructure KShs'm	Capital work in progress (CWIP)* KShs'm	Network maintenance spares KShs'm	Leasehold improvements KShs'm	Vehicles and equipment KShs'm	Fibre KShs'm	Total KShs'm
At 1 April 2019							
Cost	223,387.7	13,262.6	1,537.0	7,039.0	87,017.0	25,241.9	357,485.2
Accumulated depreciation	(160,536.4)	–	(959.5)	(5,492.1)	(62,126.3)	(3,153.1)	(232,267.4)
Net book amount	**62,851.3**	**13,262.6**	**577.5**	**1,546.9**	**24,890.7**	**22,088.8**	**125,217.8**
Year ended 31 March 2020							
Opening net book amount	62,851.3	13,262.6	577.5	1,546.9	24,890.7	22,088.8	125,217.8
Additions	–	35,738.0	27.5	–	333.0	–	36,098.5
Transfers from CWIP	16,190.1	(38,673.5)	–	404.2	17,033.2	5,046.0	–
Disposal – cost	–	–	–	–	(278.5)	–	(278.5)
Asset retirement – cost**	(11,451.6)	–	–	–	–	–	(11,451.6)
Depreciation charge	(17,041.9)	–	(141.6)	(537.7)	(13,042.9)	(1,200.7)	(31,964.8)
Depreciation on disposal	–	–	–	–	264.2	–	264.2
Depreciation on retired assets**	11,451.6	–	–	–	–	–	11,451.6
Closing net book amount	**61,999.5**	**10,327.1**	**463.4**	**1,413.4**	**29,199.7**	**25,934.1**	**129,337.2**
At 31 March 2020							
Cost	228,126.2	10,327.1	1,564.5	7,443.2	104,104.7	30,287.9	381,853.6
Accumulated depreciation	(166,126.7)	–	(1,101.1)	(6,029.8)	(74,905.0)	(4,353.8)	(252,516.4)
Net book amount	**61,999.5**	**10,327.1**	**463.4**	**1,413.4**	**29,199.7**	**25,934.1**	**129,337.2**

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

** During the year ended 31 March 2020, the Company carried out an assessment of the Fixed Asset Register, (FAR). From this assessment, assets worth KShs 11.5 billion were identified to be fully depreciated and not in use. The assets were mainly network infrastructure. The assets have been written off.

NOTES TO THE FINANCIAL STATEMENTS continued

18 Property and equipment continued

	GROUP						
	Network infrastructure KShs'm	Capital work in progress (CWIP)* KShs'm	Network maintenance spares KShs'm	Leasehold improvements KShs'm	Vehicles and equipment KShs'm	Fibre KShs'm	Total KShs'm
Year ended 31 March 2021							
Opening net book amount	61,999.5	10,327.1	463.4	1,413.4	29,199.7	25,934.1	129,337.2
Additions	–	34,935.8	15.8	–	8.6	–	34,960.2
Transfers from CWIP	13,402.7	(36,706.2)	–	497.5	19,897.4	2,908.6	–
Disposal – cost	(134.3)	–	–	–	(43.4)	–	(177.7)
Asset retirement – cost**	–	–	–	–	(4,243.3)	–	(4,243.3)
ARO non cash additions	2,207.4	–	–	–	–	–	2,207.4
Depreciation charge	(15,649.5)	–	(141.0)	(577.3)	(14,946.5)	(1,310.2)	(32,624.5)
Depreciation reclassification	(3.0)	–	(0.5)	2.0	1.3	0.2	–
Depreciation on disposals	92.2	–	–	–	38.9	–	131.1
Depreciation on retired assets**	–	–	–	–	4,243.3	–	4,243.3
Closing net book amount	61,915.0	8,556.7	337.7	1,335.6	34,156.0	27,532.7	133,833.7
At 31 March 2021							
Cost	243,602.0	8,556.7	1,580.3	7,940.7	119,724.0	33,196.5	414,600.2
Accumulated depreciation	(181,687.0)	–	(1,242.6)	(6,605.1)	(85,568.0)	(5,663.8)	(280,766.5)
Net book amount	61,915.0	8,556.7	337.7	1,335.6	34,156.0	27,532.7	133,833.7

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

** During the year ended 31 March 2021, the Company carried out an assessment of the Fixed Asset Register, (FAR). From this assessment, assets worth KShs 4.2 billion were identified to be fully depreciated and not in use. The assets were mainly equipment. The assets have been written off.

NOTES TO THE FINANCIAL STATEMENTS continued

18 Property and equipment continued

	COMPANY						
	Network infrastructure KShs'm	Capital work in progress (CWIP)* KShs'm	Network maintenance spares KShs'm	Leasehold improvements KShs'm	Vehicles and equipment KShs'm	Fibre KShs'm	Total KShs'm
At 1 April 2019							
Cost	223,251.1	12,866.6	1,537.0	7,039.0	86,914.1	25,235.9	356,843.7
Accumulated depreciation	(160,399.9)	–	(958.9)	(5,494.2)	(62,023.0)	(3,146.9)	(232,022.9)
Net book amount	**62,851.2**	**12,866.6**	**578.1**	**1,544.8**	**24,891.1**	**22,089.0**	**124,820.8**
Year ended 31 March 2020							
Opening net book amount	62,851.2	12,866.6	578.1	1,544.8	24,891.1	22,089.0	124,820.8
Additions	–	35,738.0	27.5	–	322.0	–	36,087.5
Transfer from CWIP	16,190.1	(38,420.4)	–	404.2	16,780.2	5,045.9	–
Disposal – cost	–	–	–	–	(278.5)	–	(278.5)
Asset retirement – cost**	(11,451.6)	–	–	–	–	–	(11,451.6)
Depreciation charge	(17,041.9)	–	(141.6)	(537.7)	(13,003.4)	(1,200.7)	(31,925.3)
Depreciation on disposals	–	–	–	–	264.2	–	264.2
Depreciation on retired assets**	11,451.6	–	–	–	–	–	11,451.6
Closing net book amount	**61,999.4**	**10,184.2**	**464.0**	**1,411.3**	**28,975.6**	**25,934.2**	**128,968.7**
At 31 March 2020							
Cost	227,989.6	10,184.2	1,564.5	7,443.2	103,737.8	30,281.8	381,201.1
Accumulated depreciation	(165,990.2)	–	(1,100.5)	(6,031.9)	(74,762.2)	(4,347.6)	(252,232.4)
Net book amount	**61,999.4**	**10,184.2**	**464.0**	**1,411.3**	**28,975.6**	**25,934.2**	**128,968.7**

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

** During the year ended 31 March 2020, the Company carried out an assessment of the Fixed Asset Register, (FAR). From this assessment, assets worth KShs 11.5 billion were identified to be fully depreciated and not in use. The assets were mainly network infrastructure. The assets have been written off.

18 Property and equipment continued

	COMPANY						
	Network infrastructure KShs'm	Capital work in progress (CWIP)* KShs'm	Network maintenance spares KShs'm	Leasehold improvements KShs'm	Vehicles and equipment KShs'm	Fibre KShs'm	Total KShs'm
Year ended 31 March 2021							
Opening net book amount	61,999.4	10,184.2	464.0	1,411.3	28,975.6	25,934.2	128,968.7
Additions	–	34,935.8	15.8	–	8.6	–	34,960.2
Transfer from CWIP	13,402.7	(36,706.2)	–	497.5	19,897.4	2,908.6	–
Disposal – cost	(134.3)	–	–	–	(43.4)	–	(177.7)
Asset retirement – cost**	–	–	–	–	(4,243.3)	–	(4,243.3)
ARO non cash additions	2,207.4	–	–	–	–	–	2,207.4
Depreciation charge	(15,649.5)	–	(141.0)	(577.3)	(14,892.4)	(1,310.2)	(32,570.4)
Depreciation reclassification	(3.0)	–	(0.5)	2.0	1.3	0.2	–
Depreciation on disposals	92.2	–	–	–	38.9	–	131.1
Depreciation on retired assets**	–	–	–	–	4,243.3	–	4,243.3
Closing net book amount	61,914.9	8,413.8	338.3	1,333.5	33,986.0	27,532.8	133,519.3
At 31 March 2021							
Cost	243,465.4	8,413.8	1,580.3	7,940.7	119,357.1	33,190.4	413,947.7
Accumulated depreciation	(181,550.5)	–	(1,242.0)	(6,607.2)	(85,371.1)	(5,657.6)	(280,428.4)
Net book amount	61,914.9	8,413.8	338.3	1,333.5	33,986.0	27,532.8	133,519.3

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

** During the year ended 31 March 2021, the Company carried out an assessment of the Fixed Asset Register, (FAR). From this assessment, assets worth KShs 4.2 billion were identified to be fully depreciated and not in use. The assets were mainly equipment. The assets have been written off.

NOTES TO THE FINANCIAL STATEMENTS continued

19 Indefeasible rights of use (IRUs)

	GROUP						
	TEAMS KShs'm	SEACOM KShs'm	KPLC KShs'm	ETISALAT KShs'm	TATA KShs'm	EATCL KShs'm	Total KShs'm
Year ended 31 March 2020							
Opening net book amount	2,110.6	843.3	454.3	54.5	90.4	–	3,553.1
Amortisation charge	(162.7)	(76.7)	(41.9)	(7.4)	(12.3)	–	(301.0)
Closing net book amount	**1,947.9**	**766.6**	**412.4**	**47.1**	**78.1**	**–**	**3,252.1**
At 31 March 2020							
Cost	3,253.0	1,534.9	838.3	111.3	183.9	91.5	6,012.9
Accumulated amortization	(1,305.1)	(768.3)	(425.9)	(64.2)	(105.8)	(91.5)	(2,760.8)
	1,947.9	**766.6**	**412.4**	**47.1**	**78.1**	**–**	**3,252.1**
Year ended 31 March 2021							
Opening net book amount	**1,947.9**	**766.6**	**412.4**	**47.1**	**78.1**	**–**	**3,252.1**
Amortisation charge	**(162.7)**	**(76.7)**	**(41.9)**	**(47.1)**	**(78.1)**	**–**	**(406.5)**
Closing net book amount	**1,785.2**	**689.9**	**370.5**	**–**	**–**	**–**	**2,845.6**
At 31 March 2021							
Cost	**3,253.0**	**1,534.9**	**838.3**	**111.3**	**183.9**	**91.5**	**6,012.9**
Accumulated amortization	**(1,467.8)**	**(845.0)**	**(467.8)**	**(111.3)**	**(183.9)**	**(91.5)**	**(3,167.3)**
Net book amount	**1,785.2**	**689.9**	**370.5**	**–**	**–**	**–**	**2,845.6**

	COMPANY					
	TEAMS KShs'm	SEACOM KShs'm	KPLC KShs'm	ETISALAT KShs'm	TATA KShs'm	Total KShs'm
Year ended 31 March 2020						
Opening net book amount	2,110.6	843.3	454.3	54.5	90.4	3,553.1
Amortisation charge	(162.7)	(76.7)	(41.9)	(7.4)	(12.3)	(301.0)
Closing net book amount	**1,947.9**	**766.6**	**412.4**	**47.1**	**78.1**	**3,252.1**
At 31 March 2020						
Cost	3,253.0	1,534.9	838.3	111.3	183.9	5,921.4
Accumulated amortization	(1,305.1)	(768.3)	(425.9)	(64.2)	(105.8)	(2,669.3)
	1,947.9	**766.6**	**412.4**	**47.1**	**78.1**	**3,252.1**
Year ended 31 March 2021						
Opening net book amount	**1,947.9**	**766.6**	**412.4**	**47.1**	**78.1**	**3,252.1**
Amortisation charge	**(162.7)**	**(76.7)**	**(41.9)**	**(47.1)**	**(78.1)**	**(406.5)**
Closing net book amount	**1,785.2**	**689.9**	**370.5**	**–**	**–**	**2,845.6**
At 31 March 2021						
Cost	**3,253.0**	**1,534.9**	**838.3**	**111.3**	**183.9**	**5,921.4**
Accumulated amortization	**(1,467.8)**	**(845.0)**	**(467.8)**	**(111.3)**	**(183.9)**	**(3,075.8)**
Net book amount	**1,785.2**	**689.9**	**370.5**	**–**	**–**	**2,845.6**

NOTES TO THE FINANCIAL STATEMENTS continued

20 Investment property

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

	GROUP AND COMPANY	
	2021 KShs'm	2020 KShs'm
At 1 April	**845.0**	845.0
Fair value adjustment	**–**	–
At 31 March	**845.0**	**845.0**

The fair value measurement of the investment property as at 31 March 2021 was performed by registered and independent valuers who have valuation experience for similar properties in Kenya. They are members of the Institute of Surveyors of Kenya.

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

Details of the Group's investment property and information about fair value hierarchy as at 31 March 2021 and 31 March 2020 is as follows:

Non-financial asset	Fair value as at 31 March 2021 and 31 March 2020 KShs'm	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Investment property	845.0	Level III	Open market value basis – highest and best use model	Not applicable	Not applicable

NOTES TO THE FINANCIAL STATEMENTS continued

21 Intangible assets

	GROUP	
	2021 KShs'm	**2020 KShs'm**
Opening net book amount	**6,026.2**	7,385.3
Additions – Cost	**4,077.8**	–
Amortisation charge	**(1,628.5)**	(1,359.1)
Closing net book amount	**8,475.5**	6,026.2
Cost	**23,060.4**	18,982.6
Accumulated amortization	**(14,584.9)**	(12,956.4)
Net book amount	**8,475.5**	6,026.2

	COMPANY	
	2021 KShs'm	**2020 KShs'm**
Opening net book amount	**6,021.8**	7,379.8
Additions – Cost	**4,077.8**	–
Amortisation charge	**(1,628.1)**	(1,358.0)
Closing net book amount	**8,471.5**	6,021.8
Cost	**23,038.1**	18,960.3
Accumulated amortization	**(14,566.6)**	(12,938.5)
Net book amount	**8,471.5**	6,021.8

NOTES TO THE FINANCIAL STATEMENTS continued

22 Leases

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

	GROUP AND COMPANY					
	Site KShs'm	Collocation KShs'm	Shops KShs'm	Facilities KShs'm	Secondees houses KShs'm	Total KShs'm
Year ended 31 March 2020						
Balance on adoption of IFRS 16	8,054.0	5,051.0	1,173.9	2,492.4	17.4	16,788.7
Additions	618.7	230.2	112.7	390.4	25.0	1,377.0
Closing book cost	**8,672.7**	**5,281.2**	**1,286.6**	**2,882.8**	**42.4**	**18,165.7**
At 31 March 2020						
Cost	8,672.7	5,281.2	1,286.6	2,882.8	42.4	18,165.7
Amortisation charge	(1,089.9)	(910.2)	(252.5)	(647.8)	(22.4)	(2,922.8)
Closing net book amount	**7,582.8**	**4,371.0**	**1,034.1**	**2,235.0**	**20.0**	**15,242.9**

	GROUP AND COMPANY						
	Site KShs'm	Collocation KShs'm	Shops KShs'm	Facilities KShs'm	Secondees houses KShs'm	Equipment KShs'm	Total KShs'm
Year ended 31 March 2021							
Opening cost	7,582.8	4,371.0	1,034.1	2,235.0	20.0		15,242.9
Additions	560.8	1,160.3	152.2	1,075.5	28.9	18.2	2,995.9
Reclassification-cost	(168.5)	51.5	(37.0)	42.00	7.1	–	(104.9)
Termination and revision-cost	(144.6)	186.2	12.1	(357.4)	–	(0.3)	(304.0)
Amortisation charge	(1,063.0)	(1,051.9)	(297.0)	(866.5)	(24.7)	(1.7)	(3,304.8)
Reclassification – Amortisation	94.8	2.8	39.8	(4.6)	(27.9)	–	104.9
Termination – Amortisation and revision	37.6	(1.1)	11.7	84.6	–	–	132.8
Closing net book amount	6,899.9	4,718.8	915.9	2,208.6	3.4	16.2	14,762.8
At 31 March 2021							
Cost	8,920.4	6,679.2	1,413.9	3,642.9	78.4	17.9	20,752.7
Amortisation charge	(2,020.5)	(1,960.4)	(498.0)	(1,434.3)	(75.0)	(1.7)	(5,989.9)
Closing net book amount	**6,899.9**	**4,718.8**	**915.9**	**2,208.6**	**3.4**	**16.2**	**14,762.8**

NOTES TO THE FINANCIAL STATEMENTS continued

22 Leases continued

(b) Lease liability movement schedule

	GROUP AND COMPANY					
	Site KShs'm	Collocation KShs'm	Shops KShs'm	Facilities KShs'm	Secondees houses KShs'm	Total KShs'm
Year ended 31 March 2020						
Balance on adoption IFRS 16	(7,458.8)	(4,983.4)	(1,072.7)	(2,412.6)	(22.3)	(15,949.8)
Additions	(618.7)	(230.2)	(112.7)	(390.4)	(25.0)	(1,377.0)
Interest charge	(904.5)	(384.6)	(100.0)	(250.1)	(1.5)	(1,640.7)
Payments	1,651.8	1,074.1	314.0	674.8	28.1	3,742.8
Lease liability balance	**(7,330.2)**	**(4,524.1)**	**(971.4)**	**(2,378.3)**	**(20.7)**	**(15,224.7)**

	GROUP AND COMPANY						
	Site KShs'm	Collocation KShs'm	Shops KShs'm	Facilities KShs'm	Secondees houses KShs'm	Equipment KShs'm	Total KShs'm
Year ended 31 March 2021							
Opening balance	(7,330.2)	(4,524.1)	(971.4)	(2,378.3)	(20.7)	–	(15,224.7)
Additions	(560.8)	(1,160.3)	(152.2)	(1,075.5)	(28.9)	(18.2)	(2,995.9)
Interest charge	(916.6)	(382.5)	(123.5)	(292.8)	(2.0)	(0.5)	(1,717.9)
Payments	1,381.7	1,352.1	337.4	781.7	17.5	4.2	3,874.6
Termination and revisions	137.2	(178.9)	(22.6)	272.9	–	–	208.6
Forex revaluation	(0.7)	(214.7)	(2.7)	–	(0.3)		(218.4)
Closing Balance	(7,289.4)	(5,108.4)	(935.0)	(2,692.0)	(34.4)	(14.5)	(16,073.7)

	Site KShs'm	Collocation KShs'm	Shops KShs'm	Facilities KShs'm	Secondees houses KShs'm	Equipment KShs'm	Total KShs'm
Year ended 31 March 2020							
Current	(1,304.8)	(1,138.4)	(295.6)	(798.3)	(12.3)	–	(3,549.4)
Non-current	(6,025.4)	(3,385.7)	(675.8)	(1,580.0)	(8.4)	–	(11,675.3)
Year ended 31 March 2021							
Current	(1,384.0)	(1,476.3)	(270.6)	(968.0)	(13.8)	(6.8)	(4,119.5)
Non-current	(5,905.4)	(3,632.1)	(664.4)	(1,724.0)	(20.6)	(7.7)	(11,954.2)

Included in the direct costs and reported in the statement of profit or loss and other comprehensive income in the period is an amount of KShs 1,726.6 million (2020: KShs 1,529.5 million) relating to short term leases of less than 1 year which were not accounted for under IFRS 16 in the lease liabilities above as one of the expedient adopted by the company as provided by IFRS 16.

There were no leases not yet commenced to which the Group had committed.

NOTES TO THE FINANCIAL STATEMENTS continued

22 Leases continued

(b) Lease liability movement schedule continued

Payments split

	2021 KShs'm	2020 KShs'm
Repayment of lease liabilities – Principal	**(2,550.6)**	(2,509.4)
Repayment of lease liabilities – Interest	**(1,324.0)**	(1,233.4)
Total Payments	**(3,874.6)**	**(3,742.8)**

(c) Maturity analysis of undiscounted lease liabilities

	2021 KShs'm	2020 KShs'm
Less than 1 year	**4,252.0**	3,677.0
Repayment of lease liabilities – Interest	**14,661.1**	14,953.4
Total Discounted	**18,913.1**	**18,630.4**

23 Investments

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

(a) Investment in subsidiaries

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

	COMPANY	
	2021 KShs'm	2020 KShs'm
At start of year	**431.3**	**431.2**
Initial investment (DigiFarm Limited)	**–**	0.1
At end of year	**431.3**	**431.3**

As at 31 March 2021, the Company's interest in its subsidiaries was as follows:

	Year end	% interest held	2021 KShs'm	2020 KShs'm
One Communications Limited and its subsidiaries*[1]	31 March	100	**–**	–
Instaconnect Limited	31 March	100	**411.2**	411.2
East Africa Tower Company Limited*	31 March	100	**–**	–
DigiFarm Kenya Limited[2]	31 March	100	**0.1**	0.1
Safaricom Money Transfer Services Limited	31 December	100	**20.0**	20.0
			431.3	**431.3**

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

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

Access to financial services – credit and insurance.
Access to quality inputs.
Knowledge on best farming practices through extension services.
Access to market and post-harvest loss management.
The subsidiary is still in its initial set up stages operationally.

* The investment in One Communications Limited and its subsidiaries and East Africa Tower Company Limited were written off in the year ended 31 March 2017.

NOTES TO THE FINANCIAL STATEMENTS continued

23 Investments continued

(b) Investment in associates and joint venture – Group and Company continued

	2021 KShs'm	2020 KShs'm
Investment in associates		
Circle Gas	**284.8**	384.6
TEAMS	**118.1**	211.2
Total investment in associates	**402.9**	**595.8**
Investment in joint venture		
M-PESA Africa Limited	**4,055.3**	4,369.3
Share capital		
Total investment in joint venture	**4,055.3**	**4,369.3**
Total investment in associates and joint Venture	**4,458.2**	**4,965.1**
The movement in investment in associates and joint venture is as follows:		
At start of year	**211.2**	150.3
Share of (loss)/profit from TEAMS	**(93.1)**	60.9
At start of year Circle gas	**384.6**	–
Acquisitions – Circle Gas	**–**	384.6
Share of loss from Circle Gas	**(99.8)**	–
At start of year	**4,369.3**	
Acquisitions – M-PESA Africa Limited	**0.1**	1,073.2
Share of (loss)/profit from M-PESA Africa Limited	**(314.1)**	3,296.1
At end of year	**4,458.2**	**4,965.1**

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

In the year ended 31 December 2020, Circle Gas issued ordinary shares which were used in settlement of debt. This led in a dilution of the Safaricom's shareholding to 18.39%.

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

Circle Gas has a 31 December year end and derives its revenues from the provision of affordable, clean energy source for cooking. 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 12 months results for the associate have been incorporated in the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS continued

23 Investments continued

(b) Investment in associates and joint venture – Group and Company continued

Circle Gas summarised statement of profit or loss and other comprehensive income for the 12 months period ended 31 December

	2020 KShs'm
Revenue	30.7
Other income	29.3
Cost of sales	(14.2)
Administrative expenses	(588.6)
Total expenses	(602.8)
Profit before tax	(542.8)
Income tax expense	–
Profit after tax	(542.8)
Share of profit before tax (18.39%)	(99.8)
Share of profit of associate	**(99.8)**

Circle Gas summarised statement of financial position as at 31 December

	2020 KShs'm
Total equity	898.1
Non-current liabilities	1,506.1
Total equity and non-current liabilities	**2,404.2**
Non-current assets	1,783.4
Current assets	
Cash and cash equivalents	360.0
Other current assets	353.1
Total current assets	713.1
Current liabilities	(92.3)
Net current assets	620.8
	2,404.2

Included in the investment in associate is the investment of 32.5% (2020: 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' place of business and country of incorporation is Kenya. There are no contingent liabilities relating to the Group's interest in the associate.

TEAMS has a 30 June year end and derives its revenues from the provision of submarine fibre optic cable system. Changes in the risk and fluctuation 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 31 March 2021 and 31 March 2020 which is accounted for using the equity method.

NOTES TO THE FINANCIAL STATEMENTS continued

23 Investments continued

(b) Investment in associates and joint venture – Group and Company continued

TEAMS summarised statement of financial position as at 31 March

	2021 KShs'm	2020 KShs'm
Total equity	**425.4**	**442.3**
Non-current assets	**6.0**	7.7
Current assets		
Cash and cash equivalents	**512.7**	701.5
Other current assets	**17.3**	37.0
Total current assets	**530.0**	738.5
Current liabilities	**(110.6)**	(303.9)
Net current assets	**419.4**	**434.6**
Net assets	**425.4**	**442.3**

TEAMS summarised statement of profit or loss and other comprehensive income for the 9 months period ended 31 March

	2021 KShs'm	2020 KShs'm
Revenue	**210.5**	231.4
Other income	**13.8**	13.1
Operating expenses	**(157.0)**	(148.3)
Administrative expenses	**(84.8)**	(32.7)
Total expenses	**(241.8)**	(181.0)
Profit before tax	**(17.5)**	63.5
Income tax expense	**(9.3)**	–
Profit after tax	**(26.8)**	63.5
Share of profit before tax (32.5%)	**(8.7)**	20.6
Profit/(loss) for the 3 months ended 30 June (2020 and 2019 respectively)	**(84.4)**	40.3
Share of profit of associate	**(93.1)**	**60.9**

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.

NOTES TO THE FINANCIAL STATEMENTS continued

23 Investments continued

(b) Investment in associates and joint venture – Group and Company continued

In March 2020, Safaricom PLC and Vodacom Group Limited completed the acquisition of the M-PESA Brand, Product development and support services from Vodafone Group Plc through Joint Venture (JV), M-PESA Africa Limited. The new JV will strategically help accelerate M-PESA growth in Africa by giving both Safaricom Plc and Vodacom Group Limited full control of M-PESA Brand in Africa. Safaricom Plc owns 50% of the issued share capital of the JV with Vodacom Group Limited owning the remaining 50%.

The JV is registered in Kenya and has a 100% owned subsidiary, K2019102008 (South Africa) (Proprietary) Limited registered in South Africa.

The Joint Venture is accounted for using equity method in these consolidated financial statements. Summarized financial information in respect of Safaricom PLC investment in joint venture as at year end is set out below:

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

M-PESA Africa Limited summarised statement of financial position as at 31 March

	2021 KShs'm	2020 KShs'm
Total equity	8,937.4	8,725.9
Non-current Liabilities	2,870.7	2,688.4
Total equity and non-current liabilities	11,808.1	11,414.3
Non-current assets	14,803.1	11,414.2
Current assets		
Cash and cash equivalents	883.0	–
Other current assets	381.5	0.1
Total current assets	1,264.5	0.1
Current liabilities	(4,259.5)	–
Net current assets	(2,995.0)	0.1
	11,808.1	11,414.3

M-PESA Africa Limited summarised statement of profit or loss and other comprehensive income for year ended 31 March

	2021 KShs'm	2020 KShs'm
Revenue	3,180.7	
Other income[1]	–	6,592.2
Total expenses	(2,585.5)	–
Profit before interest, tax, depreciation and amortization	595.2	6,592.2
Depreciation and Amortisation	(1,115.7)	–
Financing Costs	(55.6)	–
Income tax expense	(92.0)	–
Profit after tax	(668.1)	6,592.2
Share of profit/(loss) before tax (50%)	(334.1)	3,296.1
Under report from prior year	20.0	–
Share of (loss)/profit before tax (50%)	(314.1)	3,296.1

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

NOTES TO THE FINANCIAL STATEMENTS continued

24 Inventories

	GROUP 2021 KShs'm	GROUP 2020 KShs'm	COMPANY 2021 KShs'm	COMPANY 2020 KShs'm
Handsets and accessories	**2,135.5**	1,275.8	**2,135.5**	1,275.8
Scratch cards	**43.7**	64.6	**43.7**	64.6
Starter packs	**457.2**	453.1	**457.2**	453.1
Stationery and other stocks	**6.6**	8.8	**6.6**	8.8
Set top boxes	**0.7**	5.1	**0.7**	5.1
Less: provision for obsolescence	**(202.5)**	(174.9)	**(202.5)**	(174.9)
	2,441.2	1,632.5	**2,441.2**	1,632.5
Inventory work-in-progress	**–**	160.6	**–**	160.6
Farm stocks	**45.8**	66.3	**–**	–
	2,487.0	**1,859.4**	**2,441.2**	**1,793.1**

Note:
The amount of inventories recognised as an expense during the period was KShs 10,315.9 million (2020: 9,245.5 million reported under direct costs (Note 6).

25 Trade and other receivables

	GROUP 2021 KShs'm	GROUP 2020 KShs'm	COMPANY 2021 KShs'm	COMPANY 2020 KShs'm
Current:				
Trade receivables	**16,504.8**	10,851.4	**14,826.6**	10,138.1
Less: Allowance for expected credit losses	**(5,315.7)**	(2,828.7)	**(5,160.0)**	(2,706.3)
	11,189.1	8,022.7	**9,666.6**	7,431.8
Receivable from related parties (Note 31 (viii))	**2,475.4**	1,511.0	**2,874.3**	1,821.4
Less: Allowance for expected credit losses	**(17.4)**	(11.7)	**(911.7)**	(11.7)
	2,458.0	1,499.3	**1,962.6**	1,809.7
Other receivables*	**4,087.5**	4,202.6	**3,973.8**	4,108.7
Less: Allowance for expected credit losses	**(30.4)**	–	**(21.1)**	–
	4,057.1	4,202.6	**3,952.7**	4,108.7
Prepayments	**3,147.3**	2,864.2	**3,147.2**	2,850.2
Construction and maintenance contract receivable	**1,568.9**	614.0	**1,568.9**	614.0
Less: Adjustment on construction contract receivables	**(72.5)**	(12.5)	**(72.5)**	(12.5)
Net construction and maintenance contract receivable	**1,496.4**	601.5	**1,496.4**	601.5
	22,347.9	**17,190.3**	**20,225.5**	**16,801.9**

NOTES TO THE FINANCIAL STATEMENTS continued

25 Trade and other receivables continued

Movements on the allowance for expected credit losses on trade receivables, other receivables and related parties' receivables are as follows:

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
At start of year	**2,840.4**	**1,736.8**	**2,718.0**	**1,736.8**
Provision for expected credit losses for the year				
– trade and other receivables	**3,547.9**	2,188.5	**3,505.3**	1,937.6
– related parties	**5.7**	11.7	**900.0**	11.7
Release of prior year provisions	**(549.5)**	(530.6)	**(549.5)**	(530.6)
Provision for expected credit losses	**3,004.1**	**1,669.6**	**3,855.8**	**1,418.7**
Receivables written off during the year as uncollectible	**(481.0)**	**(566.0)**	**(481.0)**	**(437.5)**
Closing allowance for expected credit losses at year end	**5,363.5**	**2,840.4**	**6,092.8**	**2,718.0**
Provision for trade receivables	**5,315.7**	2,828.7	**5,160.0**	2,706.3
Provision for related parties	**17.4**	11.7	**911.7**	11.7
Provision for other receivables	**30.4**	–	**21.1**	–
Closing allowance for expected credit losses as at year end	**5,363.5**	**2,840.4**	**6,092.8**	**2,718.0**

* Other receivables include deposit, interest receivable and EPSAP share receivable.

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. No payment was received during the year (2020: KShs 1.78 billion) and the outstanding balance at year end was KShs 1,569 million. Due to the extended payment terms of the contract, fair value adjustment of KShs 72.6 million (2020: KShs 12.6 million) has been made in arriving at the outstanding receivable.

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
At start of year	**12.5**	**64.0**	**12.5**	**64.0**
Adjustments made in the year for construction and maintenance contract receivable	**60.0**	12.5	**60.0**	12.5
Release of prior year provisions	**–**	(64.0)	**–**	(64.0)
Adjustment on construction and maintenance contract receivable	**60.0**	**(51.5)**	**60.0**	**(51.5)**
	72.5	**12.5**	**72.5**	**12.5**

NOTES TO THE FINANCIAL STATEMENTS continued

26 Cash and cash equivalents and restricted cash

(a) Cash and cash equivalents

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Cash at bank	**26,740.8**	26,759.7	**26,039.1**	25,859.7
Allowance for expected credit losses	**(4.7)**	–	**(3.2)**	–
	26,736.1	**26,759.7**	**26,035.9**	**25,859.7**
(b) Restricted cash				
Restricted cash	**2,783.1**	2,963.2	**2,783.1**	2,963.2
Discounting adjustment at inception	**(801.1)**	(1,051.5)	**(801.1)**	(1,051.5)
	1,982.0	**1,911.7**	**1,982.0**	**1,911.7**
(c) Deferred restricted cash asset				
Discounting adjustment at inception (note 26(b))	**801.1**	1,051.5	**801.1**	1,051.5
Amortisation	**(242.4)**	(215.4)	**(242.4)**	(215.4)
Net deferred restricted cash asset	**558.7**	**836.1**	**558.7**	**836.1**
(d) Restricted cash asset movement				
Opening balance	**2,747.8**	2,740.9	**2,747.8**	2,740.9
Staff Mortgage issued	**197.9**	388.5	**197.9**	388.5
Repayments	**(378.0)**	(320.5)	**(378.0)**	(320.5)
Discounting adjustment charge	**(27.0)**	(61.1)	**(27.0)**	(61.1)
Net deferred restricted cash asset	**2,540.7**	**2,747.8**	**2,540.7**	**2,747.8**

Restricted cash relates to deposits held with Housing Finance Group Limited, NCBA Bank and KCB Bank. 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.

NOTES TO THE FINANCIAL STATEMENTS continued

27 Other financial assets

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
At 1 April 2020	188.6	8,043.0	–	7,866.8
Government securities at amortised cost	–	–	–	–
Deposits with financial institutions	–	–	–	–
Less: matured assets	(188.6)	(7,854.4)	–	(7,866.8)
At 31 March	–	188.6	–	–

28(a) Payables and accrued expenses

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Current				
Trade payables	5,636.0	7,181.1	5,627.8	7,128.8
Due to related companies (Note 31 (ix))	884.2	949.9	1,179.4	1,254.5
Accrued liabilities				
– Network infrastructure	3,678.0	3,893.2	3,656.1	3,893.2
– Inventory	1,197.9	850.0	1,197.9	850.0
– Other expenses	10,545.8	9,834.3	10,389.3	9,837.8
Other payables				
– Indirect and other taxes payable	6,039.5	3,619.8	6,077.5	3,640.3
– M-PESA agent accrual	2,803.4	1,996.0	2,803.4	1,996.0
– Other accrued payables	3,236.6	1,595.8	3,137.0	1,553.2
	34,021.4	29,920.1	34,068.4	30,153.8
Non-current				
At 1 April 2020	985.4	1,131.0	985.4	1,131.0
Charge for the year	337.8	26.8	337.8	26.8
Payments for the year	(1,323.2)	(172.4)	(1,323.2)	(172.4)
At 31 March	–	985.4	–	985.4

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

NOTES TO THE FINANCIAL STATEMENTS continued

28(b) Provisions for liabilities

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
At 1 April	**4,462.3**	3,893.6	**4,462.3**	3,893.6
Charge for the year	**363.4**	1,428.9	**363.4**	1,428.9
Addition ARO provision	**2,207.4**	–	**2,207.4**	–
Payments and release for the year	**(1,320.2)**	(860.2)	**(1,320.2)**	(860.2)
At 31 March	**5,712.9**	**4,462.3**	**5,712.9**	**4,462.3**
Current portion	**2,561.5**	4,462.3	**2,561.5**	4,462.3
Non-current portion	**3,151.4**	–	**3,151.4**	–
	5,712.9	**4,462.3**	**5,712.9**	**4,462.3**

Legal contingencies

The Group is currently involved in various legal disputes and has, in consultation with its legal advisors, assessed the possible outcomes in these cases and has determined that adequate provision has been made in respect of all these cases as at 31 March 2021.

Due to the nature and uncertainty of the outcomes of the various litigation cases management exercises judgement to determine the quantum and adequacy of the provision carried. Settlement only happens when a case is closed either through court rulings or out of court between parties involved. The impact of discounting on the provision is not considered to be material.

Tax matters

The Group is subjected to regular compliance audits by Kenya revenue authority (KRA) mainly around direct and indirect tax, capital allowances, withholding taxes and transfer pricing. Disputes may arise with tax authorities over the interpretation or application of certain tax rules to the Group's business. To address and manage this tax environment uncertainty, good governance is fundamental to the Group's business sustainability. The group employs multiple approaches in tax self-assessment in-order to arrive at the final gro p's tax position. This includes internal reviews and periodic consulting with external tax experts in addition to periodic reviews by our external auditors. Tax decisions are always subject to review by management and are periodically reported to the Board. The Group has considered all tax matters including ongoing tax audits by KRA in the knowledge of management and has accounted for them appropriately.

Asset Restoration provision

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. The associated cash outflows are substantially expected to occur at the dates of decommissioning of the assets.

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 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 TO THE FINANCIAL STATEMENTS continued

29(a) Contract assets

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Dealer connection commissions	**2,258.5**	2,695.0	**2,258.5**	2,695.0
SIM activation cost	**766.9**	750.5	**766.9**	750.5
Deferred SIM cost	**1,509.2**	–	**1,509.2**	–
Total contract assets	**4,534.6**	**3,445.5**	**4,534.6**	**3,445.5**
The movement of the contract assets is as below:				
Opening balance – 1 April	**3,445.5**	2,949.8	**3,445.5**	2,949.8
Additions in the year	**6,320.5**	4,029.2	**6,320.5**	4,029.2
Amortised as costs in the year	**(5,231.4)**	(3,533.5)	**(5,231.4)**	(3,533.5)
Closing balance – 31 March	**4,534.6**	**3,445.5**	**4,534.6**	**3,445.5**
Current portion	**3,043.4**	2,563.8	**3,043.4**	2,563.8
Non-current portion	**1,491.2**	881.7	**1,491.2**	881.7
	4,534.6	**3,445.5**	**4,534.6**	**3,445.5**

(b) Contract liabilities

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Customer loyalty programmes	**4,217.0**	3,936.5	**4,217.0**	3,936.5
Deferred airtime revenue	**2,601.0**	2,477.4	**2,601.0**	2,477.4
Deferred connection revenue	**1,843.8**	877.3	**1,843.8**	877.3
Deferred integrated products-	**1,640.1**	1,565.2	**1,640.1**	1,565.2
Deferred fixed data	**605.5**	509.2	**605.5**	474.2
Deferred fibre & collocation revenue	**830.8**	438.9	**830.8**	438.9
Deferred bulk SMS	**135.4**	216.1	**135.4**	216.1
Deferred bundled handsets resources	**16.8**	28.5	**16.8**	28.5
Deferred ETU access fee	**2.9**	2.3	**2.9**	2.3
Deferred PRSP initial set up fee	**3.1**	2.3	**3.1**	2.3
Deferred Neo Voice, data	**1,179.2**	292.6	**1,179.2**	292.6
Deferred Karibu postpay	**23.4**	48.0	**23.4**	48.0
Deferred Visa revenues	**360.7**	–	**360.7**	–
Deferred interest on device financing	**9.9**	–	**9.9**	–
Total contract liabilities	**13,469.6**	**10,394.3**	**13,469.6**	**10,359.3**
The movement of the contract liabilities is as below:				
Opening balance – 1 April	**10,394.3**	10,019.1	**10,359.3**	9,976.3
Additions in the year	**233,369.2**	214,698.6	**233,239.6**	214,142.7
Recognised as revenue in the year	**(230,293.9)**	(214,323.4)	**(230,129.3)**	(213,759.7)
Closing balance – 31 March	**13,469.6**	**10,394.3**	**13,469.6**	**10,359.3**
Current portion	**11,033.5**	9,410.9	**11,033.5**	9,375.9
Non-current portion	**2,436.1**	983.4	**2,436.1**	983.4
	13,469.6	**10,394.3**	**13,469.6**	**10,359.3**

NOTES TO THE FINANCIAL STATEMENTS continued

30(a) Cash generated from operations

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Profit before income tax	**93,635.5**	105,773.0	**92,438.0**	105,253.9
Adjustments for:				
Interest income (Note 8)	**(1,523.6)**	(2,940.9)	**(1,502.7)**	(2,917.1)
Interest expense (Note 9)	**1,686.5**	348.8	**1,667.8**	347.6
Depreciation on property and equipment (Note 18)	**32,624.5**	31,964.8	**32,570.4**	31,925.3
Amortisation of right of use (ROU) asset	**3,304.8**	2,922.8	**3,304.8**	2,922.8
Amortisation of intangible assets (Note 21)	**1,628.5**	1,359.1	**1,628.1**	1,358.0
Share of profit from associate (Note 23 (b))	**192.9**	(60.9)	**192.9**	(60.9)
Amortisation of IRUs (Note 19)	**406.5**	301.0	**406.5**	301.0
Share of profit of Joint Venture (M-PESA Africa Limited) (Note 23 (b))	**314.1**	(3,296.1)	**314.1**	(3,296.1)
Gain on disposal of property and equipment (Note 5 (b))	**(38.0)**	(56.5)	**(38.0)**	(56.5)
Fair valuation of restricted cash (Note 8)	**27.0**	61.1	**27.0**	61.1
Fair value adjustment on construction contract receivable	**60.0**	(51.5)	**60.0**	(51.5)
Interest on ARO liability	**223.2**	57.6	**223.2**	57.6
Gain/loss on Lease termination	**(37.4)**	–	**(37.4)**	–
Revaluation of lease liability	**218.4**	–	**218.4**	–
Interest on lease liability	**1,717.9**	1,640.7	**1,717.9**	1,640.7
Expected credit loss of receivables	**3,005.0**	1,669.6	**3,860.5**	1,418.7
Change in operating assets and liabilities:				
– Movement in provision for other liabilities (Note 28(b))	**(1,180.0)**	511.2	**(1,180.0)**	511.2
– Movement in contract liabilities	**3,075.3**	375.2	**3,110.3**	383.0
– Movement in contract assets	**(1089.0)**	(496.4)	**(1089.0)**	(496.4)
– Movement in receivables and prepayments	**(8,264.8)**	(1,464.2)	**(7,383.7)**	(1,745.1)
– Movement in inventories	**(627.6)**	(84.8)	**(648.1)**	(18.5)
– Movement in payables and accrued expenses	**3,192.1**	1,070.6	**3,005.4**	1,096.8
Cash generated from operations	**132,551.8**	**139,604.2**	**132,866.4**	**138,635.6**

NOTES TO THE FINANCIAL STATEMENTS continued

30(b) Net cash/(debt) reconciliation

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Net cash and cash equivalents (Note 26 a)	**26,736.1**	26,759.7	**26,035.9**	25,859.7
Borrowings (Note 16)	**(14,772.0)**	(8,000.0)	**(14,772.0)**	(8,000.0)
Lease liabilities (Note 22)	**(16,073.7)**	(15,224.7)	**(16,073.7)**	(15,224.7)
Net cash	**(4,109.6)**	**3,535.0**	**(4,809.8)**	**2,635.0**
Net cash and cash equivalents (Note 26 a)	**26,736.1**	26,759.7	**26,035.9**	25,859.7
Gross debt-fixed interest rates	**(30,845.7)**	(23,224.7)	**(30,845.7)**	(23,224.7)
Net cash	**(4,109.6)**	**3,535.0**	**(4,809.8)**	**2,635.0**

(c) Liabilities from financing activities and net debt

	GROUP				
	Borrowings KShs'm	Lease liabilities KShs'm	Subtotal KShs'm	Cash and cash equivalents KShs'm	Net Debt KShs'm
Net debt as at					
1 April 2020	**(8,000.0)**	**(15,224.7)**	**(23,224.7)**	**26,759.7**	**3,535.0**
Receipts	**(44,970.0)**	**–**	**(44,970)**	**(23.6)**	**(44,993.6)**
Payments	**38,198.0**	**3,874.6**	**42,072.6**	**–**	**42,072.6**
Acquisitions and revision	**–**	**(2,787.3)**	**(2,787.3)**	**–**	**(2,787.3)**
Interest charged	**–**	**(1,717.9)**	**(1,717.9)**	**–**	**(1,717.9)**
Forex revaluation		**(218.4)**	**(218.4)**	**–**	**(218.4)**
31 March 2021	**(14,772.0)**	**(16,073.7)**	**(30,845.7)**	**26,736.1**	**(4,109.6)**

	Borrowings KShs'm	Lease liabilities Shs' m	Subtotal KShs'm	Cash and cash equivalents KShs'm	Net Debt KShs'm
Net debt as at					
1 April 2019	(4,032.0)	(15,949.8)	(19,981.8)	20,030.1	48.3
Receipts	(20,132.0)	–	(20,132.0)	6,729.6	(13,402.4)
Payments	16,164.0	3,742.8	19,906.8	–	19,906.8
Acquisitions	–	(1,377.0)	(1,377.0)	–	(1,377.0)
Interest charged	–	(1,640.7)	(1,640.7)	–	(1,640.7)
31 March 2020	**(8,000.0)**	**(15,224.7)**	**(23,224.7)**	**26,759.7**	**3,535.0**

NOTES TO THE FINANCIAL STATEMENTS continued

30(c) Liabilities from financing activities and net debt

	COMPANY				
	Borrowings KShs'm	Lease liabilities KShs'm	Subtotal KShs'm	Cash and cash equivalents KShs'm	Net Debt KShs'm
Net debt as at					
1 April 2020	**(8,000.0)**	**(15,224.7)**	**(23,224.7)**	**25,859.7**	**2,635.0**
Receipts	**(44,970.0)**	**–**	**(44,970)**	**176.2**	**(44,793.8)**
Payments	**38,198.0**	**3,874.6**	**42,072.6**	**–**	**42,072.6**
Acquisitions and revision	**–**	**(2,787.3)**	**(2,787.3)**	**–**	**(2,787.3)**
Interest charged	**–**	**(1,717.9)**	**(1,717.9)**	**–**	**(1,717.9)**
Forex revaluation	**–**	**(218.4)**	**(218.4)**	**–**	**(218.4)**
31 March 2021	**(14,772.0)**	**(16,073.7)**	**(30,845.7)**	**26,035.9**	**(4,809.8)**

	COMPANY				
	Borrowings KShs'm	Lease liabilities KShs'm	Subtotal KShs'm	Cash and cash equivalents KShs'm	Net Debt KShs'm
1 April 2019	(4,032.0)	(15,949.8)	(19,981.8)	19,828.0	(153.8)
Receipts	(20,132.0)	–	(20,132.0)	6,031.7	(14,100.3)
Payments	16,164.0	3,742.8	19,906.8	–	19,906.8
Acquisitions	–	(1,377.0)	(1,377.0)	–	(1,377.0)
Other changes	–	(1,640.7)	(1,640.7)	–	(1,640.7)
31 March 2020	**(8,000.0)**	**(15,224.7)**	**(23,224.7)**	**25,859.7**	**2,635.0**

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 which offers integrated financial services. 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(e).

M-PESA Africa Limited is a joint venture between Safaricom Plc and Vodacom Group (SA). The Company has entered into a managed services agreement with the Safaricom Plc to provide technical and product-based M-PESA solutions against which a fee is charged monthly. The fee is based on 2% of the M-PESA transaction revenue effective 1 April 2020.

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.

NOTES TO THE FINANCIAL STATEMENTS continued

31 Related party transactions continued

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

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

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

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

The following relationships exist within Safaricom PLC:

Related parties	Held by	Percentage of interest held as at 31 March	
		2021	2020
Subsidiaries			
One Communications Limited	Safaricom PLC	**100%**	100%
Instaconnect Limited	Safaricom PLC	**100%**	100%
Safaricom Money Transfer Services Limited	Safaricom PLC	**100%**	100%
East Africa Tower Company Limited	Safaricom PLC	**100%**	100%
Safaricom Foundation*	Safaricom PLC	**–**	–
Flexible Bandwidth Services Limited	One Communications Limited	**100%**	100%
Comtec Training and Management Services Limited	One Communications Limited	**100%**	100%
Comtec Integration Systems Limited	One Communications Limited	**100%**	100%
DigiFarm Kenya Limited	Safaricom PLC	**100%**	100%
Associates			
The East African Marines Systems Limited (TEAMS)	Safaricom PLC	**32.5%**	32.5%
Circle Gas Limited	Safaricom PLC	**18.39%**	18.96%
Joint Venture			
M-PESA Africa Limited	Safaricom PLC	**50%**	50%

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

NOTES TO THE FINANCIAL STATEMENTS continued

31 Related party transactions continued

The following transactions were carried out with related parties:

i) Sale of goods and services

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Other related parties				
Vodafone Roaming Services S.à r.l	**87.2**	115.6	**87.2**	115.6
Vodacom Tanzania Public Limited Company	**46.3**	57.1	**46.3**	57.1
M-PESA Holding Co. Limited	**73,389.0**	78,795.2	**73,389.0**	77,493.0
Vodacom South Africa Limited	**735.7**	591.6	**735.7**	591.6
Vodafone UK	**316.9**	220.9	**316.9**	220.9
Vodafone Group Enterprises	**–**	158.5	**–**	158.5
Vodacom Business (Kenya) Limited	**6.9**	6.7	**6.9**	6.7
Vodafone Egypt Telecom. S.A.E.	**2.9**	9.3	**2.9**	9.3
Vodafone Network (Pty) Limited	**0.3**	1.0	**0.3**	1.0
Vodafone Sverige AB	**–**	0.9	**–**	0.9
Vodafone Qatar Q.S.C.	**–**	1.1	**–**	1.1
Vodafone Group Services Ltd	**114.3**	–	**114.3**	–
Vodafone Ghana	**18.2**	–	**18.2**	–
Vodafone Services LLC Oman	**12.0**	–	**12.0**	–
Vodafone DRC Congo	**4.6**	–	**4.6**	–
Vodafone Us Inc.	**9.9**	–	**9.9**	–
Vodacom Group Ltd	**4.4**	–	**4.4**	–
Joint Venture				
M-PESA Africa limited	**172.2**	–	**172.2**	–
Subsidiaries				
Safaricom Money Transfer Services Limited	**–**	–	**786.2**	330.0
DigiFarm Kenya	**–**	–	**113.0**	–
Instaconnect	**–**	–	**–**	27.0
One Communications Limited	**–**	–	**119.8**	533.0
	74,920.8	**79,957.9**	**75,939.8**	**79,545.7**

NOTES TO THE FINANCIAL STATEMENTS continued

31 Related party transactions continued

ii) Purchase of goods and services

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Other Related Parties				
Vodafone Sales and Services Limited	**2,105.9**	3,172.1	**2,105.9**	3,172.1
Vodafone Group Services Limited	**98.3**	478.2	**98.3**	478.2
Vodafone Roaming Services S.à r.l	**85.4**	96.9	**85.4**	96.9
Vodafone UK	**34.7**	41.1	**34.7**	41.1
Vodacom South Africa Limited	**78.5**	26.6	**78.5**	26.6
Vodacom Tanzania Public Limited Company	**220.0**	271.8	**220.0**	271.8
Vodafone Sverige AB	**0.2**	0.9	**0.2**	0.9
Vodafone Egypt Telecom. S.A.E.	**3.9**	9.6	**3.9**	9.6
Vodafone Network (Pty) Limited	**2.1**	1.2	**2.1**	1.2
Vodafone Qatar Q.S.C.	**65.5**	5.7	**65.5**	5.7
Vodacom Business (Kenya) Limited	**–**	35.9	**–**	35.9
Vodafone India Limited	**–**	5.1	**–**	5.1
Vodacom Group Ltd	**117.6**	–	**117.6**	–
Vodacom International	**64.9**	–	**64.9**	–
Vodafone IDEA Limited	**6.1**	–	**6.1**	–
Vodafone Innovus S.A.	**19.8**	–	**19.8**	–
Vodacom Business (Kenya) Limited	**58.9**	–	**3.2**	–
Joint Venture				
M-pesa Africa limited	**1,466.5**	–	**1,466.5**	–
Subsidiaries				
One Communications Limited	**–**	–	**180.9**	401.7
Safaricom Money Transfer Services Limited	**–**	–	**391.1**	–
Digifarm Kenya Limited	**–**	–	**17.3**	–
	4,428.3	**4,145.1**	**4,961.9**	**4,546.8**

NOTES TO THE FINANCIAL STATEMENTS continued

31 Related party transactions continued

iii) Directors' remuneration

	GROUP AND COMPANY	
	2021 KShs'm	2020 KShs'm
Fees for services as director	**38.7**	34.5
Salaries	**162.7**	169.3
Bonuses	**243.2**	43.5
Value for non-cash benefits	**22.3**	44.5
Employee Performance Share Award Plan	**2.8**	32.9
	469.7	**324.7**

iv) Key management compensation

	2021 KShs'm	2020 KShs'm
Salaries and other short-term employment benefits	**822.4**	852.3
Employee Performance Share Award Plan	**83.9**	134.4
Pension contribution	**18.8**	20.2
Termination benefits	**33.6**	–
	958.7	**1,006.9**

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

v) Loans from shareholders

There no loans from shareholders outstanding at 31 March 2021 (2020: Nil).

vi) Loans to directors of the Company

There are no loans to directors of the Company at 31 March 2021 (2020: Nil).

vii) Donations to Safaricom Foundation

Donations made during the year amounted to KShs 510 million (2020: KShs 510 million).

NOTES TO THE FINANCIAL STATEMENTS continued

31 Related party transactions continued

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

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Other related Parties				
Vodafone Roaming Services S.à r.l	**10.4**	13.0	**10.4**	13.0
Vodafone Group Enterprises	**22.7**	51.9	**22.7**	51.9
M-PESA Holding Co. Limited	**2,292.5**	1,184.1	**1,622.3**	595.2
Vodacom Tanzania Public Limited Company	**10.2**	4.3	**10.2**	4.3
Vodacom South Africa Limited	**69.7**	193.1	**69.7**	193.1
Vodafone UK	**–**	56.4	**–**	56.4
Vodacom Business (Kenya) Limited	**3.5**	2.8	**3.5**	2.8
Vodafone Egypt Telecom. S.A.E.	**4.6**	5.4	**4.6**	5.4
Vodafone Sverige Ab	**–**	–	**–**	0.3
Vodafone Group Services Ltd	**1.2**	–	**1.2**	–
Vodafone Ghana	**28.9**	–	**28.9**	–
Vodafone US Inc.	**2.3**	–	**2.3**	–
Vodafone Sverige Ab	**0.1**	–	**0.1**	–
Joint Venture				
M-PESA Africa Limited	**29.3**	–	**29.3**	–
Subsidiaries				
One Communications Limited	**–**	–	**–**	31.9
East African Towers Company Limited	**–**	–	**16.0**	16.0
Instaconnect Limited	**–**	–	**88.4**	88.4
Safaricom Money Transfer Services Limited	**–**	–	**116.0**	44.1
DigiFarm Kenya Limited	**–**	–	**848.7**	718.6
	2,475.4	**1,511.0**	**2,874.3**	**1,821.4**

The receivables arise mainly from trading, are unsecured and bear no interest. A provision of KShs 911.7 million and KShs 17.4 million for the Company and Group respectively (2020: KShs 11.7 million Company and Group) is held against receivables from related parties as indicated in Note 25.

NOTES TO THE FINANCIAL STATEMENTS continued

31 Related party transactions continued

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

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
Other related Parties				
Vodafone Sales and Services Limited	**661.4**	557.8	**661.4**	557.8
Vodafone Group Services Limited	**–**	319.7	**–**	319.7
Vodafone Roaming Services S.à r.l	**2.0**	4.2	**2.0**	4.2
Vodacom Tanzania Public Limited Company	**14.7**	42.6	**14.7**	42.6
Vodacom South Africa Limited	**2.3**	2.1	**2.3**	2.1
Vodafone UK	**–**	2.9	**–**	2.9
Vodafone Network (Pty) Limited	**–**	0.4	**–**	0.4
Vodafone Sverige AB	**0.3**	0.3	**0.3**	0.3
Vodafone D2 GMBH	**–**	0.9	**–**	0.9
Vodafone Qatar Q.S.C.	**5.4**	9.4	**5.4**	9.4
Vodafone Egypt Telecom. S.A.E.	**0.2**	0.3	**0.2**	0.3
Vodacom Business (Kenya) Limited	**10.4**	6.8	**–**	6.8
MTC Vodafone Bahrain	**0.9**	1.4	**0.9**	1.4
Vodafone India Limited	**0.8**	1.1	**0.8**	1.1
Vodacom Mozambique	**0.1**	–	**0.1**	–
Vodafone Network (Pty) Ltd	**0.2**	–	**0.2**	–
Joint Ventures				
M-PESA Africa Limited	**185.5**	–	**185.5**	–
Subsidiaries				
One Communications Limited	**–**	–	**304.3**	281.6
Safaricom Money Transfer Services Limited	**–**	–	**0.7**	23.0
DigiFarm Kenya Limited	**–**	–	**0.6**	–
	884.2	**949.9**	**1,179.4**	**1,254.5**

NOTES TO THE FINANCIAL STATEMENTS continued

31 Related party transactions continued

(x) Loan to related parties

The Group has a 50% shareholding in M-PESA Africa and owns 100% of DigiFarm Kenya Limited. During the period under review, the Group issued intragroup loans to the two entities to support their operations as per shareholders agreement and Board approvals.

DigiFarm Kenya Limited loan will be channeled towards financing both operating and capex activities. The facility has a principal and interest repayment grace period until the business moves to positive returns and a maximum tenure of 5 years.

M-PESA African Limited loan facility is a one-year facility and will be used to support the company's working capital requirements. The loan is repayable with interest at the 91 days treasury bill plus a margin of 1.75%.

(x) (a) Loans receivable from related party

	GROUP		COMPANY	
	2021 KShs'm	2020 KShs'm	2021 KShs'm	2020 KShs'm
M-PESA Africa Limited	1,288.7	–	1,288.7	–
Less: Allowance for expected credit losses	(0.9)	–	(0.9)	–
	1,287.8	–	1,287.8	–

(x) (b) Loan to subsidiary

	COMPANY	
	2021 KShs'm	2020 KShs'm
DigiFarm Kenya limited	240.0	–
Less: Allowance for expected credit losses	(3.8)	–
	236.2	–

(xi) Commitments, collateral and guarantees

The Group does not have any commitments, collaterals and guarantees made on or on behalf of the related parties (2020: Nil).

32 Contingent liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. At 31 March 2021, a guarantee of KShs 25 million (2020: KShs 25 million) had been given to Citibank NA against credit cards for the use by senior staff during travel and a guarantee of KShs 398.8 million (2020: KShs 244.4 million) to various suppliers of goods and services regularly provided by 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	
	2021 KShs'm	2020 KShs'm
Property and equipment	10,795.7	11,536.2

NOTES TO THE FINANCIAL STATEMENTS continued

34 COVID-19 pandemic

The Group is domiciled in Kenya and is in the business of offering a variety of telecommunication enabled solutions to customers. Since the outbreak of the pandemic in March 2020, the Group has been continuously tracking the developing issues around COVID-19 including various measures taken by the government of Kenya to mitigate the spread and impact of the pandemic and has put in place measures to mitigate the impact of the outbreak to customers, employees, sales force and other stakeholders.

The management and directors have considered the consequences of COVID-19 and other events and conditions and evaluated effects of these events across various lines of business and determined that they do not create a material uncertainty around continuity of its operations and hence COVID-19 is not expected to have a significant impact on the entity beyond the forecasted outcomes.

The Group continues to support the changed business environment through M-PESA, data and voice products.

Directors expect that COVID-19 might continue to have some impact, for example, in relation to expected future performance, or the effects on ease of doing business, though not significant. The Group expects that customers' disposable income (individuals and corporates) will remain suppressed as the economy recovers from the impact of government lockdowns to businesses and loss of employment on individuals.

In FY21 however, the company experienced significant impact in quarter one of the year but the effects eased from the second quarter of the year hence this did not result to a significant impact on the performance of the company as seen in the results for the 12 months from April 2020 to March 2021.

Effects of Government Intervention on performance of the Group:

i. Waiver of transaction charges on M-PESA Transactions.

To cushion the citizens from rapid transmission of the COVID-19 Pandemic the Kenyan Government waived transaction fees on Person to Person and Lipa na M-PESA transactions below KShs 1,000; Bank to M-PESA wallet and M-PESA wallet to bank transactions and zero-rated playbill tills for government hospitals and dispensaries to encourage as many people as possible to avoid handling cash for the period between April to December 2020. As a result, there was significant drop in M-PESA transactions revenue declining by up to 21.5% in the first quarter but quickly recovering in quarter two as one-month active customers grew which partly mitigated the impact of the waiver of charges. The waiver of transactions below KShs 1,000 was lifted in Quarter 4 (January to March 2021).

ii. Effects of change in taxation rates

On 25 April 2020, the Kenyan government enacted the Tax Laws (Amendment) Act, 2020 which reduced the corporate tax rate from 30% to 25%. The new rate of 25% was applicable for the period between April to December 2020. Resulting from this change, the company total corporate income tax (CIT) reduced by KShs 2.3bn. The tax rate was eventually reinstated to 30% from January 2021.

Additionally, the Kenyan government enacted laws reducing the wear and tear allowances for various categories of assets as listed in the Act. The main classes affected by wear and tear were: Telecom equipment where the wear and tear allowance decreased from 20% to 10% per annum, general equipment from 12.5% to 10% per annum, Computer and computer equipment from 30% to 25% per annum and calculated on straight line basis. Telecom equipment forms the bulk of the group's capital expenditure. Safaricom Plc wear and tear allowance for the year was KShs 20.5bn in the 12 months ended 31 March 2021. If the rates had not been changed the wear and tear allowance would have been KShs 36.5bn. The effect of this was to reduce the expected benefit from corporate tax rate reduction. The wear and tear allowances changes were retained in the new tax measures issued in January by the government.

iii. The impact of COVID-19 to Group's financial performance

Management expected the pandemic to affect certain sectors of the economy mainly forming part of the Group's fixed data revenue source. This is due to prolonged lock down hence scaling down of business operations in the main urban centres. The Group initiated targeted discussions with our partners and in some cases extended payment periods while in other cases temporarily scaled down the fixed data offerings.

Management further assessed the risk around receivables' collectability to ensure where associated risk is high, higher ECL provisions were made. As a result, a specific provision of KShs 19.1 million on outstanding receivables from customers in the hospitality, agricultural and transport sectors that were significantly affected by the pandemic as at 31 March 2021 was taken.

Mobile data showed strong resilience mainly as data became more and more critical for people to continue operating from their homes and grew at 11.5% YoY.

NOTES TO THE FINANCIAL STATEMENTS continued

34 COVID-19 pandemic continued

iii. The impact of COVID-19 to Group's financial performance continued

Voice and messaging declined although this is also in line with the trend before COVID. M-PESA remained the main means of doing business including government support transfer services as people continue to keep physical distance guidelines. This led to chargeable transactions per one-month active customers growth of 34.7% YoY to 19.5 transactions per customer attributed to increased activity in the eco-system. Management believes the resilience sustained M-PESA growth in the year and this is expected to continue through to FY22.

Effects of Government Intervention on performance of the Group:

The Company Cash flows and Working capital performed as per expected projections and management does not expect significant deterioration in the free cash flows or any asset impairment resulting from the pandemic.

Due to the Group's significant operating cash flows as well as its financial assets, access to capital markets and revolving credit agreements, Management believes the Group has, and will maintain, the ability to meet its liquidity needs for the foreseeable future. The Group will continue to pursue efforts to maintain the continuity of its operations while monitoring for new developments related to the COVID-19 pandemic, which are unpredictable. Future COVID-19 developments could result in additional favorable or unfavorable impacts on Group's business, operations or financial condition.

iv. Group interventions

As reported in interim results announcement, in response to a request by Ministry of Health communication support to the pandemic response team and as part of our commitment to keep the country connected during the pandemic period, the Group provided connectivity resources and airtime to the Ministry of Health, the COVID-19 Emergency Response Fund and front-line health workers both at the national and county levels. The resources included a monthly bundle consisting data, voice call minutes and SMSes per month topped up to the individual lines of front-line workers identified by the Ministry of Health in the first half of the financial year. This also included internet connectivity for the National Command and Control Centre during that period.

The Group during the period has taken pro-active steps intended to protect the health and safety of our staff and partners through provision of masks and sanitizers to ensure business continuity and delivery of services is not affected. On this account, the group has spent in excess of KShs 600 million on staff and partner interventions.

With the COVID-19 vaccine available in the country, management has arranged for vaccination of all front-line workers to help mitigate any impact on Group's operating activities by safeguarding staff and those that come into contact with the frontline teams in the marketplace.

Management has determined that COVID-19 impact does not cast significant doubt upon the entity's ability to continue as a going concern. The Directors and Management will continue to monitor the measures taken by the Government of Kenya and adjust the Group's business strategies and plans accordingly.

35 Events after the reporting period

Participation of Safaricom Plc in a consortium bidding for a mobile telecommunications license in the Federal Republic of Ethiopia.

Safaricom Plc is part of a consortium that has submitted a bid for one of the two full service mobile telecommunication licenses being awarded by the Ethiopia Communication Authority (ECA).

Per the bidding requirements, the consortium submitted a Bid bond, a First Demand Bank Guarantee, and a Corporate Demand Guarantee. The guarantees are expected to expire upon the settlement of the license fees by the designated winner of the license. The company has taken up its proportionate share of the guarantees and transaction funding requirements.

At the point of Board approval of these financial statements, the outcome of the bidding process had not been announced by ECA.

APPENDIX 1 –
PRINCIPAL SHAREHOLDERS

The 10 largest shareholders in the Company (ordinary shares only) and the respective number of shares held as at 31 March 2021 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	KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 1019D	321,646,300
4	STANDARD CHARTERED KENYA NOMINEES LTD A/C KE19796	284,131,800
5	STANDARD CHARTERED KENYA NOMINEES LTD A/C KE20435	261,725,600
6	STANDARD CHARTERED KENYA NOMINEES LTD	197,381,427
7	STANBIC NOMINEES LTD A/C NR1030824	183,600,500
8	STANDARD CHARTERED NOMINEES RESD A/C KE11401	152,607,117
9	STANDARD CHARTERED KENYA NOMINEES LTD A/C KE004667	151,212,506
10	STANDARD CHARTERED NOMINEES RESD A/C KE11443	145,713,207
11	OTHERS	8,344,836,963
Total		**40,065,428,000**

Distribution of shareholders

Range (Number of shares)	Number of shareholders	Number of shares	% Shareholding
1 to 1,000	358,365	213,374,633	0.53%
1,001 – 10,000	165,181	468,737,352	1.17%
10,001 – 100,000	18,130	454,669,216	1.14%
100,001 – 1,000,000	1,613	438,093,506	1.09%
1,000,001 – 10,000,000	527	1,857,031,844	4.64%
10,000,001 – 100,000,000	177	4,410,639,433	11.01%
100,000,001 – 1,000,000,000	12	2,200,309,436	5.49%
1,000,000,001 – 100,000,000,000	2	30,022,572,580	74.93%
Total	**544,007**	**40,065,428,000**	**100.00%**

APPENDIX 2 –
REVENUE FROM CONTRACTS WITH CUSTOMERS

	GROUP					
	31 March 2021			31 March 2020		
	KShs'm At a point in time	KShs'm Over time	KShs'm Total	KShs'm At a point in time	KShs'm Over time	KShs'm Total
Voice revenue	–	85,282.5	85,282.5	–	89,521.9	89,521.9
Interconnect voice revenue from local partners	–	6,046.2	6,046.2	–	4,930.2	4,930.2
Messaging revenue	–	14,167.1	14,167.1	–	17,075.8	17,075.8
Interconnect messaging revenue from local partners	–	129.0	129.0	–	109.1	109.1
Mobile data revenue	–	44,793.2	44,793.2	–	40,668.0	40,668.0
Fixed data revenue	–	9,507.2	9,507.2	–	8,966.9	8,966.9
M-PESA revenue	82,647.4	–	82,647.4	84,438.0	–	84,438.0
Emergency top up access fee	–	4,909.8	4,909.8	–	4,494.2	4,494.2
Premium rate services initial set up fees	–	2.9	2.9	–	2.0	2.0
Other service revenue	–	2,866.5	2,866.5	–	1,008.0	1,008.0
Service revenue	**82,647.4**	**167,704.4**	**250,351.8**	**84,438.0**	**166,776.1**	**251,214.1**
Handset revenue	8,511.7	–	8,511.7	6,631.0	–	6,631.0
Connection revenue	–	1,761.1	1,761.1	–	2,034.8	2,034.8
Construction revenue	–	837.7	837.7	–	583.9	583.9
Total revenue	**91,159.1**	**170,303.2**	**261,462.3**	**91,069.0**	**169,394.8**	**260,463.8**

	COMPANY					
	31 March 2021			31 March 2020		
	KShs'm At a point in time	KShs'm Over time	KShs'm Total	KShs'm At a point in time	KShs'm Over time	KShs'm Total
Voice revenue	–	85,282.5	85,282.5	–	89,521.9	89,521.9
Interconnect voice revenue from local partners	–	6,046.2	6,046.2	–	4,930.2	4,930.2
Messaging revenue	–	14,167.1	14,167.1	–	17,075.8	17,075.8
Interconnect messaging revenue from local partners	–	129.0	129.0	–	109.1	109.1
Mobile data revenue	–	44,793.2	44,793.2	–	40,668.0	40,668.0
Fixed data revenue	–	9,507.2	9,507.2	–	8,966.9	8,966.9
M-PESA revenue	80,635.8	–	80,635.8	83,135.6	–	83,135.6
Emergency top up access fee	–	4,909.8	4,909.8	–	4,494.2	4,494.2
Premium rate services initial set up fees	–	2.9	2.9	–	2.0	2.0
Other service revenue	–	2,712.1	2,712.1	–	925.3	925.3
Service revenue	**80,635.8**	**167,550.0**	**248,185.8**	**83,135.6**	**166,693.4**	**249,829.0**
Handset revenue	8,511.7	–	8,511.7	6,631.0	–	6,631.0
Connection revenue	–	1,761.1	1,761.1	–	2,034.8	2,034.8
Construction revenue	–	837.7	837.7	–	583.9	583.9
Total revenue	**89,147.5**	**170,148.8**	**259,296.3**	**89,766.6**	**169,312.1**	**259,078.7**