SAFARICOM ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

Safaricom
Twaweza

Building a bright future together

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To our investors and stakeholders

Safaricom PLC Annual Report, prepared in accordance with the International Financial Reporting Standards (IFRS) Framework, aims to provide our stakeholders with a concise, material and frank assessment of how we create value over time.

Report boundary and scope

This report reviews Safaricom's strategy and business model, risks and opportunities, and operational and governance performance, for the financial year April 1 2017 to March 31 2018. The report covers fully consolidated financial and non financial data from each of our divisions.

In assessing the risks, opportunities and outcomes that materially impact value creation, we have looked beyond the financial reporting boundary to provide for the material interests of relevant stakeholders, and to address the significant risks, opportunities and impact associated with our activities.

Reporting frameworks

Our reporting process has been guided by the principles and requirements contained in the International Financial Reporting Standards (IFRS), Capital Markets Authority (CMA) requirements and the Kenyan Companies Act, as a public listed company.

We have provided audited annual financial statements (AFS) in this report. The full set as well as a suite of additional reports are available online and or can be requested from our Registrars.

Materiality

This report provides information on all those matters that we believe could substantively affect value creation at Safaricom PLC. Written primarily for current and prospective investors, the report is of interest to any stakeholder who wishes to make an informed assessment of Safaricom's ability to create value over time.

To identify and prioritise the material matters for inclusion in this report, we undertook a structured process involving senior decision makers from across the company.

The process involved a considered review of Safaricom's business model; our interaction with the strategy that is driving our growth; Financial Review; our operating environment; and the interests of our key stakeholders as expressed during our normal business engagements with them.

The outcomes of this process were reviewed and signed off by our Board Audit committee and our Board Nominations and Remuneration committee.

This report presents the identified material information through a clearly structured narrative. Additional information not material for this report, but of interest for other purposes, are provided in our other reports and on our website.

Integrated thinking

Integrated thinking is intrinsic to how we manage our business and to our internal strategy development and reporting practices. Our strategy and three strategic pillars have been developed to ensure that we manage the resources and relationships needed to create value over time.

A considered assessment of our strategy and the internal materiality process was used to determine the content and structure of this report.

Combined assurance

We use a combined assurance model to provide us with assurance obtained from management and from internal and external assurance providers. PwC audited our consolidated annual financial statements as at 31st March 2018 and provided an unqualified opinion thereon.

The financial statements in this Annual Report are from audited information. Our Board Audit committee and our Board Nominations and Remuneration committee provide internal assurance to the Board on an annual basis on the execution of the combined assurance plan. The Company's financial, operating, compliance and risk management controls are assessed by the Company's internal audit function, which is overseen by the Board Audit Committee.

Board approval

The Board has applied its collective mind to the preparation and presentation of the information in this report.

The Board believes that this report addresses all material issues and presents a balanced and fair account of the company's performance for the reporting period, as well as an accurate reflection of our core strategic commitments for the short-, medium- and long-term.

The directors have applied their judgement regarding the disclosure of Safaricom's strategic plans, and have ensured that these disclosures do not place Safaricom at a competitive disadvantage.

On the recommendation of the Board Audit Committee and the Board Nominations and Remuneration Committee, the Board approved the Safaricom PLC Annual Financial Statements and the Safaricom PLC Annual Report on May 8 2018.

Signed on the Board's behalf:

Nicholas Nganga

Chairman

Bob Collymore

Chief Executive Officer

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Building a
bright future
together

Our Business Highlights

Who we are

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

Our Purpose

Transforming lives

Our Brand Promise

Twaweza
When we come together great things happen

Our Values

Speed, Simplicity, and Trust

The Company's shareholding structure is as follows:

25%	35%	40%
Retail and institutional investors listed at the NSE	Government of Kenya	Vodafone Kenya Ltd

Five-year historical performance

Income Statement - Shs mn	FY14	FY15	FY16	FY17	FY18
Voice revenue	84,316	87,368	90,802	93,459	95,639
M-Pesa revenue	26,561	32,626	41,500	55,084	62,907
Mobile data revenue	9,314	14,823	21,154	29,328	36,357
Fixed data revenue	2,571	3,128	3,815	5,242	6,673
SMS revenue	13,620	15,671	17,328	16,679	17,721
Other service revenue	1,980	2,631	3,185	4,317	5,237
Service revenue	**138,361**	**156,247**	**177,784**	**204,109**	**224,535**
Handset and other revenue	6,312	7,117	8,621	8,700	8,980
Construction revenue	-	-	9,280	76	202
Total revenue	**144,672**	**163,364**	**195,685**	**212,885**	**233,717**
Other income	127	576	232	2,509	510
Direct costs	(51,964)	(56,709)	(62,310)	(66,782)	(70,555)
Construction costs	-	-	(9,280)	(76)	(202)
Contribution Margin	**92,835**	**107,231**	**124,327**	**148,536**	**163,470**
Operating expenses	(31,892)	(36,040)	(41,261)	(44,928)	(50,636)
EBITDA	**60,943**	**71,191**	**83,066**	**103,608**	**112,834**
Depreciation & amortisation costs	(25,787)	(25,570)	(27,943)	(33,234)	(33,568)
EBIT	35,156	45,621	55,124	70,374	79,266
Net finance (costs)/Income	(355)	219	504	297	659
Net forex gain / (loss)	168	206	398	(58)	(26)
Share of associate profit / (loss)	15	(4)	104	19	10
Assets purchase bargain gain	-	108	-	-	-
Fair value loss on investment property	-	-	(367)	-	-
EBT	**34,984**	**46,150**	**55,763**	**70,632**	**79,909**
Taxation	(11,967)	(14,278)	(17,658)	(22,188)	(24,620)
Net Income	**23,018**	**31,871**	**38,104**	**48,444**	**55,289**
Earnings per share (Shs)	**0.57**	**0.80**	**0.95**	**1.21**	**1.38**
Free cash flow (Shs mn)	22,692	27,524	30,360	43,515	55,387
Ordinary dividend (paid / proposed) (Shs mn)	**18,831**	**25,642**	**30,483**	**38,863**	**44,071**
Ordinary dividend per share (Shs)	0.47	0.64	0.76	0.97	1.10
Special dividend paid (Shs mn)	-	-	**27,244**	-	-
Special dividend per share (Shs)	-	-	0.68	-	-

How we created value in 2018

Customers

12%
Drop in effective price of SMS

29%
Drop in effective price of both data and P2P M-PESA transactions

35%
Proportion of the population covered by our 4G network

86%
Proportion of the population covered by ou 3G network

101 k+
Number of active Lipa na M-PESA merchants

141k+
Homes passed by fibre

M-PESA Agent

156k+
Number of M-PESA agents

Shareholders

15.6%
Safaricom's CAPEX intensity. The high investment ensures a smooth customer experience guaranteeing high returns to shareholders

500%+
Shareholder returns since listing (dividends re-invested)

36.4bn
Amount in shillings of CAPEX which is complemented by successful commercial monetisation and revenue growth. Most of this investment was made to increase capacity to serve the demand for high-speed data.

44.07bn
Amount in shilllings of proposed dividend payment for full year 2018.

In FY2019 we look to drive long-term shareholder value by deploying next-generation network services, leveraging data analytics and segmentation, guided by our purpose of transforming lives.

Employees

6,130

Current number of staff members comprised of permanent employees and contractors. The average age is 27 years.

460

Line managers who have been trained to be life coaches. The aim is to support employee wellness, performance management and leadership development.

50%

Proportion of women staff members working at Safaricom

32%

Proportion of women in senior management

1.7%

Proportion of Persons with Disabilities working at Safaricom

Community

486bn

Value in shillings generated in the economy

20.5mn

Number of active M-PESA users

5,103

Number of young people provided with entrepreneurship education in the past 4 years through Safaricom Foundation support

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

300,000

People who can today access clean and safe water for domestic use through community water projects supported by Safaricom Foundation.

6.5%

Contribution to Kenya's GDP

SOS 1.2mn

The number of people assisted through various disaster response initiatives such as emergency food distribution and provision of shelter for the displaced.

6,965

Number of jobs sustained through micro and small scale social enterprises in the last four years.

JOBS 800k+

Number of jobs sustained in the economy during the financial year.

Chairman's Statement

Together, we can build a brighter future

Overview

Last year was a difficult period for businesses all over the country. According to official reports, Kenya's economic growth slowed to 4.9 per cent, fuelled by political uncertainty as the country dealt with the effects of a prolonged electioneering period.

During this period the credit market also recorded its slowest growth in 14 years, attributed to the interest rate capping and reduced economic activity. In addition, consumers bore the brunt of high food prices occasioned by persistent drought, which negatively affected agricultural production and strained household budgets.

However, despite the depressed economic performance, Government reports show that the Information and Communication sector expanded by 11 per cent in 2017, supported mainly by growth in the digital economy, mobile telephony, e-commerce, and online trading, among others.

On the competition front, we continue to see a lot of changes expected to generate excitement in market in coming months including the entry of new telco and non-telco players into the industry.

These developments present evidence of a dynamic market, whose biggest beneficiary is undoubtedly the consumer.

Regulatory environment

Looking at industry regulation, we are following with great interest changes in the regulatory environment, which will continue to be an area of focus for us as we evaluate our position in light of recommendations put forward in a draft industry study commissioned by the Communications Authority.

The draft competition study proposes a number of interventions that are of serious concern to us. These include attempts to change the rules of the game by introducing price controls and regulated infrastructure sharing.

While yet to be approved or implemented, the fact that these suggestions have been brought forward is an indication that we could be heading into an era where success – rightfully earned through well-structured market strategy, innovation and investment – is penalised.

Our position is that the market should be allowed the freedom to regulate itself, and infrastructure-sharing agreements negotiated between operators on commercial terms, as is happening already.

Introduction of price controls not only runs the risk of players abandoning investment in their own networks as they wait to be hosted, they will also eventually hurt customers and the country's standing as a leader in innovation.

Additionally, the recommendations that Safaricom be required to roll out services replicable by competitors and limitations in the creation of targeted promotions will not only stifle our ability to innovate for our customers and limit our reach; they also raise questions over their benefit to the over 40 million mobile subscribers in the country – which is what any intervention by the regulator ought to focus on.

In light of these developments, we continue to engage the Communications Authority in pursuit of a more considered outcome that will lead to a win-win result. The telecommunications sector in Kenya is liberal and competitive, and operators should be left to compete on quality, price and innovativeness of services. Attempts to introduce retail price controls are retrogressive, anti-consumer and unjustified, and are against the country's market economy policy.

Business Outlook

While we engage all our stakeholders, we will continue to invest in our business, guided by our brand purpose of Transforming Lives.

> **We remain steadfast in delivering on this strategy and growing our shareholders' wealth**

This purpose informs our three-pillar strategy of putting the customer first, providing relevant products and services, and enhancing our operational excellence, which continues to generate favourable results.

Looking ahead, we remain steadfast in delivering on this strategy and growing our shareholders' wealth, while at the same time remaining committed to the Safaricom Way of being a purpose-led, customer-obsessed, insights-driven business.

It is a long-term strategy that is already paying off, and one that we believe is integral to the growth of our business.

Corporate governance

During the year, there were changes to the board. Mohamed Joosub, Till Streichert and Linda Muriuki were appointed to the board. I welcome the new directors and wish to sincerely thank John Otty and Nancy Macharia for their contribution during their tenure on the Board.

I am also pleased to welcome our CEO, Bob Collymore, back to work following his medical leave of absence. During his time away, he continued to provide valuable leadership to the business and worked closely with our Board of Directors and Executive Committee, which contributed greatly to the strong performance we enjoyed last year.

On behalf of the Board, I would like to thank the media, our partners and the general public for respecting Bob's privacy while he was away.

In closing, I would also like to thank the staff and management of Safaricom for their continued dedication to our purpose of transforming lives.

We look forward to another great year of transforming lives and partnering for success, for when we come together, great things happen.

Twaweza!

Nicholas Ng'ang'a
Chairman

Nicholas Nganga - Chairman

Nicholas Nganga - Mwenyekiti

> "
> **Msimamo wetu ni kwamba soko linafaa kuwa huru na sekta ijidhibiti kwa nguvu zake za kawaida.**

Taarifa ya Mwenyekiti

Pamoja tunaweza kuwa na mstakabali mwema

Kwa ufupi

Mwaka uliopita ulikuwa na changamoto tele kwa biashara nyingi kote nchini Kenya. Kwa mujibu wa ripoti za serikali, kiwango cha ukuaji wa uchumi wa Kenya kilishuka hadi asilimia 4.9. Hii ilitokana na wasiwasi wa kisiasa uliokuwepo taifa hili lilipokuwa linakumbana na athari za kipindi kirefu cha uchaguzi.

Katika kipindi hicho, sekta ya utoaji wa mikopo ilishuhudia kiwango cha chini zaidi cha ukuaji kuwahi kushuhudiwa katika miaka 14. Hii ilichangiwa na sheria iliyoweka ukomo kwenye viwango vya riba pamoja na kupungua kwa shughuli za kiuchumi. Kadhalika, wateja walikabiliwa na ongezeko la bei ya vyakula kutokana na ukame wa muda mrefu ambao uliathiri uzalishaji katika sekta ya kilimo. Hili lilichangia kuongezeka kwa gharama ya maisha katika familia nyingi.

Hata hivyo, licha ya kupungua kwa kasi ya ukuaji wa uchumi, ripoti za Serikali zinaonesha sekta ya Habari na Mawasiliano ilikua kwa asilimia 11 mwaka 2017. Ukuaji huu unatokana zaidi na kuimarika kwa uchumi wa kutumia mifumo wa kidijitali, biashara ya simu za rununu, na biashara ya kupitia mtandaoni, miongoni mwa mengine.

Upande wa washindani, tunaendelea kushuhudia mabadiliko mengi ambayo yanatarajiwa kuzua msisimko sokoni katika miezi michache ijayo. Tumeshuhudia kuingia sokoni kwa kampuni mpya za mawasiliano ya simu na zisizo za kutoa huduma ya mawasiliano ya simu moja kwa moja. Matukio haya ni ushahidi tosha wa jinsi soko letu linavyobadilika kila uchao, na anayefaidi zaidi bila shaka ni mteja.

Mazingira ya kisheria

Tukiangazia usimamizi wa sekta hii, tumekuwa tukifuatilia kwa karibu sana matukio katika mazingira ya kisheria na usimamizi. Tutaendelea kufanya hivyo kwa makini tukiendelea kutathmini msimamo wetu kuhusu mapendekezo yaliyo kwenye rasimu ya utafiti kuhusu sekta hii ambao ulikuwa umefanywa kwa niaba ya Mamlaka ya Mawasiliano Kenya.

Rasimu ya matokeo ya utafiti huo inapendekeza hatua kadha zichukuliwe ambazo hazijatufurahisha kamwe. Hatua hizi ni pamoja na majaribio ya kubadilisha hali ya mchezo uwanjani kwa kuanza kudhibiti bei pamoja na wahudumu kutakiwa kutumia miundo mbinu kwa pamoja.

Ingawa mapendekezo haya bado hayajaidhinishwa wala kuanza kutekelezwa, hali kwamba yametolewa ni ishara kwamba huenda tukawa tunaelekea katika kipindi ambacho mhudumu atakuwa anaadhibiwa kwa sababu ya ufanisi - ambao umepatikana kwa njia ya haki na kwa kutoa jasho, kupitia mkakati mwafaka wa kibiashara, uvumbuzi na uwekezaji wa busara.

Msimamo wetu ni kwamba soko linafaa kuwa huru na sekta ijidhibiti kwa nguvu zake za kawaida. Kadhalika wahudumu waachwe washauriane wenyewe kuhusu kutumia kwa pamoja miundo mbinu na mitambo kupitia makubaliano ya kibiashara, kama inavyofanyika kwa sasa.

Kuanza kudhibitiwa kwa bei sio tu kwamba kunaleta hatari ya wahudumu kuacha kuwekeza katika mifumo yao, wakisubiri kutumia mitambo ya wengine, bali pia ni hatua itakayomwathiri mteja mwishowe pamoja na kuathiri hadhi ya taifa hili kama kiongozi katika uvumbuzi.

Isitoshe, mapendekezo kwamba Safaricom itaruhusiwa tu kuanza kutoa huduma mpya iwapo huduma hiyo inaweza pia kutolewa na washindani wake na kwamba kampuni hii iwekewe masharti ikitaka kuzindua shughuli za mauzo na matangazo zinazowalenga wateja wa kiwango fulani, haya ni mambo yatakayoathiri uwezo wetu wa kuvumbua mambo mapya ya kumfaa mteja na pia kuathiri uwezo wetu wa kuwafikia wateja wengi. yakibiashara na kufanya kampeni za mauzo tukilenga wateja katika ngazi mbalimbali. Mapendekezo haya pia yanatushangaza ni vipi yanaweza kuwafaa zaidi ya watu 40 milioni na zaidi wanaotumia simu nchini. Hili ndilo jambo la msingi ambalo msimamizi yeyote wa sekta hii anafaa kuzingatia.

Kwa kuzingatia mambo haya yanayojiri, tutaendelea kushauriana na Mamlaka ya Mawasiliano tukitafuta suluhu ambayo itazifaa pande zote. Sekta ya mawasiliano ya simu nchini Kenya ni huru na ya ushindani, na wahudumu wanafaa kuachwa washindane wenyewe kwa kiwango cha ubora, bei na uvumbuzi kwenye bidhaa na huduma zao. Juhudi za kuanza kudhibiti bei ya rejareja ni

Tutaendelea kuwa imara katika kutekeleza mkakati huu na kukuza mali ya wenyehisa huku tukiendelea kujitolea kudumisha Mtindo wa Safaricom.

Taarifa ya Mwenyekiti

Pamoja tunaweza kuwa na mstakabali mwema

za kurejesha watu nyuma, zisizowafaa wateja na zisizo za haki. Isitoshe, zinaenda kinyume na sera ya kiuchumi ya Kenya.

Mustakabali wa Kibiashara

Huku tukiendelea kuwashirikisha wadau wote, tutaendelea kuwekeza katika biashara yetu, tukiongozwa na lengo kuu la utambulisho wa nembo yetu ambalo ni Kubadilisha Maisha.

Lengo hili kuu linaongoza mkakati wetu ulio na nguzo tatu kuu ambazo ni kuweka maslahi ya wateja mbele, kutoa bidhaa na huduma zifaazo, na kuboresha uendeshaji wa shughuli zetu. Mkakati huu umeendelea kuzaa matunda mema.

Tukitazama siku zijazo, tutaendelea kuwa imara katika kutekeleza mkakati huu na kukuza mali ya wenyehisa huku tukiendelea kujitolea kudumisha Mtindo wa Safaricom wa kuwa kampuni inayoongozwa na malengo, yenye kuangazia zaidi huduma kwa wateja na kuangazia matokeo mema.

Huu ni mkakati wa muda mrefu ambao tayari unatuzalia matunda mema, na tunaamini kwamba una umuhimu mkubwa katika ukuaji wa biashara yetu.

Usimamizi wa kampuni

Katika mwaka uliomalizika, kulitokea mabadiliko kwenye bodi ya wakurugenzi. Mohamed Joosub, Till Streichert na Linda Muriuki waliteuliwa kujiunga na bodi.

Nawakaribisha wakurugenzi hawa wapya na kumshuruku sana John Otty, aliyejiuzulu Mei 8, 2018, kwa mchango wake kipindi alichokuwa mwanachama wa bodi.

Nina furaha pia kumkaribisha tena kazini Afisa Mkuu Mtendaji wetu, Bob Collymore, kutoka likizo yake ya kimatibabu. Aliendelea kutoa uongozi muhimu kwa kampuni hii na kufanya kazi kwa karibu sana na Bodi yetu ya Wakurugenzi na Kamati Tendaji. Hili lilichangia pakubwa matokeo mazuri ambayo tuliyapata mwaka uliomalizika.

Kwa niaba ya Bodi, ningependa kuwashukuru wanahabari, washirika wetu na umma kwa jumla kwa kuheshimu haki ya faragha ya Bob na maisha yake alipokuwa likizoni.

Nikihitimisha, ningependa pia kuwashukuru wafanyakazi na wasimamizi wa Safaricom kwa kujitolea kwao kuendelea kutimiza lengo letu la kubadilisha maisha ya watu.

Tunatarajia mwaka mwingine mzuri wa kubadilisha maisha ya watu na kushirikiana kuhakikisha ufanisi, kwani tunapoungana pamoja, mambo makuu yanawezekana.

Nicholas Nganga
Mwenyekiti

Building a bright future together

We are on a journey to creating a workplace that promotes productivity, beginning by taking care of the needs of people.

1.7%

Current number of staff with disabilities with a pledge to move this to 5% by 2021

CEO's Statement

Purpose, people and profit

Safaricom exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on three pillars: putting the customer first, delivering relevant products and services, and enhancing operational excellence.

In the last year we showcased our commitment to implementing this strategy, overcoming economic and regulatory headwinds to post a strong financial performance, create great value for our shareholders and transform the lives of millions of Kenyans every day.

Within the same year I also took some much-needed time off to receive specialised medical treatment. I however continued to work closely with my Executive Team through face-to-face meetings in London and remotely using our Virtual Private Network as we guided the business through a rather tough period.

While they handled the day-to-day business operations, I had time to reflect on a subject that has become very dear to me: our company culture.

Safaricom is a high performing organisation powered by over 6,000 men and women dedicated to ensuring that we achieve our brand purpose of transforming lives.

But we often forget to highlight one of the most critical elements contributing to our success, and that is people.

These men and women, majority of whom our shareholders and other stakeholders never get to interact with, are the secret ingredient to our success, and the engine behind our continued growth.

People and Culture

It is through investment in a strong, competent body of staff that our business continues to enjoy its position as the market leader, guided by a sharp focus on our strategy.

So this year, we will be realigning and refreshing our corporate culture to meet our business goals, with focus on four key elements: purpose, humanness, growth and trust.

We are on a journey to creating a workplace that promotes productivity, beginning by taking care of the needs of people.

We have begun to do this by investing more in staff wellness through the 100% Human at Work initiative, which seeks to encourage businesses to recognise their staff members as human beings, not just resources, in order to create a happier, healthier, more productive workforce.

Having had the time to really reflect on the role of employee wellness on a business' performance, I am particularly passionate about investing in initiatives that will ensure that we deliver great value for our shareholders and continue to transform lives.

Diversity and Inclusion

As a business, we have also committed to pursuing true diversity and inclusion, which means elevating more women to leadership positions and absorbing more people living with disabilities into our organisation.

While we are proud of achieving a 1:1 male to female employee ratio, there is need to create more opportunities for more women to transition into leadership positions. In line with this, we have committed to matching the number of women in senior management to that of men by 2020.

In addition to that we have pledged to increase the number of staff with disabilities from the current 1.7 per cent of our employee population to five per cent by March 2021, and to work closely with partners to advocate for the full inclusion of people with disabilities within the public and private sectors.

Delivering the Strategy

At Safaricom, we like to speak about the 3P's that support our strategy: Purpose, People and Profit – that when you put purpose and people first, then profit always follows.

It's a mind-set that has led us to achieve remarkable results each year, reminding us that our business exists to transform lives; from the communities we serve to the people who serve.

Under the guidance of a strong leadership team and dedication of our staff, we diversified the business to support revenue generated by voice and SMS, which continued to defy global trends to report a blended growth of 2.9% YoY.

Despite this performance we remain alive to the global decline of voice and SMS usage, and are readying the business by introducing more innovative products and services.

We see a consumer-led future in data and mobile money buoyed by the attendant value propositions that we will continue to offer our customers. In light of this trend we are moving towards a more resilient

Bob Collymore - CEO

CEO's Statement

Purpose, people and profit

business model that will drive sustained business growth by leveraging new opportunities in mobile and fixed data, and mobile money transfer and payments.

As demand for these services grows, we are positioning ourselves to tap into opportunities that arise so that we can narrow the gaps to accessibility presented by physical and geographical barriers.

This includes: continued investment in the expansion of our 4G footprint; provision of fast, affordable Internet to retail and commercial customers through Safaricom Business and Safaricom Home fixed data propositions; and building partnerships that will enable us to offer high quality, local and international content.

In addition, we continue to explore new innovations around the latest technologies built on Internet-based solutions.

The Internet of Things (IoT) presents exciting new opportunities for us to showcase the power of collaboration and technology, and we've already began experimenting with it in the areas of sports and healthcare.

Also leading our growth is M-PESA, which has maintained a steady momentum to contribute 28 per cent of our service revenue.

In the last financial year, we maintained our focus on democratizing M-PESA by reducing Lipa Na M-PESA merchant fees by 50 per cent, and scrapping transaction fees for amounts lower than Shs 200 in order to encourage adoption of this service, which we view as a huge untapped opportunity.

We also continue to improve the customer experience on M-PESA through system enhancement, additional security features and mySafaricom App, so as to ensure the long-term sustainability of this ecosystem and business stream.

As part of our sustained push to offer disruptive products and services, we are also looking forward to delivering success on Masoko, the e-commerce platform we launched last year. We intend to do this by streamlining its operations to meet market demand and shake up the local online trading industry.

Beyond our borders, we continue to monitor and explore new areas of opportunity in keeping with our strategy, which in 2016 we aligned with the Sustainable Development Goals (SDGs).

Sustainable Growth

Aware of the reality that our business cannot thrive independent of the communities we operate in, we have adopted and began to pursue the achievement of nine of the 17 SDGs: Good Health & Wellbeing (Goal 3); Quality Education (Goal 4); Affordable & Clean Energy (Goal 7); Decent Work & Economic Growth (Goal 8); Industry, Innovation & Infrastructure (Goal 9); Reduced Inequalities (Goal 10); Responsible Consumption & Production (Goal 12); Peace, Justice & Strong Institutions (Goal 16) and Partnerships For The Goals (Goal 17).

These goals represent our commitment to mobilizing global efforts towards realising shared prosperity for all, and present significant opportunities for our business to make a greater contribution to equal socio-economic growth.

Guided by the SDGs, we are investing in initiatives that are transforming lives, collaborating with partners to deliver essential services in sectors such as healthcare, education and agriculture, and empowering Kenya's youth.

Looking ahead, we see great opportunities for sustained growth. One of our goals is to transform Safaricom into a truly agile organisation, by creating an environment where decisions can be made quickly and mistakes viewed as opportunities to learn fast.

It all begins with investing in our people, whose job it is to ensure that Safaricom remains the leading mobile network operator, and who prove to us every day that when we come together, great things happen.

Twaweza!

Bob Collymore
Chief Executive Office

> **“Looking ahead, we see great opportunities for sustained growth. One of our goals is to transform Safaricom into a truly agile organisation**


Building a
bright future
together

Bob Collymore - Mkurugenzi Mkuu

Taarifa ya Mkurugenzi Mkuu

Lengo, watu na faida

Safaricom ipo kwa ajili ya kubadilisha maisha ya watu. Hili ndilo lengo letu kuu; jambo linalotupa msukumo katika kila tunalolitenda. Ndilo jambo linalotuongoza na kutuelekeza katika kutekeleza mkakati wetu ambao una msingi wake katika nguzo tatu kuu, kupatia kipaumbele maslahi ya wateja wetu, kutoa bidhaa na huduma zinazofaa, na kuendesha shughuli zetu kwa njia bora zaidi.

Katika mwaka uliopita, tulidhihirisha kujitolea kwetu katika kutekeleza mkakati huu, ambapo tuliweza kuhimili changamoto za kiuchumi na kisheria na kuandikisha matokeo mazuri ya kifedha. Kadhalika, tuliongeza thamani kwa uwekezaji wa wenyehisa wetu na kubadilisha maisha ya mamilioni ya Wakenya kila siku.

Katika mwaka huo pia, nilichukua likizo kwenda kupokea matibabu maalum. Hata hivyo, niliendelea kufanya kazi kwa karibu sana na kundi la maafisa wangu watendaji kupitia mikutano ya ana kwa ana London na mingine ya mbali kwa kutumia teknolojia ya mtandao. Tulifanikiwa kuiongoza na kuielekeza kampuni hii kupitia kipindi chenye changamoto tele.

Walipokuwa wanasimamia shughuli za kila siku za biashara yetu, nilipata muda wa kutafakari kuhusu jambo ambalo nimekuwa ninalithamini sana: utamaduni wa kampuni yetu.

Safaricom ni kampuni inayoandikisha matokeo mema sana, ikisaidiwa na wanaume na wanawake 6,000 waliojitolea kuhakikisha kwamba tunatimiza lengo la nembo yetu la kubadilisha maisha ya watu.

Lakini mara nyingi huwa tunasahau kuangazia moja ya viungo muhimu ambavyo huchangia ufanisi wetu, na kiungo hiki ni watu.

Wanaume na wanawake hawa, ambao wengi wa wenyehisa wetu na wadau wengine huwa hawakutani nao hata kidogo, ndio kiungo ambacho ni siri ya mafanikio yetu, ndiyo injini inayosukuma ukuaji wetu.

Watu na utamaduni

Ni kupitia kuwekeza katika kundi la wafanyakazi imara na wenye ujuzi ufaao ambapo kampuni yetu imeendelea kuongoza katika sekta hii, wakiongozwa na mkakati wetu.

Kwa hivyo mwaka huu, tutaanza kuangazia kuboresha utamaduni wa kampuni yetu kusaidia kutimiza malengo yetu ya kibiashara, kwa kuangazia mambo manne makuu: lengo, utu, ukuaji na kuaminika.

Tupo kwenye safari ya kuunda pahala pa kufanyia kazi ambapo panaendeleza utendakazi bora, kwa kuanza kukidhi mahitaji ya wafanyakazi wetu.

Tumeanza kufanya hivyo kwa kuwekeza zaidi katika maslahi ya wafanyakazi kupitia kampeni yetu ya Utu Kazini 100%, ambayo lengo lake ni kuhamasisha kampuni mbalimbali kuwatambua wafanyakazi wao kama watu, na sio rasilimali, ili kuwa na kikosi cha wafanyakazi wenye furaha, wenye afya na wenye utendaji kazi bora.

Baada ya kupata wakati wa kutafakari kuhusu mchango wa afya bora na hali nzuri, na ustawi wa wafanyakazi kwa kampuni, nina hamu sana ya kuwekeza katika miradi ambayo itahakikisha tunaendelea kuongeza thamani kwa uwekezaji wa wenyehisa wetu na kuendelea kubadilisha maisha ya watu.

Kuwajumuisha wote

Kama kampuni, tumejitolea pia kuendelea kukubali tofauti zilizopo katika jamii na kuwajumuisha watu wote. Hii ina maana tutawapandisha vyeo wanawake zaidi wachukue nyadhifa za uongozi, na pia tutawaajiri watu wengi walio na ulemavu katika kampuni yetu.

Tunajionea fahari kwamba tumetimiza kiwango cha 1:1 wanaume kwa wanawake miongoni mwa wafanyakazi wetu. Sasa, ipo haja ya kuunda nafasi zaidi kwa wanawake kuwawezesha kuingia katika nafasi za uongozi. Kuambatana na hili, tumejitolea kuhakikisha tuna idadi sawa ya wanawake na wanaume katika nyadhifa za juu za usimamizi wa kampuni kufikia 2020.

Kadhalika, tumeahidi kuongeza idadi ya wafanyakazi wetu walio na ulemavu kutoka kiwango cha sasa cha asilimia 1.7 hadi asilimia tano kufikia Machi 2021, na kufanya kazi kwa karibu sana na washirika wetu kutetea kujumuishwa kikamilifu kwa watu wenye ulemavu serikalini na katika sekta ya kibinafsi.

Kutekeleza Mkakati

Katika Safaricom, huwa twapenda kuzungumzia nguzo tatu kuu (3P) zinazoongoza mkakati wetu: Lengo, Watu

> Tunaunda mfumo wa kufanikisha shughuli za kibiashara na uvumbuzi kwa lengo la kuongeza thamani kwa wateja wetu.

1.7

Asilimia ya watu walio na ulemavu wanaofanya kazi Safaricom.

> **Katika siku zijazo, tunatarajia fursa nyingi za ukuaji endelevu. Moja ya malengo yetu ni kuibadilisha Safaricom na kuwa kampuni inayoweza kuchukua hatua upesi.**

Taarifa ya Mkurugenzi Mkuu

Lengo, watu na faida

na Faida – kwamba unapoweka lengo lako kuu na maslahi ya watu mbele, faida hufuata.

Ni mtazamo huu ambao umetuwezesha kuandikisha matokeo mazuri ya kifedha kila mwaka, tukijikumbusha kwamba kampuni yetu ipo kwa ajili ya kubadilisha maisha ya watu; kuanzia kwa jamii ambazo twatumikia na kuhudumia hadi kwa wafanyakazi wetu.

Chini ya uongozi wa kundi letu thabiti la viongozi na wafanyakazi waliojitolea, tulipanua huduma tunazotoa ili kusaidia mapato ambayo hutokana na kupigwa kwa simu na kutumwa kwa SMS, huduma ambazo ziliendelea kujitenga na mtindo kwingineko duniani na kuandikisha ukuaji wa pamoja wa kuridhisha wa 2.9% mwaka baada ya mwaka.

Licha ya matokeo haya mazuri, tunatambua kwamba matumizi ya huduma za kupiga simu na kutuma SMS yanapungua duniani, na tunajiandaa kwa hilo kama kampuni kwa kuvumbua huduma na bidhaa mpya.

Tunatarajia siku zijazo mteja awe na usemi zaidi katika huduma za data na kutuma na kupokea pesa kwa njia ya simu, yote haya yakichangiwa na thamani ambayo tutakuwa tunaendelea kuitoa kwa wateja. Kwa kutambua mtindo huu, tunabadilisha muundo wa biashara yetu na kuifanya kuweza kuhimili mabadiliko na kuiwezesha kuhakikisha inapata ukuaji endelevu kwa kutumia fursa mpya katika huduma ya data kupitia simu na nyaya, na huduma ya kutuma, kupokea pesa na kufanya malipo kwa njia ya simu.

Huku hitaji la huduma hizi likiendelea kuongezeka, tunajiweka katika nafasi nzuri ya kutumia fursa zitakazochipuka ili kuweza kupunguza pengo la kutofikiwa kwa huduma zetu ambalo limekuwepo kutokana na changamoto za umbali wa maeneo miongoni mwa sababu nyingine.

Tunafanya hivyo kupitia: kuendelea kuwekeza katika kupanua upatikanaji wa huduma yetu ya 4G, kutoa huduma ya mtandao ya kasi na ya kutegemewa kwa wateja wa rejareja na wa kibiashara kupitia huduma za mtandao wa kupitia Safaricom Business na Safaricom Home; na kujenga ushirikiano na wadau wengine ambao utatuwezesha kutoa habari na makala za ubora wa hali ya juu za ndani ya nchi na za kimataifa.

Kadhalika, tunaendelea kutafuta njia za kutumia uvumbuzi mpya wa huduma zinazohusiana na teknolojia ya kisasa zaidi ya mtandao.

Teknolojia hii ya Mtandao kwa Kila Kifaa (IoT) inatoa fursa mpya na za kuvutia za kuonesha nguvu ya ushirikiano na teknolojia, na tayari tumeanza kuifanyia majaribio katika fani za michezo na huduma ya afya.

Kitu kingine kinachochangia ukuaji wetu ni M-PESA, huduma ambayo imeendeleza ukuaji na sasa inachangia asilimia 28 ya mapato yetu.

Katika mwaka wa kifedha uliomalizika, tuliendeleza juhudi zetu za kuifanya huru M-PESA kwa kupunguza ada inayotozwa wafanyabiashara wanaotumia Lipa Na M-PESA kwa asilimia 50, na pia kwa kufuta kabisa ada iliyokuwa inatozwa kiasi cha pesa cha chini ya Shs 200 ili kuwahamasisha watu zaidi kutumia huduma hii. Tunaitazama hii kama fursa kubwa ambayo bado haijatumiwa vyema.

Tunaendelea pia kuimarisha na kurahisisha mambo kwa wateja wakitumia M-PESA kupitia kuboresha mfumo wenyewe, kuimarisha viungo vya usalama na kupitia mySafaricom App, ili kuhakikisha uendelevu wa muda mrefu wa mfumo na huduma hiyo muhimu kwa biashara yetu.

Kama sehemu ya juhudi zetu zinazoendelea za kutoa huduma na bidhaa mpya za kubadilisha mambo sokoni, tunajizatiti pia kuhakikisha ufanisi wa Masoko, huduma ya kufanya biashara kidijitali ambayo tuliizindua mwaka jana. Tunakusudia kufanya hivi kwa kulainisha shughuli zake kukidhi mahitaji sokoni na kuhakikisha inabadilisha mambo katika biashara ya mtandaoni Kenya.

Nje ya nchi, tunaendelea kufuatilia na kuchunguza fursa mpya kuambatana na mkakati wetu, ambao tuliufungamanisha na Malengo ya Maendeleo Endelevu (SDG) mwaka 2016.

Maendeleo Endelevu

Kwa kutambua ukweli kwamba biashara yetu haiwezi kufanikiwa bila kujali jamii katika maeneo ambayo huwa tunatoa huduma zetu, tumekumbatia na kuanza kufanikisha kutimizwa kwa tisa kati ya Malengo yote 17 ya Maendeleo Endelevu (SDG): Afya Njema & Ustawi wa Watu (Lengo

3); Elimu Bora (Lengo 4); Nishati Mbadala kwa Gharama Nafuu (Lengo 7); Ajira yenye staha & Ukuaji wa Uchumi (Lengo 8); Viwanda, Uvumbuzi & Miundo mbinu (Lengo 9); Kupunguza Ukosefu wa Usawa (Lengo 10); Matumizi na & Uzalishaji wenye Uwajibikaji (Lengo 12); Amani, Haki & Taasisi Madhubuti (Lengo 16) na Ushirikiano ili Kutimiza Malengo (Lengo 17).

Malengo haya yanaashiria kujitolea kwetu kuchangia juhudi za ulimwengu katika kutimiza malengo haya ya ustawi kwa wote, na ni fursa kwa kampuni yetu kutekeleza mchango zaidi katika kuhakikisha ukuaji wa kiuchumi na kijamii kwa njia ya usawa.

Tukiongozwa na SDG hizi, tunawekeza katika miradi inayobadili maisha ya watu, kushirikiana na washirika wetu kutoa huduma muhimu katika sekta kama vile afya, elimu na kilimo na kuwawezesha vijana Kenya.

Katika siku zijazo, tunatarajia fursa nyingi za ukuaji endelevu. Moja ya malengo yetu ni kuibadilisha Safaricom na kuwa kampuni inayoweza kuchukua hatua upesi, kwa kuunda mazingira yanayowezesha maamuzi kufanywa kwa haraka na makosa kutazamwa kama fursa za kujifunza haraka.

Yote haya huanza kwa kuwekeza katika wafanyakazi wetu, ambao wana jukumu la kuhakikisha kwamba Safaricom inasalia kuwa kampuni ya mawasiliano ya simu inayoongoza, na wanaotudhihirishia kila siku kwamba tunapoungana pamoja, mambo makuu huwezekana.

Twaweza!

Bob Collymore
Mkurugenzi Mkuu

Our Strategic Pillars

Building a bright future together

Delivering the promise

Agile is our new hello

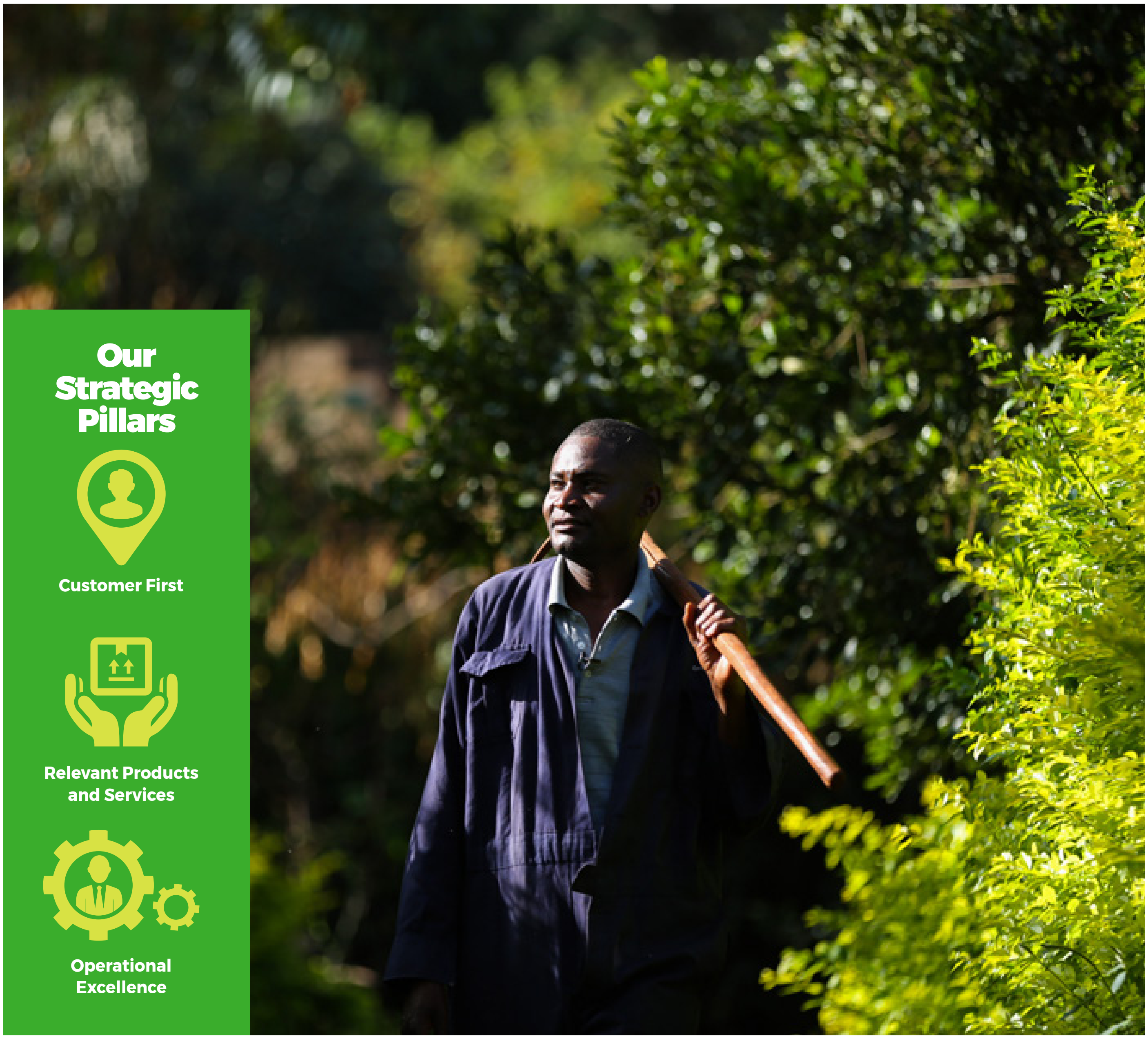
Safaricom operates in a very dynamic market, which we expect to become even more vibrant as customer needs evolve and new entrants attempt to disrupt the status quo.
We see great opportunities to leverage the power of mobile technology to transform lives in line with our brand purpose, and to become the purpose-driven, customer obsessed and insights-led business we envision – what we call the Safaricom Way.

With local and global trends pointing to the decline in use of traditional telco services such as voice and SMS services, and uptake of data, mobile money transfer, payments and e-commerce, we are positioning ourselves to be the platform of choice that will deliver relevant products and services.

To do this, we must transform into a truly agile organisation that is fit for the future. This is a process that requires us to fine-tune our approach to ideation and delivery of products and services. Our goal is to create an environment where decisions can be made quickly, and where mistakes are viewed as opportunities to learn.

Because we view ourselves as more than a telco, we believe that embracing an agile way of work will enable us to feed into a wider ecosystem, positioning us favourably to deliver a suite of innovative solutions in everything from financial services and education, to healthcare, agriculture and public services.

By embracing agility, we are learning how to work faster and smarter, to be more flexible and quicker to adapt. In the process, we are also building a more sustainable business and transforming millions of lives using the most ubiquitous of devices: the mobile phone.



Customer First

We are continually endeavouring to put our customers at the head of the table by investing in understanding their needs better and in tools and products that are designed to give them more choice and control over how they use our voice, data or value added resources on the network.

Segmenting their needs led to the development of products like FLEX. We enhanced their ability to control network use through tools like My Data Manager and My Subscription Manager.

We are actively phasing out the one-size-fits-all mind-set of the past in order to deliver the best experiences to our digital customers.In line with sustained efforts to put our customers first, we opened another call centre in Eldoret, with 800 full-time personnel to improve access to assisted customer care services.

Jitambulishe – Leveraging Voice Biometrics to Boost Security

Recently, in another industry first in Kenya, we launched a Voice Biometrics identification system – Safaricom Jitambulishe. This allows our subscribers to identify themselves to our Customer Care executives by simply using their voices.

The dynamic voice biometrics system allows customers to use their voices for authentication before accessing assisted services such as resetting their M-PESA PIN and PUK requests. Individual Post-Pay and Hybrid customers can enrol their voices and use these to access services. Jitambulishe enables customers to enjoy the security and convenience of accessing Safaricom products and services by themselves.

In an effort to reduce the number of calls to our call center, we have increased awareness of Safaricom Self-care solutions, such as USSD options and mySafaricom app. Our efforts have borne fruit, resulting in 24 million daily uses of the USSD solution and over 700,000 smartphone users on our network using the app daily.

24 million

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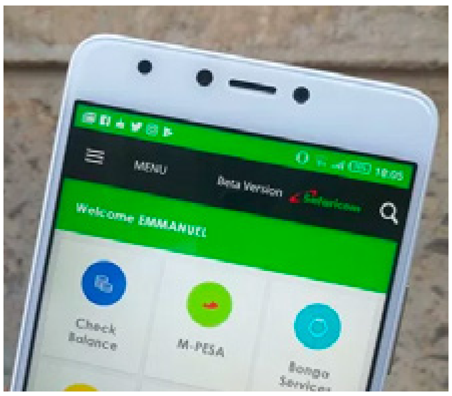
New call centre in Eldoret

Building on its commitment to put the customer first, Safaricom in December 2017 opened a new call centre in Eldoret. The center is manned by 800 staff members and serves the entire North Rift thereby taking services closer to customers, in addition to creating employment.

My Safaricom App



Improvements on the mySafaricom app, which was introduced in 2016, made it possible for customers to access M-Shwari, KCB M-PESA, M-PESA Bill Manager and Data Usage. This update gives the customer access to new services and eases access to others by increasing accuracy and reducing the number of times they are required to key in information when using the app.

Person-to-person reversals

Safaricom has made it easier to reverse money sent to the wrong person. This service was rolled out late 2017. A customer who sends money to the wrong person is required to send the transaction code to 456. The cash transfer is then suspended and customer care representatives from Safaricom then confirm with the sender and the receiver whether the transaction was done in error before taking the action necessary.

Relevant Products and Services

Over the last 18 years, we have evolved from a voice and text outfit to walk the extra mile in the digital journey in order to deliver cutting-edge products and services to our customers. We have invested in developing an insight of our customers' needs, wants and behaviours, and are providing propositions to lead in chosen segments including the Segment of One.
We have embraced a new level of targeting and rejected the outdated view of customers as large, indistinct, and coherent segments.

To tailor offerings to specific customer needs, we are employing analytical marketing, mining the Big Data already at our disposal to respond continually to the behaviour of individuals and market micro-segments. We have found this to be cost-effective as investment can increasingly be channeled productively, rather than wasted through overly simplistic assumptions about the general market.

Powered by data analytics, we are using segmentation to offer relevant products cognizant of the reality that each customer cluster has a different addressable value.

Subscribers constantly connect to our networks through voice, SMS, M-PESA and other smartphone interactions, and hence we have access to huge quantities of data. Our vision is to manage it effectively.

We now offer value propositions tailored to each target customer's needs. We mine the data we have at the deepest level possible in order to deliver our segmentation proposition to the most granular detail possible.

We have moved from the aggregate to the unique customer level in our targeting efforts. We are identifying pockets of value in the market in order to better customise their experience.

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

These personalised offers drove reduction of our effective pricing for data and SMS by 29% and 12% respectively, with voice prices remaining flat. Effective data prices are down more than 60% over the last four years as we focus on improving the value we offer to our customers.

60%

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How we Enhanced M-PESA For Visually Impaired Customers

In line with the theme for the 2017 International Day of Persons with Disabilities, we announced the launch of M-PESA services for visually impaired customers.
A world first, the new service means that customers can now access the mobile money services.

Additional M-PESA services have gradually been introduced in order to enhance their experiences.

Previously, visually impaired customers transacting on the service had to depend on the assistance of other persons to make transactions. This left them exposed to the risk of being defrauded, and also meant that they sometimes had to reveal their M-PESA PINs to other people.

By accessing M-PESA through an Interactive Voice Response platform, customers can now ascertain their M-PESA balances before and after making transactions.

Safaricom Platinum - For the Discerning Professional

During the year, we launched the Platinum proposition, which targets the 'Discerning Professional' category of customers.

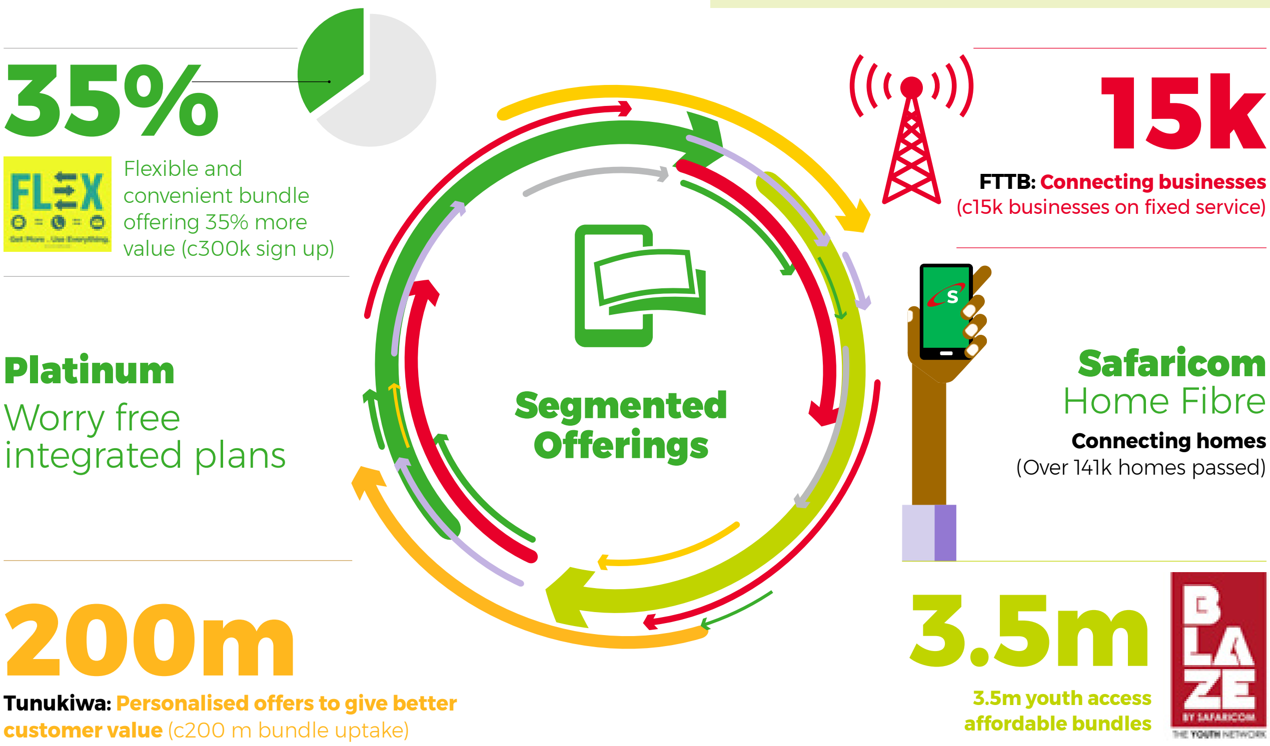
Safaricom Platinum addresses customers who are shopping for deals and are heavy data users, whether they are on Prepaid of Postpaid plans..

This innovative digital-only proposition is exclusively available on MySafaricom App, and offers customers a range of monthly plans with voice, SMS and data services. It also offers access to lifestyle-friendly offers in partnership with brands such as Shell, eatout.com and Ticketsasa.

Customers have two options when they sign up for Platinum: Platinum Plus and Platinum.

Platinum Plus is a monthly plan that comes with data bundles of up to 40GB and 4,000 voice minutes. On the other hand, Platinum allows subscribers to consume and renew their subscriptions as they go with up to 30GB of data and 3,000 voice minutes depending on the subscription value.

Platinum and Platinum Plus subscribers enjoy unlimited SMS and have access to a personal bill manager that will simplify bill payment by filing all the customer’s bills in one place.



Relevant Products and Services

Safaricom QR Code

In December 2017, we introduced our second innovation around payments with M-PESA Scan-To-Pay. Scan-To-Pay allows a customer to pay in two steps; scan a QR code and then key in their PIN.

Recently we signed up new partnerships with Paypal and Google Play Store, opening up the global marketplace to both local and international buyers and sellers.

As we set sights on new horizons, we have continued our efforts to diversify the business to support revenue generated by voice and SMS.

We are well positioned to sustain growth and actively manage profitability with new disruptive initiatives and offerings in M-PESA, E-Commerce and Home and Enterprise solutions including use of Internet of Things.

Songa Music App

Songa Music is an App that allows customers to download music of their favorite local and international stars. It clocked 176K downloads in FY18. The app is projected to offer alternative for music lovers and drive the content in the mobile internet space in the Mass and Discerning Professionals segments.

Fixed Data – Fibre to the Home (FTTH)

We see demand for high-speed Internet growing rapidly as digitization of the country takes root. In line with this, investment in infrastructure remains a key area of focus for our business.

In FY18, fixed footprint surpassed 5,000 kilometres of fibre, up 19.3% YoY. The extra capacity unlocked by this investment will enable us to accelerate market share gains in the fixed service.

We believe that investing in our infrastructure will not only reinforce our competitive position, it also represents a compelling opportunity to accelerate our revenue growth, generate attractive incremental returns and further improve our strategic position in the Kenyan market.

Safaricom continues to offer diversified products but related to our core mission, hence a HOME department was created to address the need.

With this investment, our vision is far beyond the current year.

Our eyes are set on the changing Kenyan home composition by serving the desire for internet democratization and flexible work and play plans for the new Discerning Professional category of customers.

We have 4 main categories of customer price points which are Bronze, Silver, Gold and Platinum. The price ranges from Shs2,500 to Shs9,999.

We closed the year with a total of 141,700 homes passed in 6 towns. The total homes connected closed at 48,600 with penetration having grown from a low of 22% to 34%.

In our journey on growing the home proposition we launched content play in partnership with Kwese, Showmax and iflix, among others. We continue to be on the lookout for more content partnerships that will make the Safaricom home proposition experience even better.

4

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141,700

Homes passed by fiber in 6 towns. The total homes connected closed at 48,600 with penetration having grown from a low of 22% to 34%.

Safaricom Digital TV and Internet Box

We launched this product in December 2017. The main target audience is the Kenyan household. The product enables them to share basic internet through a Home Wi-Fi Hotspot, Entertainment and futuristic propositions like Smart homes in one box.

The Box supports both the connection via Fibre or 3G/4G.

It currently retails at Shs5,999 for our Safaricom Home Fibre customers and Shs 9,999 to other customers.

The new improved box "STB LITE" (Google Certified) will be our Home Hub that will enable us to offer other services such as Home Entertainment (Safaricom TV), Smart Homes and E-Commerce.

44% of the boxes have been bought by Fibre To The Home customers with the balance sought out by other customers either in 3G/4G or by other Internet Service Providers.

The new improved box offers access to endless entertainment, the ability for customers to download and stream favorite movie, music, TV and Gaming apps easily and conveniently as they would on a phone from the Android TV Playstore.

It comes preloaded with Showmax, iflix, Deutsche Welle, Gameloft, YouTube, and YouTube Kids with so much more to come.

The box has a 32GB memory space and superior processing speeds that allows the customer to download and save their favourite movies, shows and stream at 4K quality.

One can stream from ShowMax, iflix, YouTube, Netflix and other Video on demand services. Besides this, the Safaricom Digital TV and Internet box allows for casting content from the phone or tablet, just the same as with the Google Chromecast.

Shs 5,999

The Box retails at Shs5,999 for our Safaricom Home Fibre customers and Shs 9,999 to other customers.

32GB

Memory space of the Box which also has superior processing speeds allowing customers to download and save their favorite movies, shows and stream at 4K quality.

Partnering to deliver video content

In April 2017, we signed a distribution agreement with Econet Media's Kwesé TV, Africa's newest multi-platform Pay TV network, to deliver premium video content.

Kenyan consumers have been early adopters when it comes to digital content, and Safaricom has consistently led the charge in the communications industry with innovative products and services.

The announced partnership with Kwesé TV extends Safaricom's digital services offered to its subscribers.

Kwesé's TV content showcases some of the best in Sports and Entertainment, including exclusives like NBA basketball, Revolt TV and VICELAND, as well as live coverage of English Premier League and Brazilian football matches, as well as lifestyle and music shows.

Leveraging Safaricom's superfast 4G network, subscribers will be able to stream Kwesé's world-class programming on their connected devices through innovative data bundles, which will be available to Safaricom customers.

DigiFarm – A Solution for Smallholder Farmers and Agricultural Enterprises

These products were built around the need to use mobile technology to empower our farmers, give them access to affordable credit, share information that would boost yields, connect them to markets, ensure better returns and even stabilize food prices.
The solution lay in partnership, which resulted in the launch of Digifarm and Connected Farmer, two mobile-based agri-business solutions.

DigiFarm was launched in partnership with Mezzanine Ware – a company that specializes in developing mobile enabled solutions for businesses, connecting smallholder farmers to agricultural service providers. It allows them to enjoy access to extension services, training on the use of agricultural inputs, and access to loans through electronic credit vouchers for purchase of inputs at discounted prices.

In partnership with the same company we also launched Connected Farmer, a product targeted at agricultural processing businesses.

> **Digifarm leverages the power of mobile technology to link farmers to markets**

Digifarm leverages the power of mobile technology to create supply chain efficiencies and link farmers to commercial markets, by, for example, allowing farmers to share crucial information such as expected yields with processors, and enabling seamless payments through M-PESA.

The launch of these solutions in response to one of the biggest challenges facing farmers opened our eyes to an existing opportunity which is mobile technology for agri-business.

In FY 18, we also created the m-Agribusiness Department within Safaricom. Its primary objective is to conceptualise and deliver mobile-based solutions aimed at addressing the challenge of food insecurity in Kenya; a challenge that has also informed the Government's inclusion of food security in its Big Four Agenda.

Key initiatives for businesses

We are well positioned to sustain growth and actively manage profitability with new disruptive initiatives and offerings in M-PESA, E-Commerce and Enterprise solutions.

Enabling a digital ecosystem
Automation of sales processes, service delivery and payment

Focus on traditional entreprise products
FTTB, LTE, CVM and Fixed voice

Becoming the digital partner of choice for businesses

Best digital customer experience
To enable them succeed in a digital world

Lead in vertical digital propositions
Cloud security, IOT and payments

Channel optimisation
Future-proof digital distribution model

Case study

> Unajua shida yetu ni pesa ya kuanza hii kazi (our main problem here is lack of capital to finance this work)

The digital farmer of the future, today

When he ventured into farming, Geoffrey Kimathi went for the usual crops farmers in Meru choose – maize, beans and bananas - and was doing it for the usual reasons – food for his family and any surplus for the market. He realised he could do more in 2014 when he got access to piped water and ventured into growing snow peas for export.

Kimathi would join other farmers for training at a centre in Nkubu and was thus able to improve his horticulture.

But there was something missing.

"Unajua shida yetu ni pesa – capital ya kuanza hii kazi (You know, our main problem here is lack of access to finance this work)", said Kimathi.

While he had access to the right information to improve his work, his most persistent problem was access to farm inputs; the herbicides, pesticides, fertiliser, certified seeds he needed to make great husbandry.

He then heard about a product called DigiFarm by Safaricom, a phone activated product that gives access to information to smallholder farmers on affordable inputs, e-extension services, access to credit, markets and insurance. Farmers receive targeted information because it is geo-specific down to an administrative ward.

300kg

The farmer now harvests up to 300 kilograms.

They can access tutorials using the app on planting, the application of herbicides and pesticides and then how to harvest once the produce is ready using the e-extension services.

"The idea is to have farmers engaged in precision farming based on science," says Fred Kiio, the head of M-Agribusiness at Safaricom.

Kimathi has certainly experienced a difference in the way he runs his farm as he now has access to loans and can no longer forego using fertiliser on his farm as he did in the past and can get certified seeds.

From one kilogram of beans, he says, he now harvests up to 300 kilograms.

"The cost of production has reduced," he said.

Kimathi's experience and the frustration he witnessed his neighbours go through is typical of farming in many parts of Kenya.

"What we are asking ourselves as Safaricom is: 'How can we leverage on technology to overcome these challenges?' We are building a socio-economic business model to impact the social fabric of the country and transform lives. At the same time, we also want to use technology to create a business model that can generate income for the shareholders. It's both a social and economic discussion that we are having," says Kiio.

Operational Excellence

In FY18, we continued to enhance our operational excellence in order to deliver best quality products and services. We have become more agile in our decision making in order to ensure that we are at the global cutting edge of mobile technology.

Connectivity & Security
Differentiate our brand through network quality.

Always excellent value
Deliver personalized experience for our consumers.

Reward loyalty
Drive growth through monetization of data and mobile money.

Easy, personal, instant support
Lead & grow enteprise through payments, fixed data & segment led proposition.

M-PESA certification

The M-PESA service passed the GSMA Mobile Money Certification, making it one of the first mobile money services to achieve this level of certification. M-PESA met the criteria in eight areas of assessment: safeguarding of customer funds, service security, safeguarding of customer data and privacy, mitigation against money laundering, terrorist financing, and fraud risks. The GSMA Mobile Money Certification is aimed at giving customers confidence that a provider has taken steps to ensure their funds are in safe hands, their rights are protected and they can expect a high level of customer service.

Ookla

Safaricom was in October 2017 named the fastest mobile network by speed test website Ookla. Safaricom achieved a speed score of 19.80, with the second fastest network achieving 15.12 and the third 8.62. The speed score incorporates a measure of each provider's download and upload speed to rank network speed performance.

-Expansion of network – Safaricom continues to build a robust digital network and in June 2017 rolled out 4G+ services in major towns. The new service builds on the growing footprint of Safaricom's 4G network, which is already active in more than 1,648 sites across Kenya. We have 100 4G+ sites in Nairobi, Mombasa, Kisumu, as well as parts of Kisii, Naivasha, Kitui, Machakos, Kakamega and Kericho, with more territories scheduled to be switched on.

Safaricom introduces 4G+

In FY18, we rolled out 4G+ services in major towns on its network, advancing its LTE Advanced (4G) proposition. The development follows sustained investments by Safaricom in building a robust digital network that can enable its customers to browse faster as well as enjoy improved voice services.

"These faster speeds not only benefit the customer, they also empower small businesses who can now use the internet for more commercial activities – democratizing data access," said Bob Collymore, CEO, Safaricom.

The new technology builds on the growing footprint of Safaricom's 4G network, which has been activated on over 1,100 sites across Kenya. Already, Safaricom has activated 100 4G+ sites in Nairobi, Mombasa, Kisumu, as well as parts of Kisii, Naivasha, Kitui, Machakos, Kakamega and Kericho, with more territories scheduled to be switched on in coming months.

Technically, 4G+ technology allows peak download speeds of 150Mbps, while 4G enables top speeds of between 60-100Mbps. In practical terms, this means that a 30-minute HD video should take a little over two minutes to download on 4G+, while the same video would take around eight minutes to download on standard 4G, such as that being trialed on other networks in the country.

The technology also enables 'Carrier Aggregation', which allows Safaricom customers to benefit from increased bandwidth accessible through the aggregation of different LTE spectrum bands.

150Mbps

Peak download speeds with 4G+, while 4G enables top speeds of between 60-100Mbps.

"These investments lay the foundation for a more digitally enabled, platform economy. We expect that our network will empower more small enterprise to participate in commerce as well as drive more data use by critical sectors in the education, health and agricultural sectors," said Mr. Collymore.

Safaricom was the first operator in Kenya to roll out mobile data in 2003 on the 2G platform, and later the company was the first to launch its 3G platform in 2007.

Daraja our bridge to M-PESA's future

In August 2017, Safaricom released a feature-rich M-PESA Application Programming Interfaces (APIs) portal to businesses in the country. The portal is dubbed Daraja, and enables businesses to easily integrate with M-PESA, drastically cutting down the more than 60 days it took businesses to link to M-PESA. Daraja enabled businesses to seamlessly integrate both Lipa Na M-PESA Buy Goods and PayBill payments into mobile phone applications, websites, point of sale terminals and other business solutions.


ITALIA

Our technology

Digital transformation

2m
Approx users on mySafaricom App

2,000
Approx developers on API

20m
Tunukiwa: personalized offer to 20m customers

I.T. modernisation:

Conducted 10 major system upgrades for better experience

Rated fastest network in Kenya by Ookla

Network delivering world class experience

4G
49% coverage to over 1,600 sites

5,000
Length in kms of fibre rolled out

30%
Percentage drop in average deployment cost

P3
Rated best network in Kenya by P3 Communication

Maintaining our lead with the best technology

We are continuously investing in our network to ensure that we deliver world class products and services on our network in order to deliver the best experience to the digital customer.
Sustained investment in our network over the years has positioned us favourably, and we will continue to modernize our I.T. infrastructure to maintain this lead.

The continuous investment in our network earned us the coveted title of the fastest mobile network in the country, as affirmed by renowned speed test provider Ookla. This is as a result of investing in widening our 4G network across Kenya, offering our customers the fastest internet speed in the country.

The investment is laying the groundwork for transforming ourselves into a digital company.

We are pleased that continuous investment in our network earned us the coveted title of the fastest mobile network in the country, as affirmed by renowned speed test provider Ookla.

Leaving No One Behind

Fastest – Safaricom was in October 2017 named the fastest mobile network by speed test website Ookla. We achieved a speed score of 19.80, with the second fastest network achieving 15.12 and the third 8.62. The speed score incorporates a measure of each provider's download and upload speed to rank network speed performance.

The Energy Management System has enabled the automation of measuring and monitoring of fuel and electric consumption in the Base Transceiver Stations. This system is able to accurately capture the power usage, hence ensuring 100% accountability and reduction of diesel pilferage, which is currently estimated at 25%. There is also replacement of the old and inefficient power systems with modern, more efficient ones, which would raise efficiency to 95 % from 90 % or less.

19.80

Speed score for Safaricom, with the second fastest network achieving 15.12 and the third 8.62 following a speed test by Ookla.

In 2018, Safaricom implemented the roll-out of 90 new High Speed 3G base stations in marginalised areas, making it possible for Kenyans in rural areas to access high-speed broadband.

In 2018, Safaricom implemented the roll-out of 90 new High Speed 3G base stations in marginalised areas, making it possible for Kenyans in rural areas to access high-speed broadband. The counties covered in the County Broadband Initiative were: Wajir, Turkana, West Pokot, Garissa, Elgeyo-Marakwet and Isiolo.

The County Broadband Initiative ties back to Safaricom's commitment to the United Nation's Sustainable Development Goals, specifically Goal 9 that

seeks to "Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation. We seek to contribute towards achievement of one of the goal's priorities, which is to increase the population covered by a mobile network and by technology.

Women in technology

Safaricom Women in Technology (WIT) is an programme of passionate women from Safaricom technology-driven divisions dedicated to inspiring women from different backgrounds to advance their careers from classroom to board room. These efforts are geared towards creating an opportunity to tap into latent talent and innovative ideas sitting on the bench with our girls, whilst dynamic trends continue to emerge in technology. In FY18, WIT continued in its efforts to promote technology among learners, working with the full range of learners, from six year olds to 20 year olds and beyond.
The programme for the youngest band, 6-13 year olds, was Kids-Go-Tech, who were taught to do a series of fun, simple technical experiments. There were 24 successful sessions in which 40 experiments were done.

750 children took part in Kids-Go-Tech.

For this category, WIT plans to hold events for children in urban informal settlements as well as extend to the regions..

WIT also carried out its 47/47 High School programme, where it planned to reach 47 girls' high schools in all 47 counties in Kenya with the aim of having them "see and believe" the reality of technology.

WIT was able to reach 45 counties in FY18, reaching more than 2000 girls in Marsabit, Moyale and Samburu. Through networking forums, WIT was able to reach 396 students, with 12 schools attending sessions in the Coast region. Follow-up in this area revealed that girls are fighting to stay in school until they finish secondary school as education for boys has more value.

More than 320 students attended the sessions in Thika and the team was happy to meet one who had been scoring poor grades when she attended a similar programme in Thika two years ago but was inspired to do better and was now on her way to study electrical engineering at the university.

The Tech-novation Challenge also targeted high school students and involved girls' high schools, with the students required to submit apps addressing specific problems. This was a local and continental competition culminating in an international competition at Silicon Valley. 65 teams were formed and 62 apps submitted.

From this, 10 teams were shortlisted for the 2018 Global Tech-novation semis. Kenya was ranked fourth globally in submission behind Spain, Canada and US.

WIT also conducted outreach on university campuses, using visits and in-house mentorships, hackathons based on the United Nation's Sustainable Development Goals, developers outreach, the Technology Academy, campus technology careers workshops, the Graduate Management Program and BLAZE brand ambassadors.

The programme reached 30 universities, both local and international and five university career fairs. It conducted 25 industrial visits and in-house workshops, two SDG hackathons and collaborated with the Daraja API team.

WIT was also involved in the Technology Academy for value-added internship. The academy has had its sixth intake since inception and now reserves a quota for People Living With Disabilities and has started the uptake of trainers of trainers from the technology division.

WIT coordinates networking forums and the target for the next year is to go beyond career mentorship to balance in the overall holistic life.

60%

Drop in effective data prices over the last four years, as we focus on improving the value we offer to our customers.


Building a
bright future
together

Our Enterprise

M-TIBA – An E-health Wallet

Two in five Kenyans fail to access medical treatment because they simply cannot afford it. This is a troubling statistic, and one that has led to preventable loss of lives.

Through the spirit of Twaweza, we have leveraged our partnerships and delivered access to quality, affordable healthcare through M-Tiba, a partnership with PharmAccess and Carepay.

Since launching M-Tiba, over one million Kenyans have subscribed to the mobile health wallet, receiving treatment in 400 medical facilities all over the country, and benefitting from over Shs 200 million redeemed in claims so far.

Through this service, we are playing our part in safeguarding communities, ensuring that parents live to see their children grow, and that children have the chance to enjoy a better quality of life.

As we set sights on new horizons, we have continued our efforts to diversify the business to support revenue generated by voice and SMS.

M-PESA for Businesses

We realized that while we have excelled in our consumer M-PESA proposition we have an opportunity to offer end to end solutions for our business customers including automation of sales processes, service delivery and payment.

Our focus now is on increasing the capabilities of the M-PESA wallet through opening up our API and partnerships such as our deal with Paypal to serve our customers and businesses better in a globalized world.

Fibre to the Business (FTTB)

Safaricom Fibre for Business is a fast and affordable internet service for small and medium sized businesses that are located in buildings that have Safaricom internet fibre.

Overall, data contributed 42.0% of service revenue growth, while fixed data now contributes 3.0% of service revenue with 27.3% growth YoY.

Our fixed infrastructure strategy aims to optimize the build, partner, wholesale and buy models in order to achieve the widest possible coverage at the most attractive economic cost.

Over 15,000 businesses have now been connected to fibre under the Fibre to the Business (FTTB) proposition.

MASOKO BY SAFARICOM

Masoko is our exciting foray into E-Commerce. We are committed to our vision of “Taking Africa to the world”, and have learned a lot over the last six months.

We have reviewed the quality of our vendors and products and we now have 89 active vendors and 15,000 stock keeping units (SKUs), which is a key step towards delivering on our customer promise.

Our initiatives to improve quality of service to customers, including training of customer-facing partners, has helped us improve our Customer Satisfaction Score from 61% to 80% in April 2018.
We have solidified our logistics partnership to ensure seamless delivery of items to our customers.

We have also continued to mine insights into what customers prefer to buy online, as well as addressing our operational issues, including those that affect, or are affected by, our vendors and logistics.

89

Active Masoko vendors. We also have and 15,000 stock keeping units (SKUs), which is a key step towards delivering on our customer promise.

How Shupavu 291 is contributing

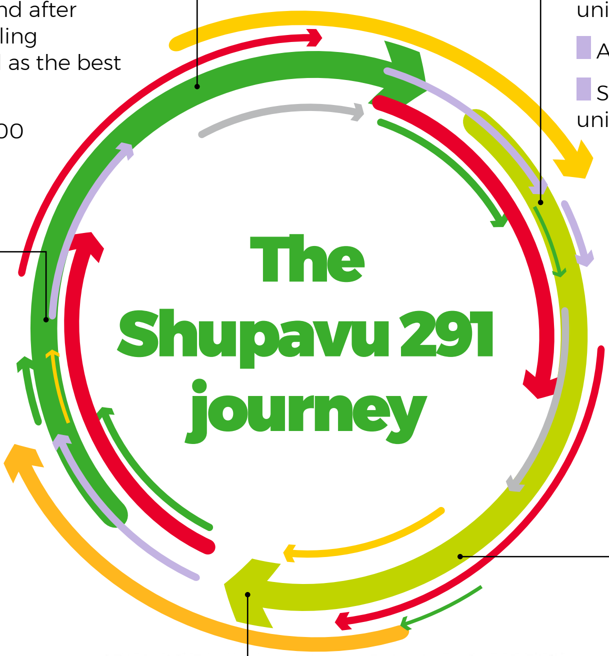
We are now serving over 3.5 million unique users daily

2015

- Shupavu 291 reverts to rental billing
- Per SMS billing proved to be very expensive for our customers and after experimenting with several billing methods, rental was identified as the best solution
- 520,000 unique users, 60,000 subscribed users

2016

- March: Shupavu 291 official launch
- June: Shupavu celebrates 1,000,000 unique users
- ATL marketing on local radio stations
- Shs 28,877,190 Revenue; 1,800,000 unique users; 216,515 subbscribed users

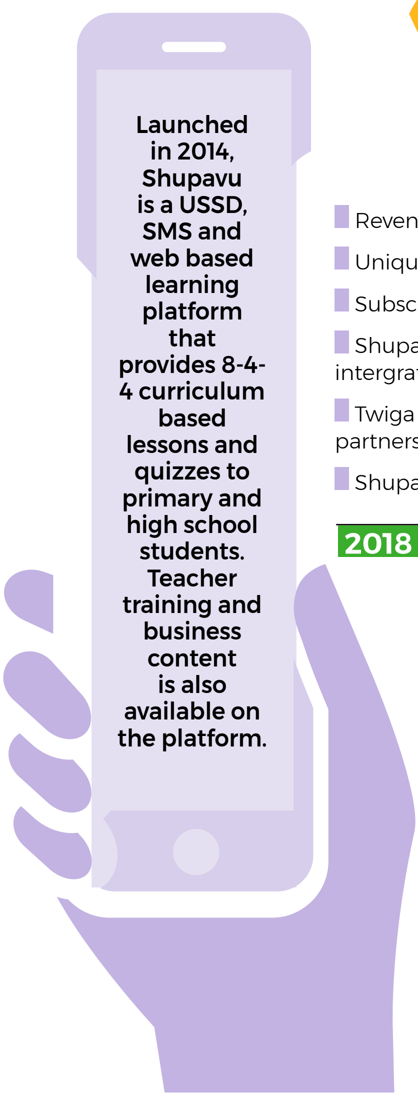


2014

- Shupavu 291 launched as a partnership between Eneza Education and Safaricom

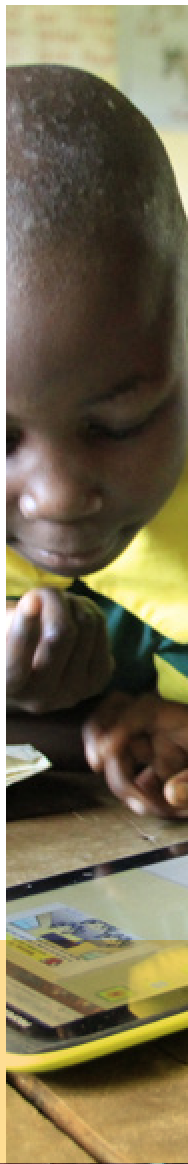
2017

- June: Shupavu 291 celebrates 2,000,000 unique users
- Shupavu 291 on Twaweza TVC
- 2nd Phase of radio campaigns



2018

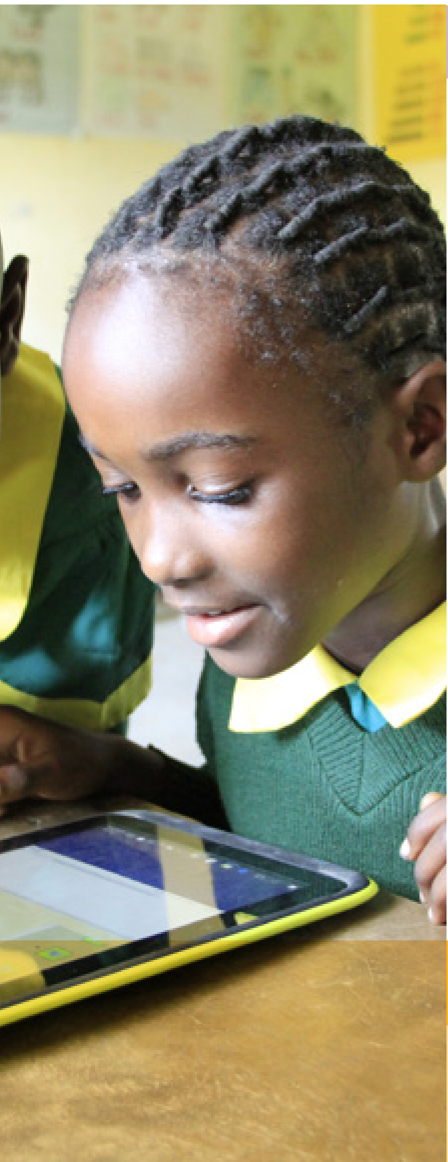
- Revenue YTD: 37,424,721
- Unique users: 2,800,000
- Subscribed users: 355,000
- Shupavu m-web intergration
- Twiga and Unilever partnerships
- Shupavu transition to CBU



Cost

It costs Shs 1.43 daily on SMS and Shs 10 daily on web to use the platform. The "Ask a teacher" feature enables students to ask online teachers questions and receive an answer within 2 hours. The content is approved by the Kenya Institute of Curriculum Development.

to quality education in Kenya



Shupavu users

2,800,000 Unique mobile learners across Kenya

Over **60 million** number of questions answered

Over **1,700,000** users in primary

Over **1,000,000** users in High school

Over **40,000** users teachers

Customer acquisition strategies

SMS Mass Messaging

SMS messages sent to users identified by telco partner

Corporate

Corporate co-market Eneza on their products

Local Radio Campaigns

Radio campaigns targeting users to sign up to the service

60% Shupavu 291 has a Net Promoter Score of 62% according to Lean Data Survey by Acumen Lean Data, sponsored by the Omidyar Network.

80m Over 80 Million questions have been exchanged on Shupavu and users have been found to score on average 22.7% higher than their peers, adding to the overall quality of education in the country.

The M-PESA story continues...

2 million

By March 30, 2008,
about two million customers were using the service that had already become an economic phenomenon.

5 million

On December 1, 2008
With 5 million customers on board, M-PESA partnered with Western Union to allow M-PESA customers to receive money from the UK.

WESTERN UNION

1 million

Just 9 months after its inception, M-PESA had registered 1 million users.

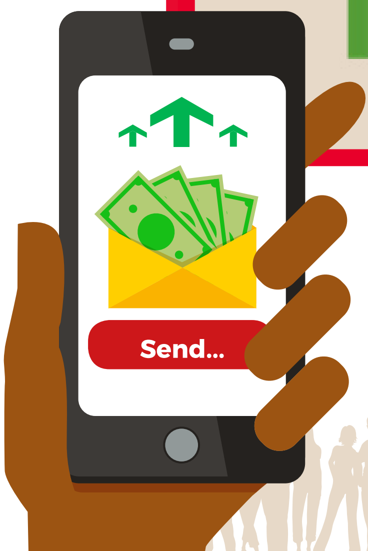
3 million

On July 14, 2008
with a customer base of 3 million, Safaricom and PesaPoint entered into a deal to enable M-PESA users to withdraw money from PesaPoint ATMs.

10 million

As June 30, 2010,
M-PESA hit a milestone. The platform had 10 million users; about 1/3 of the country's population.

M-PESA is born - March 6, 2007



Partnerships

In FY18, we upgraded M-PESA capabilities in order to ensure that more partners could seamlessly access our API.
This approach gave birth to partnerships such as the one we now have with PayPal which allows M-PESA users to transfer money between PayPal and M-PESA mobile wallets, thereby opening trusted, cost-saving lines of speed and efficiency for sellers, buyers and others who wish to transact internationally. The partnership has opened an opportunity to M-PESA's 28 million customers to transact online with PayPal's 227 million users.

Shs

14 million

M-PESA @ 4! – March 6, 2011.
When M-PESA was celebrating its 4th anniversary, it had already enlisted more than 13.7 million customers.

22 million

On November 27, 2012
M-Shwari was launched. This is a banking product for M-PESA customers by CBA bank in partnership with Safaricom. M-PESA customers had reached 22 million.

M-Shwari

23 million

On December 22, 2015 M-PESA launched the M-Tiba
The mobile-centric platform approach that sought to provide better co-ordination of healthcare services between patients and providers. There were about 23 million active M-PESA customers.

15 million

As at March 1, 2012, M-PESA had registered 14,652,593 customers. **A month later, on April 1, 2012,** M-PESA hit 15 million active users.

21 million

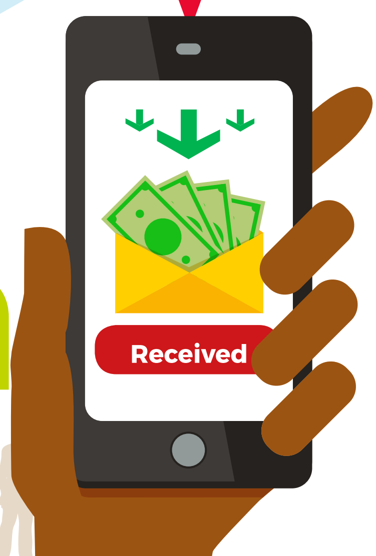
On 14th of April 2015, M-PESA upgraded the G1 platform to the G2 Platform.
The migration was to allow for faster transactions, improved stability as well as enable more functionality from the service for the 21 million M-PESA customers.

On the July 1, 2015, Realtime Settlements (RTS) was launched.
This platform allowed businesses that use Lipa na M-PESA to transfer funds from their Lipa na M-PESA accounts to their bank accounts.

27 million

M-PESA 1Tap
On May 10, 2017, M-PESA 1Tap was launched. This innovation will reduce the number of steps it takes to complete an M-PESA transaction, currently about 8 steps. The platform had clocked 27m customers.

227 million




Building a
bright future
together

Our Sustainable Future

Sustainability at Safaricom

155
No. of sites transitioned to renewable energy up from 133 sites last year.

47,511
Cost of energy in shillings consumed per site per month a reduction from 48,614 in the last FY

224
Amount of E-waste recycled – tonnes up from last year's 202 tonnes

83%
No. of staff familiar with the SDGs as per the People Survey

0
No. of fatalities in FY18.

89,800
Water Consumption in cubic metres a reduction from last year's consumption of 96,650 m3

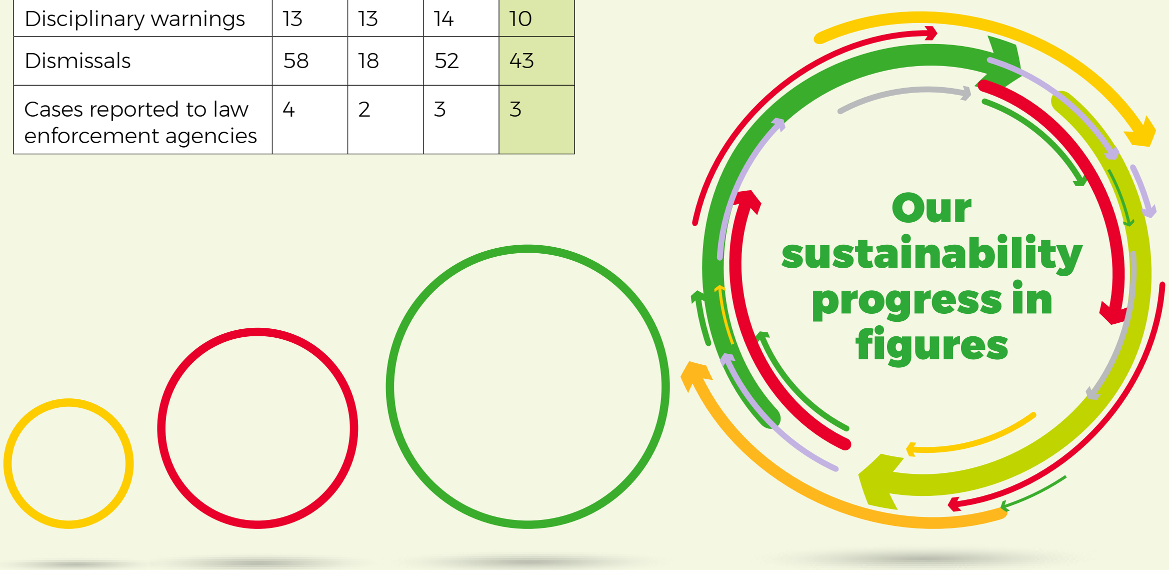
98%
No. of staff trained on ethics which is similar to FY17

Fraud dismissals

Anti- corruption corrective measures (at year end)	2015	2016	2017	2018
Fraud cases investigated	29	29	33	57
Disciplinary warnings	13	13	14	10
Dismissals	58	18	52	43
Cases reported to law enforcement agencies	4	2	3	3

Diversity and inclusion numbers year-on-year

Disabilities	2016	2017	2018	2020 Target
Persons with Disabilities	1.2%	1.4%	1.7%	5%



Integrating the Sustainable Development Goals: Our nine priorities

Deep dive into the goals

We provide highlights of some of our contributions towards the SDGs in the section below :

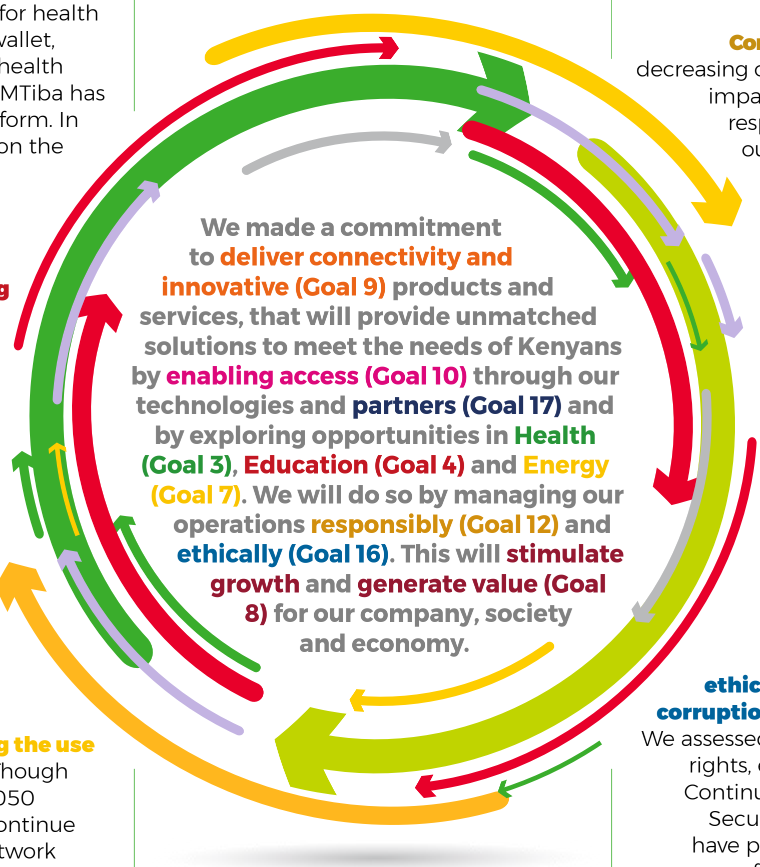
Goal 3: Leveraging our mobile technologies to deliver health services. In partnership with Pharmaccess, we have developed M-Tiba, a mobile health payments platform that allows for health savings through a closed loop wallet, and real-time management of health payments and claims. To date, MTiba has over one million lives on its platform. In the year under review, MTiba won the Loeries Shared Value award.

Goal 4: Increasing access to education through innovative solutions and partnerships. In partnership with Eneza, we have grown the user base of Shupavu, a SMS and web-based learning and revision platform to 3,503,120 unique (number of) users. Shupavu provides affordable revision content at Ksh 10 per week,

Goal 7: Increasing the use of clean energy. Though our Net Zero by 2050 Programme, we continue to improve our network and facilities energy efficiencies. We continuously upgrade our equipment and set a target of 10% reduction per year. We are also implementing carbon mitigation initiatives

Goal 8: Providing decent work opportunities within Safaricom and its broader ecosystem. We have committed to paying a living wage to outsourced staff. We continue to expand our dealer and agent network which employs over 150,000 Kenyans directly.

Three years ago, the United Nations launched the 17 Global Goals (SDGs). These Global Goals aim to **end extreme poverty, fight inequality** and injustice. They also seek to tackle, among other important initiatives, climate change. We launched the SDG business strategy in July 2016. Over the past year we have worked on our 9 goals with varied results.



Goal 9: Delivering connectivity and innovative products and services. We have expanded our network coverage to reach out to underserved sections of our population under the universal service fund. Fibre to the home has grown year on year, currently we are 141,000 homes passed.

Goal 10: Reducing inequalities by enabling equal access to opportunities for everyone, especially to vulnerable groups. We have a business commitment to increase the percentage of workforce comprised of differently abled persons to 5% by 2020. Currently we are at 1.7%.

Goal 12: Responsible Production and Consumption entails decreasing our environmental impact and promoting responsible behaviours among all our stakeholders. We have rolled out an integrated waste management programme we are currently recycling 97% of our waste. We have reduced our consumption of energy, water and fossil fuels by 10% from the previous year's consumption. We have grown our shipments by sea to 66% from 61% last year, and have incorporated energy saving metrics in all tenders where applicable.

Goal 16 is about managing our operations responsibly and ethically and fighting corruption in all its forms. We assessed high risk suppliers on labour rights, ethics, human rights, Business Continuity Planning, and Information Security Management System. We have put in place policy measures to ensure safety of our children online, and compliance with KYC regulations.

Goal 17 is about Partnership for the SDGS, and building the collective capacity of people organisations and nations to promote and advance the SDGs. **We supported the establishment of a vibrant B Team Africa to catalyze responsible business practices on the continent.**

Focus on Our Four Material Matters

Our material matters remained the same as was the case in the last financial year - Governance, Risk and Regulation; Innovation; Network Quality and Environmental Responsibility. In the course of the year, we implemented a number of initiatives geared towards making Safaricom a more purpose driven organization:

Towards Net Zero Carbon Footprint

As Safaricom network grows and becomes sophisticated, our demand and impact on Natural resources also grows exponentially. We have committed to reducing our environmental footprint.

Our carbon footprint, comprises:
Scope one emissions – the diesel consumed;
Scope two emissions – electricity from the grid;
Scope three emissions – transportation – fleet and flights.

In 2017 we managed to grow the network while ensuring that the footprint didn't grow. This was as a result of a decrease in diesel consumption. Energy efficiency measures put in place include, installation of low voltage auto phase selectors, cyclic batteries and conversion of genset sites to KPLC connections. Changes in energy mix have greatly contributed to this decrease

Science Based Targets

Our aspiration is to be a carbon neutral company by 2050. Steps taken towards achieving this include:

Setting of science based targets
Rolling out of clean and renewable energy solutions

From our science based targets we have set ourselves milestones to achieve as follows through our renewable/ clean energy solutions:

A reduction by 15% by the year 2020
43% by the year 2030
74% by the year 2050
The balance of 26% will be offset through other initiatives

Diversity And Inclusion

Gender Equality in our Workplace
Despite having a gender balanced overall workforce, the progress in increasing the number of women in senior management and executive leadership remains slow. Through programmes such as Women in Leadership, we aim to accelerate the growth of more women leaders in business in the years to come. To attain

balanced gender ratios, we will continue with our focus on streamlining our processes on recruitment, retention and growth.

Employees by Gender & Diversity (%)	2016		2017		2018	
	M	F	M	F	M	F
Permanent Staff (overall)	50%	50%	49%	51%	50%	50%
Executive Leadership	57%	43%	75%	25%	75%	25%
Senior Management	67%	33%	68%	32%	68%	32%

Supporting the Differently Abled

During the period under review, we grew the proportion of our differently abled workforce from 1.4% to 1.7% a gradual progression toward the target of 5% by the year 2020. As part of our commitment to supporting the differently abled, we continue to redesign our office premises to make them disability friendly.

Disabilities	2016	2017	2018	2020 Target
Persons with Disabilities	1.2%	1.4%	1.7%	5%

Women in Leadership

Safaricom is committed to growing and retaining the number of women in leadership. In the year under review, 26 female Senior Managers attended a Women in Leadership Training; two female EXCO members attended a Women Directors training programme and 30 female staff were certified as Productivity and Engagement coaches, and are building capacity for women coaching and mentorship. We also sponsored five women for executive coaching.

Women in Business

In the period under review, we set for ourselves a target to increase the number of women led or owned businesses in our supply chain from the current 2.3% to 10% by the year 2020. This is in line with our commitment to Sustainable Development Goal 10 – Reduced Inequalities. Although we made good progress in increasing the number of women owned business suppliers from 113 to 1243, the volume of business given to the group remained at 2.3% of the total volume. To grow the volumes, our supply chain team held three capacity building workshops for women owned businesses. Going forward in the new financial year, we have made concerted effort in recruiting more women led businesses in high value categories such as IT and networks.

Integrated Waste Management Programme

In the year under review we developed and rolled out the Integrated Waste Management (IWM) policy in 5 corporate office facilities. IWM is based on a hierarchical waste management approach that combines different methods of waste management in various levels of preference. Safaricom's IWM most preferred waste management method is avoidance and reduction in line with SDG 12: Sustainable production and consumption. From the start of its implementation, Safaricom has been able to recycle and re-use up to 97% of the waste generated and is in the process of phasing out materials contributing to the 3% residual waste by adopting recyclable alternatives at point of entry. In the FY 2018/19 we remain focused on rolling out IWM implementation in 32 regional facilities which will include retail centers within the greater Nairobi, MSRs and mini stores.

ISO 14001 recertification

Safaricom got the ISO 14001 recertification which was also a successful transition from the ISO14001:2004 version to the ISO 14001:2015 version with an extended scope covering the Mombasa MSRs.

SUSTAINABILITY ADVOCACY

THE B TEAM

The B Team is a not-for-profit initiative formed by a global group of business leaders to catalyse a better way of doing business, for the wellbeing of people and the planet. Safaricom CEO is part of the Founders circle of the B team. To inspire an increased number of African business leaders to help lead this transition we replicated the model and composition of the B Team within Africa to create the B team Africa. The B Team Africa has been seeded and incubated by Safaricom Plc. The B Team Africa serves as a platform to enable African business leaders address critical priorities to realizing their business's and country's progress such as anti-corruption, responsible tax and transparency, renewable affordable and clean energy, environmental preservation, diversity inclusion, human capital investment and civic rights. The B Team Africa was formally launched at the Africa CEO Forum in Abidjan in March 2018.

The 2017/2018 Sustainability Report will be available online from November 2018

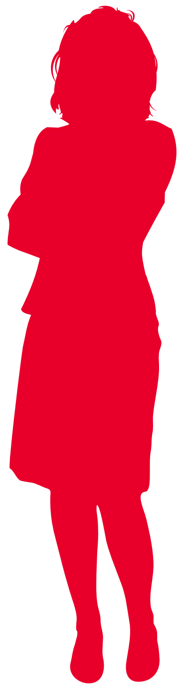
1.7%

During the period under review, we grew the proportion of our people with disabilities from 1.4% to 1.7% a gradual progression toward the target of 5% by the year 2020.

ISO 14001

Safaricom got the ISO 14001 recertification which was also a successful transition from the ISO14001:2004 version to the ISO 14001:2015 version with an extended scope covering the Mombasa MSRs.

“In the period under review, we set for ourselves a target to increase the number of women led or owned businesses in our supply chain from the current 2.3% to 10% by the year 2020.



Our Social Impact

Partnering with Communities

Our Foundations

For Our Society

Through its two Foundations, the Safaricom Foundation and the MPESA Foundation, Safaricom continues to partner with Kenyan communities in all 47 counties, in a true embodiment of the Twaweza partnership spirit. The Foundations implement programmes in health, education, economic empowerment, environmental conservation, all in line with the Sustainable Development Goals. We believe that business cannot be successful if society around it is failing. This provides us with the imperative to continue and deepen our community engagements. Over the last two years, we have worked through our Regional Offices in the six regions of the country to ensure that we are even closer to our communities and their needs.

15 Years of Partnering with Communities

Over the past 15 years, the Safaricom Foundation has partnered with communities across the country to implement projects in Education, Health, Economic Empowerment, Environmental Conservation, Water, Arts and Culture, Technology for Good and Disaster Relief. We also applied mobile technology to solve community challenges through our Technology for Good portfolio. We have touched the lives of over 5 million people. This report highlights just a few of our successful and impactful partnerships and programmes. The full detail on the work of the Safaricom Foundation can be found at *www.safaricomfoundation.org*

5 million

Number of lives touched by our various interventions.

Our Foundations

Ensuring healthy lives and promoting well-being for all at all ages

The doctor to patient ratio in Kenya lies at 1:17000. In addition, many Kenyans never get the chance to access specialized medical services. The Safaricom Foundation partnered with the Kenya Diabetes Management and Information Centre (DMI) to provide a wide range of health information and services (dental care, eye care, general consultations and specialized services) to Kenyan communities country wide. Using diabetes and hypertension as entry points for information and screening, the partnership has delivered 120 medical camps and reached more than 300,000 people. Beyond on-site diagnosis, treatment and prescriptions, hundreds of Kenyans were referred for cataract surgeries, cancer treatment and other life-saving surgical interventions.

120

The number of medical camps deployed reaching more than 300,000 people

Ensuring inclusive and equitable quality education and promote lifelong learning opportunities for all

In many parts of the country, children do not always have the opportunity to study in well-equipped and well-furnished classrooms. This situation is more common in lower classes, and in Early Childhood Development (ECD) education. With a desire to improve the quality of learning facilities for young learners, in 2001, the Safaricom Foundation partnered with the Tinga Tinga Tales Foundation and Coca-Cola CEWA (Central, East and West Africa) and formed the Know and Grow Education Partnership Programme to improve the learning environment for children in their early years in public sector schools.

Using the poverty index, and through a robust partnership with District Education Offices, the partnership identified the top school in each constituency that needed improvements in their ECD learning environment. To date, 54 schools have new ECD classrooms, furniture, learning equipment; new ablution blocks; water harvesting equipment; and in some instances, enhancements to the school feeding programme through the establishment of a greenhouse in the school. To date, over 7,500 early learners have started their formal school experience learning in dignified classrooms.

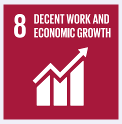
54

The number of schools that have new ECD classrooms, furniture, learning equipment; new ablution blocks; water harvesting equipment; and in some instances, enhancements to the school feeding programme through the establishment of a greenhouse in the school.

7,500

Over 7,500 early learners have started their formal school experience learning in dignified classrooms.

Promoting sustained, inclusive and sustainable economic growth



In 2015, the Safaricom Foundation partnered with Hand-in-Hand International East and Junior Achievement to provide financial literacy and financial management training as well as micro loans to Kenyans. This was in recognition of the fact that access to credit for micro businesses and self-employment is limited.

A revolving loan of Shs. 20 million was established to be loaned out to women organized in groups and to out of school youth. Completion of the financial literacy and financial management training was a mandatory prerequisite to accessing the microloan. Through this programme, 18,000 micro loans were disbursed and 9,870 enterprises established in Homa Bay, Bomet, Busia, Makueni and Kajiado counties. Some 6,458 jobs were created as an indirect outcome.

20 million

The revolving loan amount, established to be loaned to women organized in groups and to out of school youth.

Looking Forward: The New 2018-2021 Strategy

After the successful implementation of its 2014-17 strategy, the Safaricom Foundation embarked on assessing progress in the implementation of the expiring strategy, and developing a new strategy. In its 2018-2021 strategy, the Safaricom Foundation will focus on three strategic areas: Health, Education and Economic Empowerment with a specific focus on young people. The Trustees are committed to ensuring that the Foundation uses its resources in an ambitious, efficient and flexible way that drives positive change in health, education and economic empowerment. The Safaricom Foundation will also allocate a portion of its funding.

Our Foundations

The M-PESA Foundation: Large Scale Programmes

Now in its eighth year after inception, the M-PESA Foundation partners with Kenyan communities to implement large scale programmes in health, education and environmental conservation. The M-PESA Foundation aims to integrate mobile technology into its investments to contribute to a larger scale and scope of programmes. Full details on the work of the M-PESA Foundation can be found at *www.m-pesafoundation.org*

442

Uzazi Salama has trained communities, 442 community health workers and 278 health facility staff; 16 maternal health facilities renovated and 39 equipped (10 scheduled and ready to be equipped)

In Support of SDG3: Ensuring healthy lives and promoting well-being for all at all ages

Uzazi Salama (Safe Motherhood) is the flagship health programme of the M-PESA Foundation. Uzazi Salama is a partnership between the M-PESA Foundation, AMREF Health Africa, PharmAccess Foundation and the Samburu County Government. It aims to improve maternal and newborn health outcomes in Samburu County by addressing key barriers preventing mothers from accessing quality maternal and neo-natal health services.

Uzazi Salama aims to address the three delays that negatively impact maternal health: delay in seeking medical information and services; delay in reaching a medical facility; and delay in receiving adequate care when a facility is reached. Uzazi Salama has trained communities, 442 community health workers and 278 health facility staff. 16 maternal health facilities have been renovated and 39 equipped (10 scheduled and ready to be equipped). The M-PESA Foundation has also performed assessment to improve the quality of maternal and health information and services provided to all 55 facilities; established a transport and referral system and integrated technology into the programme to enable speed and scale. The program has reached 368 mothers.

Community Health Workers and Community Health Volunteers receive regular training and have the opportunity to receive supportive supervision from their peers or supervisor through LEAP (the Learning Enablement Platform); another investment by the M-PESA Foundation. There is a static e-learning centre established for nursing staff at the larger referral hospitals and 150 nursing staff have enrolled so far.

To date, Uzazi Salama project has increased by 8% the numbers of mothers delivering their babies at health facilities and has led to the reduction of maternal and neonatal deaths in the county.

Besides Samburu, the LEAP platform is being used to train and upskill health workers in 12 other counties. LEAP aims to drive lasting health productivity and economic improvements for communities across the country by increasing access to quality, timely and appropriate healthcare services. Some 3,000 Community Health Volunteers have been trained.

Conservation of Environment through restoring Mau Eburu Ecosystem

Located in Nakuru County, Eburu forest, is an indigenous forest among the gazetted forest blocks that comprise the vast 420,000 hectares of the larger Mau forest. The M-PESA Foundation funded the construction of 43.3 kilometres of fencing along with 10 fence gates to protect the forest from encroachment and illegal logging.

The project also established a wildlife water access point in Eastern Eburu Forest and created a 3.5 kilometer electric fence towards the eastern boundary of Eburu-Lake Naivasha corridor.

By increasing and sustaining the forest cover, 7,000 tree seedlings were planted in Morop area of the forest in an exercise undertaken by Safaricom staff, Kenya Defence Forces and the local community.

In the spirit of leaving no one behind, over 660 community members were trained on conservation. Other notable contributions include production of Eburu Map showing key forest features and wildlife corridors. In addition, two new nature trails were developed and new forest roads built. This has been summed up by publishing Eburu Guidebook and since then over 90 books sold to individuals and companies.

43.3km

The Foundation funded the fence construction of 43.3km long with 10 fence gates to protect the forest from encroachment and illegal logging.

7,000

A total of, 7,000 tree seedlings were planted in Morop area of forest by Safaricom staff, KDF and local community.

Ensuring inclusive and equitable quality education and promote lifelong learning opportunities for all

The M-PESA Foundation Academy is a state-of-the-art, co-educational and residential high school providing world class Kenyan education. Driven by leadership, entrepreneurship, technology and innovation, the Academy serves talented but economically disadvantaged students with demonstrated leadership potential. The admission of the first group of students was conducted in January 2016 when the Academy enrolled 94 students, a boy and a girl, from each of the 47 counties. Today, the Academy has 489 students and 40 teachers and 30 administration staff. The M-PESA Foundation Academy has continued to offer quality education to the students with a mix of ICT in provision of education. Students also engage in co-curricular activities such as sports, music, the arts and tech projects. This is aimed at empowering the students to realize their full potential and develop their individual skills to raise leaders, thinkers and doers.

94

The number of students first admitted to the academy in January 2016. The Academy admitted a boy and a girl from each of the 47 counties.

Building a bright future together

Our Brand Assests

Safaricom in Music and Sports

Music

Safaricom International Jazz Festival Turned Five

The Safaricom International Jazz Festival turned five years this year marked by electrifying performances.

The Festival attracted the highly acclaimed American jazz trio BWB, made up of Grammy Award winners Norman Brown (guitar) and Kirk Whalum (saxophone), and trumpeter Rick Braun.

"The fifth edition of the Safaricom International Jazz Festival has a special place in our hearts for many reasons. Not only are we celebrating five years of great live jazz performances from world renown and locally admired musicians, we are also celebrating the social impact we've created through funds raised from the Festival," said Bob Collymore, CEO, Safaricom.

In the past five years, the jazz event has featured, among others, some of Africa's most celebrated jazz artistes.

These include South Africa's world-renowned jazz musician Hugh Masekela (he has been visiting and performing in Kenya since the mid-1980s), whose influence has inspired many in Africa.

Others include guitarists, Jonathan Butler and Jimmy Dludlu and trombonist Siya Makuzeni and pianist Bokani Dyer.

Local jazz artistes have also done us proud. They include the youthful Afro-jazz group Shamsi Music, Mwai and The Truth, Nairobi Horns Project, pianist James Gogo with GogoSimo band, pianist Zach Amunga's AfroSync, saxophonist Chris Bittok, guitarist Eddie Grey, saxophonist Juma Tutu, saxophonist Edward Parseen, and pianist Jacob Asiyo.

1,200

Beneficiaries of the Jazz Festival. Proceeds from the Festival go towards supporting the Ghetto Classics, a programme that teaches music to youth from Korogocho.

Shs 60 million

Since 2014, proceeds from all ticket sales are donated to the Ghetto Classics music programme, which has been the Safaricom Jazz beneficiary since 2014 and has so far received an estimated Shs 60 million

Nigerian guitar sensation Kunle Ayo, has made two appearances in Nairobi. Other West Africans who have featured at the Safaricom Jazz Lounge include the seminal Malian singer-guitarist Salif Keita and fellow Fatoumata Diawara.

Proceeds from the Festival - a brainchild of The Art of Music Foundation - go towards supporting the Ghetto Classics, a programme that teaches music to youth from Korogocho.

The Safaricom International Jazz Festival has evolved significantly and is effectively serving to contribute to the diversification of Nairobi's and indeed Kenya's cultural landscape by cultivating a jazz culture.

Since 2014, proceeds from all ticket sales are donated to the Ghetto Classics music programme, which has been the Safaricom Jazz beneficiary since 2014 and has so far received an estimated Shs 60 million, funds that have benefitted over 1,200 children from Nairobi and Mombasa.

Music

SKIZA

In June 2017, we announced a 36 per cent increase in the amount Kenyan artists earn for music sold through the SKIZA music platform.

Musicians now earn 30% on SKIZA earnings, up from 22% they previously earned per song.

The amount is paid through their respective Content Service Providers who then pay the musicians in accordance with the contracts they have signed and in line legal directives.

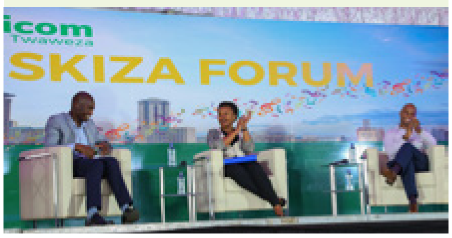
"The spirit of SKIZA was to ensure that Kenyan artistes earn from their creativity. We will commit to continue to explore more ways in which we can empower artists to help them make a living from their work," said Bob Collymore, CEO, Safaricom.

In addition to an increase in earnings, artistes on the Skiza platform can now keep track of their income on the platform by dialing *622# or by visiting www.skiza.com. The reporting will be available on a real-time basis and will enable artistes to view their own earnings, a shift from the previous situation which saw only CSPs access the portal.

Artists on the platform will further benefit in the form of free legal assistance from Safaricom. This will be in the form of a number of legal clinics and experts in copyright and entertainment law which will be offered in the various SKIZA forums.

The legal assistance will empower artists when it comes to negotiating their contracts with the various parties, allowing them to do so from a more informed view.

SKIZA is one of the platforms created by Safaricom over the last sixteen years to provide a forum for Kenyan musicians to sell their music and offers them a chance to reach the company's 29.6 million subscribers. There are currently 11 million users of the service, which houses over 132,000 tunes.



Sports

The main association for Safaricom in the world of sports continues to lie with various sports initiatives including the Chapa Dimba Na Safaricom Football Tournament, Sports Personality of the Year Awards (SOYA), Safaricom Athletics Series and the Safaricom Marathon held in Lewa.

Chapa Dimba

The Chapa Dimba Na Safaricom Football Tournament was aimed at recruiting young talent aged 16 to 20 years from all regions of the country to play in a national tournament and showcase their talent. The winning boys' and girls' teams received Shs1 million in prize money and an International Training Camp to London in March 2018.

In the inaugural Chapa Dimba na Safaricom tournament, Kapenguria Heroes, a team from West Pokot, and Plateau Queens from Nyanza emerged winners, earning KShs 1 million in prize money and a trip to London to train with Victor Wanyama.

Wanyama, who is the captain of Harambee Stars and the only Kenyan playing in the English Premier League, at Tottenham Hostpurs, was the face of the programme.

Two players who participated in the tournament, James Omsinde and John Njuguna, got call-ups to the national under-20 team while David Majak, Fredrick Krop and Oscar Kengwa were signed up by Kenya Premier League teams.

The finals were held at Bukhungu Stadium in Kakamega County and featured the top 15 of the 1,567 teams that participated in the tournament.

Recruitment of the talented boys and girls from around Kenya started in June 2017.

Nairobi region had 167 teams, Nyanza 235, 80 from North Eastern, while Western, Rift and Eastern regions had 197, 352 and 189 teams respectively. The Coast region had 163 teams with 184 from Central signing up.

Safaricom invested Shs 100 million towards the program, which included Shs 10 million worth of prizes as well as for renovation of some of the community pitches through a legacy programme to provide football related equipment to assist the grassroots teams.

SOYA

Shs 16 million

In December last year we also announced Shs16 million funding for the country's Sports Personality of the Year Award, one of Kenya's most important calendar sports event, which was founded by globally acclaimed athlete Paul Tergat

The Safaricom Marathon in Lewa

The Safaricom Marathon has grown from a comparatively small event to one of the toughest races and a must-do for marathon enthusiasts, raising over Shs 675 million since inception.

Funds raised by the Safaricom Marathon are geared towards wildlife conservation and development initiatives, among them; Lewa Conservancy, Northern Rangelands Trust, Mt. Kenya Trust, Ngare Ndare Forest Trust, Space for Giants, Koiyaki Guide School, Olare Orok Conservation Trust, Lamu Marine Conservation Trust, Watamu Turtle Watch, Bongo Surveillance Project, Kibodo Trust, Tsavo Trust, Ol Pejeta Conservancy, Big Life Foundation and Borana Conservancy.

For the last 18 years, the Safaricom marathon has had a huge impact on the lives of communities in Lewa and the protection of the endangered species in the conservancy and across the country.

We remain committed to supporting this cause because we have seen the difference it's making to wildlife conservation and to the communities in and around the projects we support.

The marathon has supported the conservation of some of Kenya's highly endangered species, notably the Black Rhino, the Leather-back Turtle, Grevy's Zebra and Mountain Bongo.

In addition, the funds support community initiatives around education, healthcare, employment and economic empowerment in different geographies, with beneficiaries spanning Central, Northern, Western, Rift and Coastal regions.

The brand is today viewed as caring which we can attribute to the various initiatives under the Safaricom Foundation and recently, our Twaweza Live campaign.

Safaricom Athletics Series

Over the last decade or so Safaricom has invested close to Shs1 bn in various athletics events. In the last three years, we have brought these events together under the banner of the Safaricom Athletics Series. In FY 18, we committed Shs65 million towards Safaricom Athletics Series.

Through this Athletics Series avenue, we have seen the opportunity for more young men and women from all over the country to realise their dreams of excelling in sports, and remain committed to providing a platform from which they can launch their careers and receive valuable training as they seek to represent Kenya at the highest levels of sport.

By working closely with our partners – Athletics Kenya, Deaf Athletics Association of Kenya and the National Paralympics Committee – we have developed a strong athletics calendar that has resulted in local training opportunities for our athletes, who are using various races to prepare for international meets.

Sports

Breaking the two-hour marathon barrier

Safaricom has joined hands with the Vodafone Group to deliver industry-leading Internet of Things technology to Kenyan athletes in a bid to help them break the two-hour marathon mark.

The athletes are trying to shave at least two minutes off the World Record 2:02:57 set by Dennis Kimetto in September 2014 at the Berlin Marathon.

Safaricom and Vodafone are working with a group of specialist scientists, the world's best marathon runners, and other industry partners in a project called SUB2 (www.sub2hrs.com) to help break that record.

Vodafone has built a SUB2 smart watch app to provide telemetry with enhanced location tracking using mobile networks.

SUB2 aims to leave a legacy for athletics by demonstrating how science and technology can fairly help athletes improve their performance.

Working with partners, Vodafone engineers enabled a series of body sensors to communicate with the SUB2 app over a mobile network.

On contact time, cadence and strike angle, motion sensors from Gait Up, a spin-out from the University Hospital of Lausanne and the Swiss Institute of Technology of Lausanne provide running efficiency metrics that will help physiologists working in coaching teams to determine an athlete's running mechanics and communicate advice for injury avoidance and performance enhancement, even while they are still out on a training run.

For 3D visualisation, technology from a start-up called Notch can reconstruct running movements in 3D on a smartphone or laptop, which can help those responsible for an athlete's care and performance implement corrective running strategies.

For skin and land surface temperature, the SUB2 app uses sensors from French lab Bodycap to inform athletes if they are hotter than expected during a run and should change their water intake strategy. The team expect to also be able to show core temperature within the app in the near future.

The technology, which was demonstrated at the Mobile World Congress in Barcelona, Spain earlier this year, is currently in use at the Iten and Eldoret training grounds in Kenya. The technology has been deployed on a two kilometre stretch within the hilly Iten area, and a 16 kilometre stretch on the flat South Moiben route in Eldoret.

The sensors give coaches live access to real-time data as athletes train, helping them understand the root causes of injuries or performance degradation, and how these can be avoided.

2:02:57

The athletes are trying to shave off at least two minutes off the World Record 2:02:57 set by Dennis Kimetto in September 2014 at the Berlin Marathon.

Safaricom marks 5 years in Deaf Half Marathon sponsorship

Safaricom has partnered with the Deaf Athletics Association of Kenya to sponsor the Safaricom Deaf Half Marathon in Meru. The marathon now in its 5th edition bring together deaf athletes from all over the country.

The annual event includes 21Km and 10Km races for both men and women, with the top three in the half marathon walking away with Shs75,000, Shs 65,000 and Shs 55,000. The winner, 1st and 2nd runners up in the 10Km race takes home Shs 30,000, Shs20,000 and Shs 10,000 respectively.

"This event has become very important in our athletics calendar, as it shows us the form our athletes are in before the season begins. Most of the expected participants are already in training, and we expect a fantastic show this weekend," said Bernard Banja, Secretary General – Deaf Athletics Association of Kenya (DAAK).

Last year Safaricom spent Shs5 million sponsorship. As the race has gained more prominence within the DAAK calendar, Safaricom has gradually increased its sponsorship from the Shs2 million support given in the race's first year.

Shs75,000

Amount the winner of the half marathon takes home

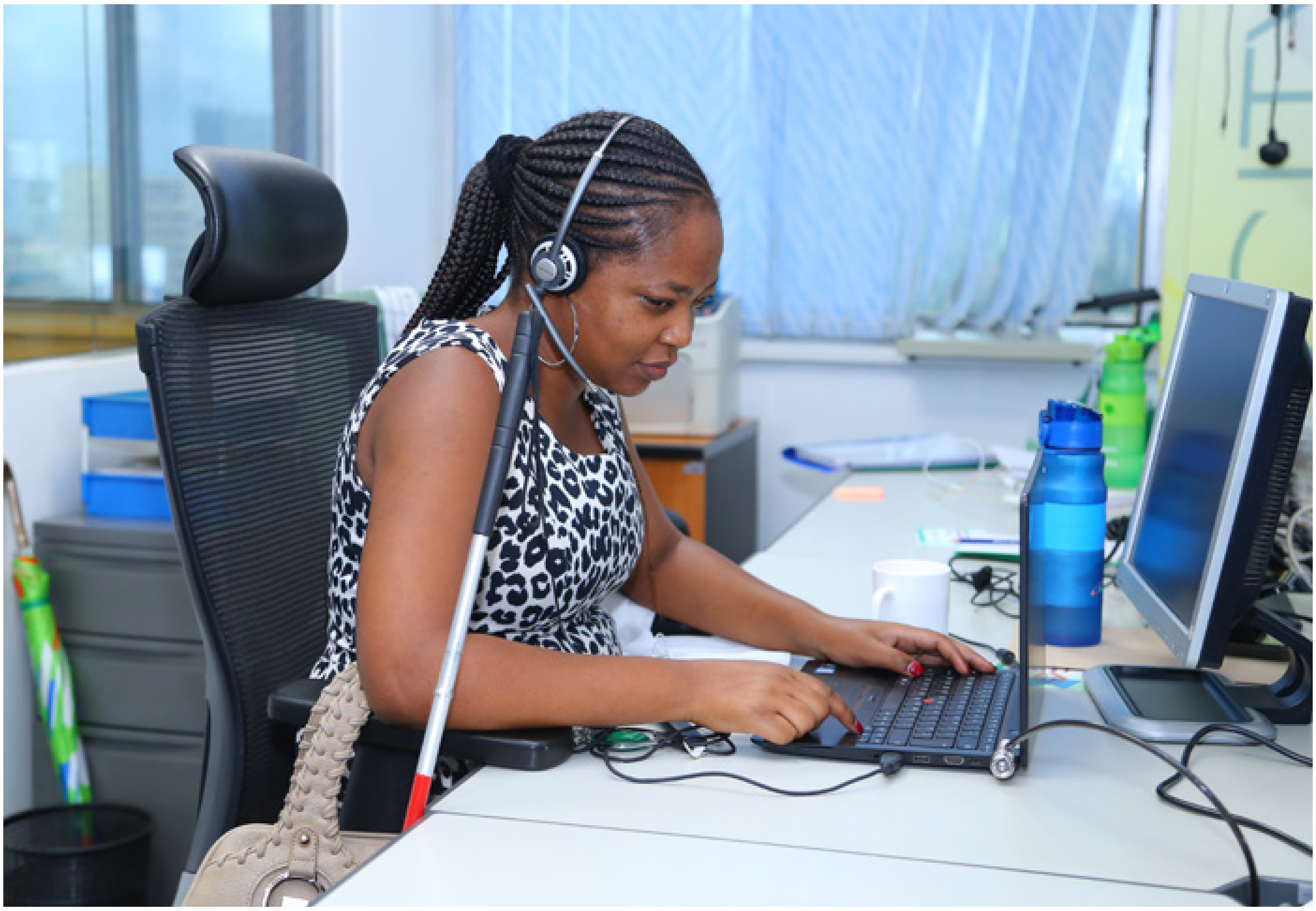
In 2013, Kenya received a total of 17 medals during the 22nd Summer Deaflympics games held in Sofia, Bulgaria, placing the team 8th out of 72 countries that took part in the competition.

In June 2016, Triple World Deaflympics Champion Simon Kibai retained his title after clocking 13:59:02 in the men's 5000m race at the National Deaf Track and Field Championships. A week before that Kibai had defended his title in the 21km Safaricom Deaf Half Marathon held in Bomet County, finishing in a time of 58:46:02. The Safaricom Deaf Half Marathon is the first of 11 races under the 2017 edition of Safaricom Athletics Series.

Building a bright future together

Our People

Revamping our culture



Safaricom Way

In the period under review, Safaricom recognized and celebrated teams and individuals who embodied Safaricom way of SPEED, SIMPLICITY AND TRUST. Through the Safaricom way hero stories, 15 teams and 9 individuals were recognized for actively displaying the Safaricom way as they carried out their jobs. From this group two staff members were awarded with an opportunity to visit Vodafone in the United Kingdom later this year to attend the Vodafone Customer Experience event.

Diversity and Inclusion

Our purpose challenges us to look at the most immediate needs of our society, and find solutions that transform lives. Our focus on Diversity and Inclusion is an intentional effort towards ensuring inclusivity for all in the community. In financial year 2017/18, we continued to embed diversity and inclusion as a way of life.

During the period under review, we accelerated efforts to ensure Safaricom mirrors the communities we serve. The company continues to position itself as the employer of choice through four Interdependent levers of Attraction, Retention, Growth & Development and Driving Change.

Gender: Overall, we have maintained a gender-balanced workforce of 50:50 whilst management has also remained at 68:32 with an ambitious plan to achieve 50:50 by FY 2020/1

Persons with disabilities: 1.7% of our staff force is composed of persons living with disabilities. We have an ambitious goal of increasing this to five per cent by March 2021. Safaricom has so far employed ninety-six members of staff with various disabilities including visual and hearing impairments, paraplegics, and people living with albinism and dwarfism. Our desire is to create an employee value proposition that positions us as an inclusive, equal opportunity employer, not because we are required to, but because it is the right thing to do.

> **"Our focus on Diversity and Inclusion is an intentional effort towards ensuring inclusivity for all in the community.**

Supporting people living with disability

Our intention is not only to offer employment opportunities to persons with disability, but also to ensure that we provide a condusive working environment for them to realize their full potential. To this end, we have gone an extra mile to enhance our support concerning their diverse range of requirements specific to the nature of disability. These includes, enhanced medical cover, assistive devices, inclusive physical environment, emergency response equipment for persons living with disabilities and psychosocial support for staff as well as employees who have children with disabilities. In addition, we conducted

70

Certified coaches and 460 line managers who received training on coaching skills representing 76% of total line managers.

50:50

Overall, we have maintained a gender-balanced workforce of 50:50 whilst management has also remained at 68:32 with an ambitious plan to achieve 50:50 by FY 2020/1

> **Coaching is used in Safaricom to develop people's skills and abilities, boosting performance individually and as an organization.**

various trainings to create awareness and sensitize staff in a bid to eliminate stigma and discrimination. During the year, we embraced inclusive communication that entails captioning of Safaricom videos, inclusion of persons living with disabilities in our advertisements and sign language interpretation in our key events. Seventy-two staff members were trained in basic sign language.

Talent Management

Safaricom continues to invest and build its talent across the organization to ensure capacity and capability building stays ahead of business demand.
Our members of staff determine our success, Safaricom is hence keen to ensure increased staff engagement, and continued improvement in productivity. As a digital first organization, we are constantly investing in capacity to innovate for continuous transformation and organizational agility.

Coaching

During this period, we introduced a coaching culture within the organization's teams. An examination of various companywide reports, surveys, and feedback has highlighted the need to develop and ingrain a coaching culture to support employee wellness, performance management, and leadership development. It is Safaricom's goal to instil a culture of coaching in order to empower talent and inspire new levels of innovation, unconventional thinking, and workplace agility.

Coaching is used in Safaricom to develop people's skills and abilities, boosting performance individually and as an organization. We now offer online coaching programs via staff eLearning portal. Over 70 certified coaches and 460 line managers were trained on coaching skills representing 76% of total line managers. All the executive leadership have started their coaching certification journey with an aim of completing before end of 2018/19 financial year. Our mission is to embed a coaching culture within Safaricom, where everyone acts and interacts like a coach actively coaching or being coached.

Safaricom Women in Leadership Programme

Safaricom Women in Leadership Programme aims at building an inclusive leadership culture that gives equal opportunities to men and women within the company. This move has in turn supported our goal of achieving diversity in leadership, improving our performance and allowing us to open up more opportunities to more women within the business.

In financial year 2017/18, fifty-seven women attended the Safaricom Women in Leadership Program. While thirty women were certified as productivity and engagement coaches in the business to build capacity for women coaching and mentorship. We also sponsored five women for executive coaching.

Rewarding Our People

As a business, we seek to develop not Rewarding our people. In an effort to ensure we communicate our reward offering, we re-introduced reward statements for all staff that outline the total value of their reward package and

is a useful financial planning tool. This emphasizes our commitment to the wellbeing of our people and is aligned to our purpose of transforming lives. We have also introduced an interactive Reward portal to ensure staff have access to information on our reward offering.

Culture

A critical component of the digital journey is our employees. We have identified the Safaricom Culture and are aligning these culture elements to our purpose, brand promise and our values. The elements include Purpose, Humanness, Growth and Trust. Culture is at the core of who we are as an organization, what sets us apart. Safaricom Culture will bring about the following outcomes, an admired brand, engaged and happier employees, innovation, personal and business growth, trust and collaboration across disciplines. Through implementing culture across members of staff, our people will live the Safaricom purpose and values in their interactions with customers and community every day, everywhere.


Building a
bright future
together

Our Governance

Who governs us

Nicholas Nganga
Chairman and Non-Executive Director

Bob Collymore
CEO and Executive Director

Michael Joseph
Non-Executive Director

Susan Mudhune
Non-Executive Director

Bitange Ndemo
Non-Executive Director

Linda Watiri Muriuki
Non-Executive Director

Esther Koimett
Alternate to Henry Rotich

Vivek Badrinath
Non-Executive Director

Mohamed Shameel Aziz Joosub
Non-Executive Director

Till Streichert
Alternate to Mohamed Joosub

Kathryne Maundu
Company Secretary

Building a bright future together

Who leads us

Bob Collymore
CEO and Executive Director
With over 30 years experience in the telecommunications sector, Bob has a global perspective that is supplemented by his international affiliation with organisations such as the B-TEAM, Acumen and the UN Global Compact.

Sateesh Kamath
CFO
Sateesh has over 20 years experience in both mature and emerging markets across Asia, Europe and Africa, where he has built a strong background in strategic performance management and streamlining robust operations across the telecoms, FMCG and manufacturing sectors.

Joseph Ogutu
Director, Strategy & Innovation
With over 25 years of experience, Joe works closely with the CEO in formulating strategic direction for the business. He focuses on developing Safaricom's position as an industry leader in driving innovation in products and services. He also serves as the Chairman of Safaricom Foundation, Safaricom Staff Pension Trust and sits on the board of TEAMS Limited.

Stephen Chege
Director, Corporate Affairs
Stephen has a wealth of telecommunications professional experience spanning over 15 years in various organisations, including Vodafone Group UK. He has a deep background in Regulatory, Public Policy, Legal and High-Level Stakeholder Management.

Paul Kasimu
Director, Resources
Paul brings in vast, pan-African experience from a variety of non-telco roles. He is an accredited executive coach and HR professional with distinct expertise in business partnering in the implementation of HR strategy, leadership & talent development, and employer branding

Steve Okeyo
Director, Regional Sales & Operations
Steve has over 15 years of global experience in non-telco operations. He is well versed in strategic planning, marketing management, commercial transformation and General Management having worked in Africa and Europe.

Denish Osodo
Director, Internal Audit
Denish has over 14 years experience in Audit and Risk Advisory Services. He has vast experience in offering audit and business advisory services to several companies across different industries in both Kenya and the UK.

Jannet Atika
Director, Customer Operations
Jannet has over 21 years experience working in the telecommunication sector in various fields such as Public Relations, Sales, Marketing and Customer Service. She rose from being a shop manager to her current role in 16 years.

Nicholas Mulila
Director, Risk Management
Nicholas has over 15 years' experience in Finance, Business Analysis, Strategy formulation and Execution. He rose through a variety of roles ranging from finance to strategy before taking his current role.

Rita Okuthe
Director, Enterprise Business
Rita has several years work experience in brand management and has successfully managed company transitions at all stages. She has vast experience in marketing in industries ranging from the FMCG to the Telecommunications sector.

Sylvia Mulinge*
Director, Consumer Business
Sylvia has spent over a decade in marketing with half of this in the telecommunications industry. She has a keen understanding of customer needs and segments.

*Sylvia has since left Safaricom for another engagement within Vodacom Group

Thibaud Rerolle
Director, Technology
Over the last 17 years, Thibaud has built a wealth of capability in acquiring and adapting technologies for networks across three continents. His expertise covers Networks, Management and Customer Service, which he has worked on in Africa, Europe and South America.

Sitoyo Lopokoiyit
Director, Financial Services
Sitoyo joined Safaricom PLC on 1st April 2018, having previously served as M-Commerce Director at Vodacom Tanzania PLV Ltd from October 2015. Sitoyo has over 10 years' senior managerial experience from different fields including oil & gas and retail. He has worked extensively in the East African Region as well as in Mauritius and Reunion.

Our Corporate Governance Statement

Introduction

Corporate governance refers to the structures and processes guiding the leadership of the Company. The Board of Directors is responsible for the governance of the Company. The Company has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the Company.

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

Over and above the self-assessment that the Company completed of its level of compliance of the Code as at March 31 2018, the Corporate Governance Statement as provided in this Annual Report will highlight to the Company's shareholders and various stakeholders, the performance to date.

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

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

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

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

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

Board charter

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

The separation of the roles, functions, responsibilities and powers of the board and its individual members;

Powers delegated to the board committees; Matters reserved for final decision-making and approval by the board;

Policies and practices of the board on matters of corporate governance, directors' declarations and conflict of interest, conduct of board and board committee meetings; and

Nomination, appointment, induction, ongoing training and performance evaluation of the board and its committees.

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

Board size, composition and appointments

The constitution of the company's board is stipulated by the company's Articles of Association. It comprises of 10 directors of whom nine are non-executive directors and one is an executive director. Of the nine non-executive directors we now have two independent directors. The non-executive directors, other than those appointed by Vodafone and the Government of Kenya, are subject to retirement by rotation and must seek re-election by shareholders in accordance with the Articles of Association.

The board is responsible for recommending independent directors for election by shareholders at the annual general meetings. Nominated directors undergo a formal screening process conducted by the Nominations and Remuneration Committee of the board before they are formally appointed. The committee also considers and screens director nominees recommended by shareholders. Between annual general meetings, the board may appoint directors to serve until the next AGM. Any such appointment of independent directors must be ratified by the shareholders at the next AGM following their appointment.

The role and responsibilities of the board

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

How the board works

The board is solely responsible for its agenda. However, it is the responsibility of the chairman and the company secretary, working closely with the chief executive officer, to come up with the annual board work plan and an agenda for the board meetings.

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

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

The senior leadership team members may be invited to attend the board meetings if deemed necessary. Where directors are unable to attend a meeting, they are advised on the matters to be discussed and given the opportunity to make their views known to the chairman or the chief executive officer prior to the meeting.

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

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

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

A summary of board meetings and attendance is shown below;

Overall board meetings: Members attendance for 2017/18

Board member	Position	9 May 2017	31 August 2017	1 September 2017(AGM)	9 October 2017	2 March 2018
Nicholas Ng'ang'a	Chairman	√	√	√	√	√
Bob Collymore	Chief Executive Officer - Alternate is Sateesh Kamath	√	√	√	-	√
Michael Joseph		√	√	√	√	√
Vivek Badrinath	Alternate is Gianluca Ventura	√	√	-	√	√
Gianluca Ventura[1]		√	-	-	-	-
Susan Mudhune		√	√	√	√	√
John Otty		√	√	-	√	√
Henry Rotich	Alternate is Esther Koimett	√	√	√	√	√
Bitange Ndemo		√	√	√	√	√
Mohamed Joosub[2]		-	√	-	-	√
Linda Muriuki[3]		-	√	√	√	√
Till Streichert[4]		-	-	-	√	-
Kathryne Maundu	Company Secretary	-	-	-	-	-

1. *Gianluca Ventura ceased to be a substantive director with effect from 31 August 2017 and was appointed an alternate director to Vivek Badrinath with effect from the same date.*
2. *Mohamed Joosub was appointed a director with effect from 31 August 2017.*
3. *Linda Muriuki was appointed a director with effect from 31 August 2017.*
4. *Till Streichert was appointed an alternate director to Mohamed Joosub with effect from 31 August 2017.*

Separation of powers and duties of the chairman and the chief executive officer (CEO)

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

Board diversity

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

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

Below is our current board structure:

Name		Nationality	Date of appointment
Nicholas Ng'ang'a		Kenyan	6 May 2004
Bob Collymore		British	5 September 2006
Michael Joseph		American/ Kenyan	8 September 2008
Henry Rotich		Kenyan	5 November 2013
Susan Mudhune*		Kenyan	20 May 2009
John Otty	(Resigned w.e.f 8th May 2018)	British	1 August 2013
Vivek Badrinath		French	12 January 2017
Dr. Bitange Ndemo		Kenyan	2 March 2017
Linda Muriuki		Kenyan	31 August 2017
Mohamed Joosub		South African	31 August 2017
Esther Koimett	(Alternate to Henry Rotich)	Kenyan	5 November 2013
Sateesh Kamath	(Alternate to Bob Collymore)	Indian	1 August 2016
Gianluca Ventura	(Alternate to Vivek Badrinath)	Italian	31 August 2017
Till Streichert	(Resigned as Alternate Director w.e.f 8th May 2018 and was appointed a substantive Director on the same day.	German	31 August 2017

*Mrs Mudhune will cease to be a Director of the company with effect from the conclusion of the 2018 Annual General Meeting scheduled to be held on the 31st August 2018. The Board, in the course of the financial year will nominate an individual to fill the casual vacancy and the individual so appointed will be subjected to election at the next AGM.

Board and Directors' effectiveness

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

Board induction and training

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

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

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

Access to independent advice

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

Nomination

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

Evaluation

In line with the provisions of the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, the board undertook an annual evaluation of its performance as an entity, its committees, the chairman and each individual director and the company secretary. This was aimed at enabling the board and its members and the committees to gauge their performance and identify areas of improvement. An independent consultant was hired to carry out the evaluation.

Board committees

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

Audit Committee *

Membership and functions of the Board Audit Committee

The Audit Committee consists of five non-executive directors and reports to the board after every committee meeting. The chairperson is an independent non-executive director.

Functions of the Audit Committee

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

*The Chairperson of the committee will cease to be a Director and thereby a member of the committee with effect from the conclusion of the 2018 AGM in line with note 1 on page 81, the Board will co-opt the individual to the Board Audit Committee.

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

1. Risk management and internal controls

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

2. Financial reporting and disclosure matters

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

3. External auditor oversight responsibilities

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

4. Internal audit oversight responsibilities

- Oversee the activity and credentials of the company's internal audit division, including a review of the internal audit charter, code of ethics, plans, resource requirements, staffing and organizational structure;
- Consider the appointment, replacement or dismissal of the director of internal audit and make recommendations to the board;
- Approve the annual audit plan ensuring its consistency with the company business plan;
- Receive reports on the status of significant findings, recommendations and management's responses.

A summary of Audit Committee meeting members attendace is shown below;

Board Audit Committee meetings: Members attendance for 2017/18

Name	8 May 2017	9 June 2017	30 August 2017	November 2017	1 March 2018
Susan Mudhune (Chairperson)	√	√	√	√	√
John Otty	√	√	√	√	√
Esther Koimett	√	√	√	√	-
Bitange Ndemo[1]	-	√	√	√	-
Mohamed Joosub[2]	-	-	-	-	-
Till Streichert[3]	-	-	-	√	√
Kathryne Maundu (Secretary)	√	√	√	√	√

1. *Bitange Ndemo was appointed to the Committee with effect from 9 May 2017.*
2. *Mohamed Joosub was appointed to the Committee on 31 August 2017.*
3. *Till Streichert was appointed as alternate director to Mohamed Joosub with effect from 31 August 2017.*

Nominations and Remuneration Committee

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

Membership and functions of the Nominations and Remuneration Committee

The Nominations and Remuneration Committee is established by the board of directors; comprises six non-executive directors and meets four times a year.

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

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

A summary of Nominations and Remuneration Committee meeting members attendace is shown below;

Nominations and Remuneration Committee meetings: Members attendance for 2017/18

Name	May 8 2017	August 30 2017	November 1 2017	March 1 2018
Nicholas Nganga (Chairperson)	√	√	√	√
Susan Mudhune	√	√	√	√
Esther Koimett	√	√	√	√
Michael Joseph	√	√	√	√
Gianluca Ventura[1]	√	√	√	-
Vivek Badrinath[2]	-	-	-	√
Linda Muriuki[3]	-	-	√	√
Kathryne Maundu (Secretary)	√	√	√	√

1. *Gianluca Ventura ceased to be a substantive director with effect from 31 August 2017 and was appointed an alternate director to Vivek Badrinath with effect from the same date.*
2. *Vivek Badrinath was appointed to the Committee with effect from 31 August 2017.*
3. *Linda Muriuki was appointed to the Committee with effect from 31 August 2017.*

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 MARCH 2018

1.1 Introduction

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

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

Nicholas Ng'ang'a - Chairperson

Esther Koimett

Susan Mudhune

Michael Joseph

Vivek Badrinath

Gianluca Ventura*

Linda Muriuki

All members of the Committee are Non-Executive Directors.

* Gianluca Ventura ceased to be a substantive director with effect from 31 August 2017 and was appointed an alternate director to Vivek Badrinath with effect from the same date.

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

1.2 Directors' Remuneration Report

1.2.1 Report Preparation

The Directors' Remuneration report has been prepared to enlighten the shareholders on the remuneration payable to both the Executive and Non-executive Directors.

We will be seeking shareholder approval for our Remuneration Policy at the 2018 AGM. Subject to approval, we will review our policy each year to ensure that it continues to support the strategy of the Company and if necessary to make a change to our policy within the next three years, we will seek shareholder approval for the same.

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

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

1.2.2 Regulatory Changes

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

In March 2016, the Capital Markets Authority ("CMA") issued the Capital Markets Code for Issuers of Securities ("The Code") which became operational twelve months after its gazzettement. The Code outlines various compliance requirements with respect to the remuneration of directors'.

The Companies Act, 2015 which was enacted in September 2015 and became operational in June 2016, requires the Company to table a Directors' Remuneration report to its shareholders as part of its audited financial statements.

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

1.2.3 Current policy

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

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

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

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

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

1.2.4 Remuneration for Non-Executive Directors

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

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

a) Annual retainer fee for the Chairman and other non-executive directors;

b) Sitting allowances for Board and Board Committee meetings;

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

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

The current compensation structure which was approved by the Board in September 2015, was determined following a benchmarking exercise with comparable entities. A similar exercise was undertaken in February 2018 and the Board approved a revised compensation package for the Non-Executive Directors at their meeting held on 8 May 2018, which is line with the aforementioned policy.

1.2.5 Remuneration for Executive Directors

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

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

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

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

Role of the Company Secretary
Providing a central source of guidance and advice to the board, and the company, on matters of statutory and regulatory compliance and good governance;

Providing the board and the directors individually with guidance on how their responsibilities should be discharged in the best interests of the company;

Facilitating the induction training of new directors and assisting with the directors' professional development as required. This includes identifying and facilitating continuous board education;

In consultation with the CEO and the chairman, ensuring effective flow of information within the board and its committees and between senior management and non-executive directors. This includes timely compilation and distribution of board papers and minutes, as well as communication of resolutions from board meetings;

Guiding the company in taking the initiative to not only disclose corporate governance matters as required by law, but also information of material importance to decision-making by shareholders, customers and other stakeholders;

Keeping formal records of board discussions and following up on the timely execution of agreed actions.

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

The breakdown of the directors' personal shareholding in the company as at March 31, 2018 is as follows:

Name of Director	2018	2017	Change
Nicholas Nganga	855,100	855,100	-
Robert Collymore	1,518,600	1,518,600	-
Michael Joseph	1,178,600	1,178,600	-
Esther Koimett	517,600	517,600	-
Susan Mudhune	51,200	51,200	-
Henry Rotich	2,200	2,200	-
Sateesh Kamath	100,000	50,000	100%

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

Details of the fees for the non-executive directors and remuneration of the executive directors paid in the financial year under review are set out on the financial statements part of the annual report

Conflict of interest
The directors are obligated to fully disclose to the board any real or potential conflict of interest, which comes to any director's attention, whether direct or indirect. The statutory duty to avoid situations in which the directors have or may have interests that conflict with those of the company has been observed by the board in the financial year under review. All business transactions with all parties, directors or their related parties are carried out at arm's length. An acknowledgement that should it come to the attention of a director that a matter concerning the company may result in a conflict of interest, obligates the director to declare the same and exclude himself / herself from any discussion or decision over the matter in question.

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

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

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

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

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

Whistle blowing policy

We have a whistle blowing policy that provides for an ethics hotline managed by an independent, accredited and external institution. Through the hotline, anonymous reports on unethical / fraudulent behaviour can be made without fear of retaliation from the suspected individuals.

Whistle blowing statistics are reported to the Ethics Committee and the Audit Committee on a quarterly basis. Staff members and business partners are also regularly sensitised on the need to report any suspected unethical business practices.

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

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

Corporate Social Responsibility

We recognize that Corporate Social Investment (CSI) issues are of increasing importance to our stakeholders and are fundamental to the continued success of the business. Thus, we have a CSI policy that ensures we operate our business in a responsible manner at all times for the benefit of our customers, staff, suppliers, and the wider community. We exercise CSI by partnering with and investing in communities to find sustainable solutions. We also encourage our employees to take part in CSI initiatives aimed at improving the standards of living of the communities that they come from. Our CSI activities are disclosed every year in the social impact section of this report, sustainability and foundation reports.

Procurement policies

We have in place procurement policies that promote a fair and transparent procurement process, with emphasis on value for many and building mutually beneficial relationships with our suppliers. A Management Tender Committee oversees the award of tenders and there is appropriate Risk assurance for procurement activities.

Insider trading policy

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

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

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

Going concern

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

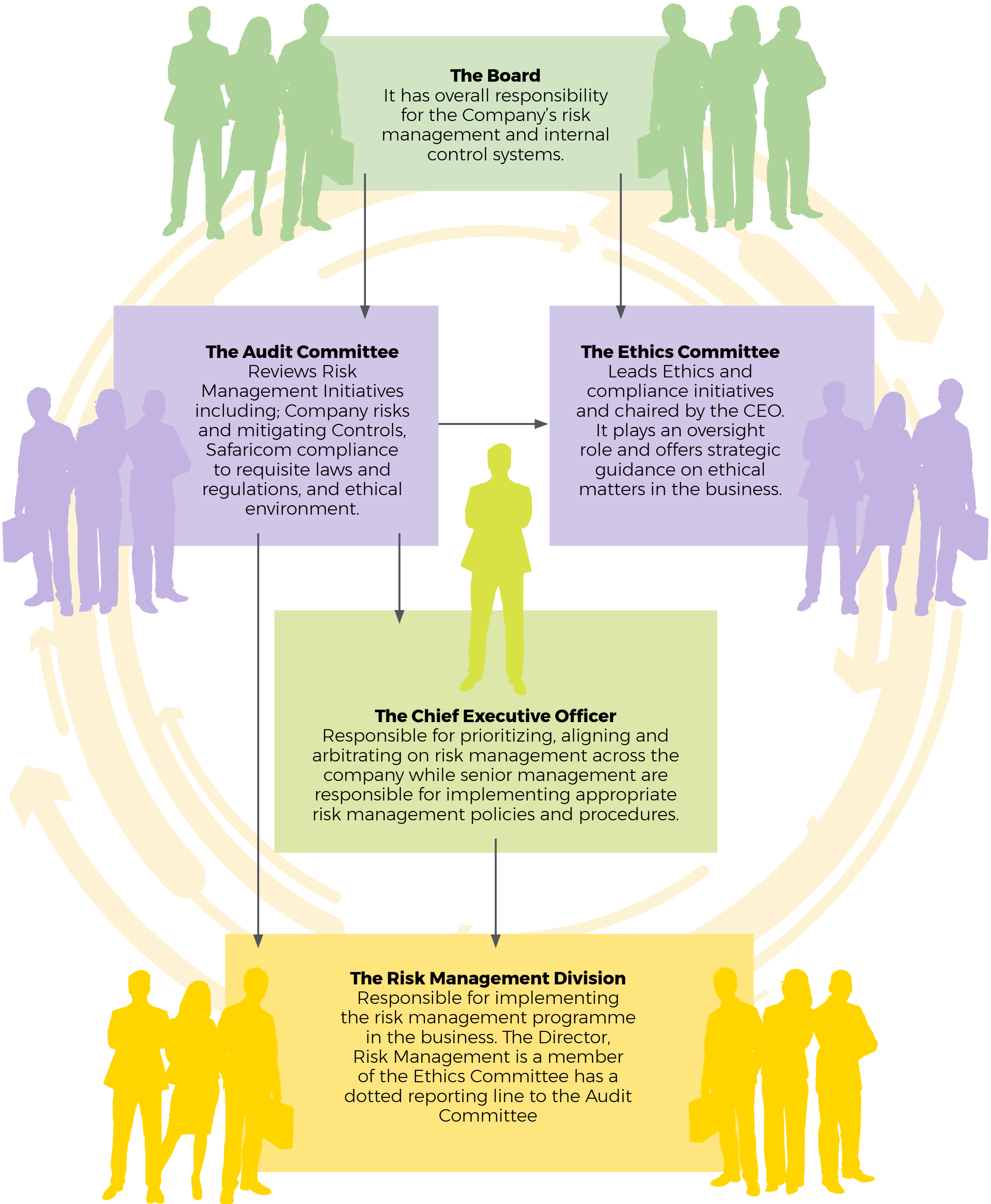

Building a bright future together

Risk Management

Risk Management

Enterprise risk management

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 toward Risk management is given driving a positive risk culture across the organization.



Our risk management framework

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

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

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

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.

Identiy	Measure	Manage	Monitor & Report
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.	We have a standardized risk scoring and categorization process that makes reference to our risk appetite that has been set by the Board. The measurement takes in to account both the probability of occurrence and potential impact should the risk crystalize.	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 defence”	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 GOVERNANCE

In order to support effective implementation of our Enterprise Risk Management framework we have adopted the three lines of defense model as illustrated below;

Three Lines of Defense		
First line of defense	**Second line of defense**	**Third line of defense**
Primary Risk Owners: · Each Division owns the risks that face their operations · We have management and financial controls in place to mitigate the risks.	**Oversight function:** ·Risk Management ·Compliance Management ·Business Continuity ·Quality Assurance	**Independent Assurance provider:** Internal and External Auditors
Reports to management	Reports to CEO and Board Audit Committee	Reports to Board Audit Committee

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 classify our risks into two categories; Strategic and Operational.

The following are Safaricom's principal risks and mitigation strategies. The fact that we disclose details of these risks means that each receives the requisite and considerable management attention.

Risk	Mitigation Strategy
Strategic Risks	
Adverse Regulations The Regulatory environment that Safaricom operates in is increasingly becoming complex and it continues to be one of the key areas of focus. The nature of products and services that we provide requires that we comply with a wide range of laws and regulations from our regulators.	While we comply with all laws and regulations, we continue to build constructive relationships with the regulators as well as contribute to discussions on emerging legislation and regulations as we prepare to comply with the same. Our products and services are carefully and continuously monitored to ensure they do not contravene any regulations.
Economic Growth Prospects Kenya has continued to experience challenges from a volatile currency, increased inflation and a reduction of FOREX earnings. The prolonged electioneering period in 2017 also caused uncertainty among investors thereby shying away from local investment opportunities. Other factors such as crippling drought, floods and the regulatory cap on lending rates also contributed to a reduction in consumer's purchasing power.	We continue to proactively monitor and mitigate these challenges to cushion both our business and customers.
Market Disruption The industry has become increasingly competitive in terms of product and service offerings. We face increased competition from a variety of new technology providers, disruptive technologies, changing customer preferences and new players in the market.	Our strategies to manage market disruption focus on growing and retaining our customers by offering quality services as well as and leveraging on strategic partnerships within different sectors to ensure we provide our customers with relevant products and services and customer experience. We continue to be innovative and adopt an agile operating model to be able to respond rapidly to the ever changing customer needs.

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

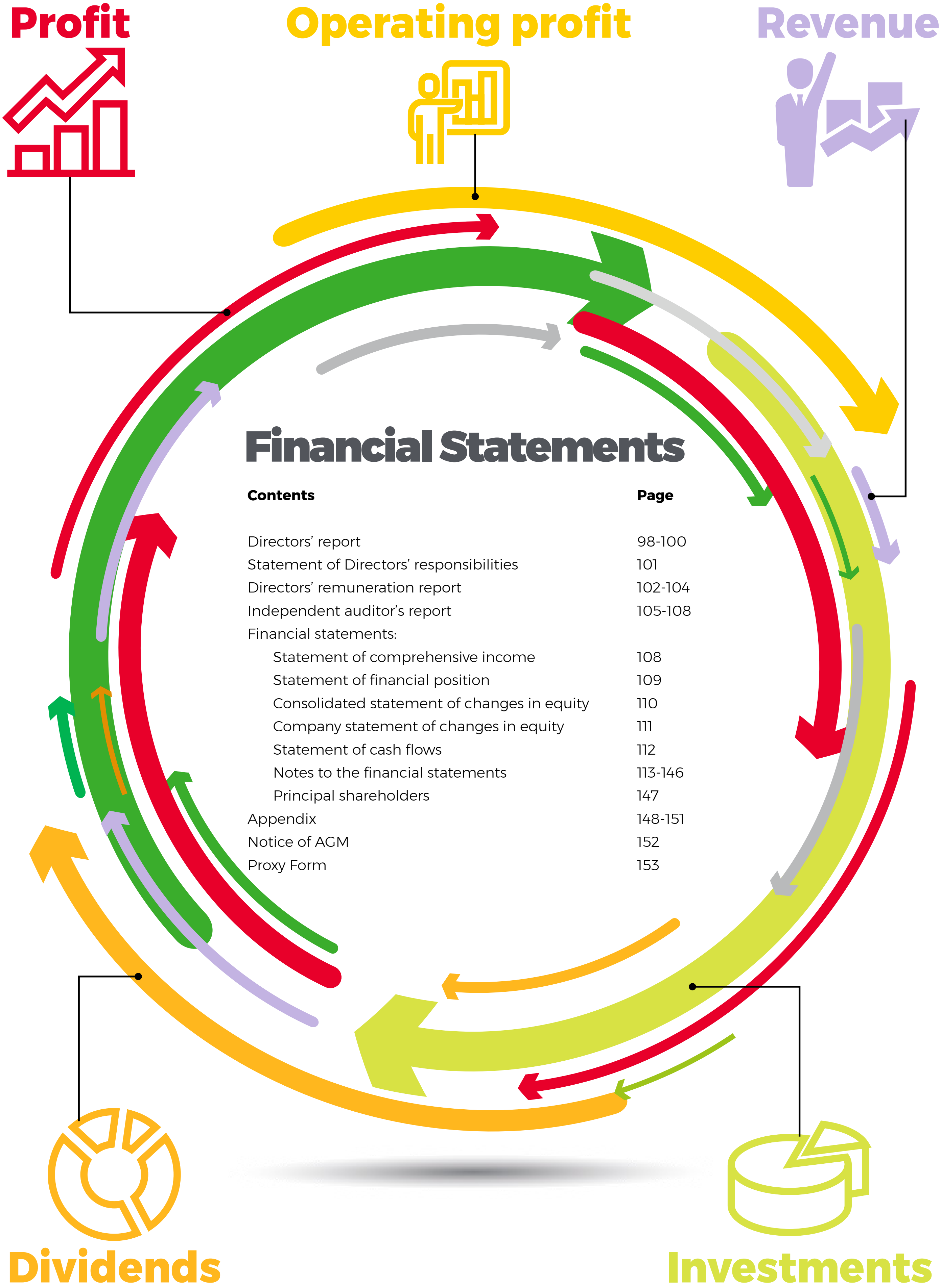
Our principal risks and what we are doing about them

Risk	Mitigation Strategy
Operational Risks	
Information and cyber threats Cyber-attacks, hacking, insider threat or supplier breach (malicious or accidental) could result in service interruption and/or the breach of confidential data, with resulting negative impact on customers, revenues and reputation, and potential costs associated with fraud and/or extortion.	Safaricom has enhanced its capacity to handle cybercrime incidents and technology related crime. Of particular note are robust cyber security controls complemented by the 24/7 Security Operations Centre to ensure we safeguard the services that we offer. Our ISO 27001 Information Security Certification is an independent confirmation to our customers that we have implemented appropriate processes and controls relating to our M-PESA, billing, mobile data, customer support and cloud services to protect the privacy of their information. To ensure excellence in operations we aslo hold the following certification by a reputable firm from UK: • **ISO 22301 –** Business continuity management system demonstrating our commitment to delivering sustained, consistent and exception services to our customers and stakeholders even in the event of any disruption. • **ISO20000 –** Information technology service management to ensure effective running and delivery of IT services. Our M-PESA service holds GSMA mobile money certification providing assurance that we have implemented the best mobile money standards that includes robust security measures. Our Thika Data Center offering collocation and Cloud services has recently received the Uptime Tier III Design certification by Uptime Institute of US, the certification confirms that our Data center design meets the international best practice requirements and this is a commitment of our endeavor to provide quality data center services to our customers.
Political uncertainties and unrest The last year has seen the country experience an extended period of political quagmire which has had adverse impact on the economic, social and business environments. Insecurity and or terrorism in some parts of the country may result in increased costs of operations.	The business continues to monitor the political situation keenly while taking appropriate business measure to safeguard our operations. To manage these security risks, we have invested heavily to ensure our staff, contractors and assets are protected and we continue to work closely with Law enforcement authorities to ensure our customers' interests are well protected. Further we carry out proactive intelligence gathering, screening and security surveillance. We will continue to invest in security training and awareness as well as maintenance and improvement of our security infrastructure and tools.


Building a
bright future
together

Our Financial Review


Building a bright future together



Financial Statements

Contents	Page

Directors' Report

The directors submit their report together with the audited financial statements for the year ended March 31 2018 which disclose the state of affairs of Safaricom PLC (the "Company" or "Safaricom") and its subsidiaries (together, the "Group").

BUSINESS REVIEW

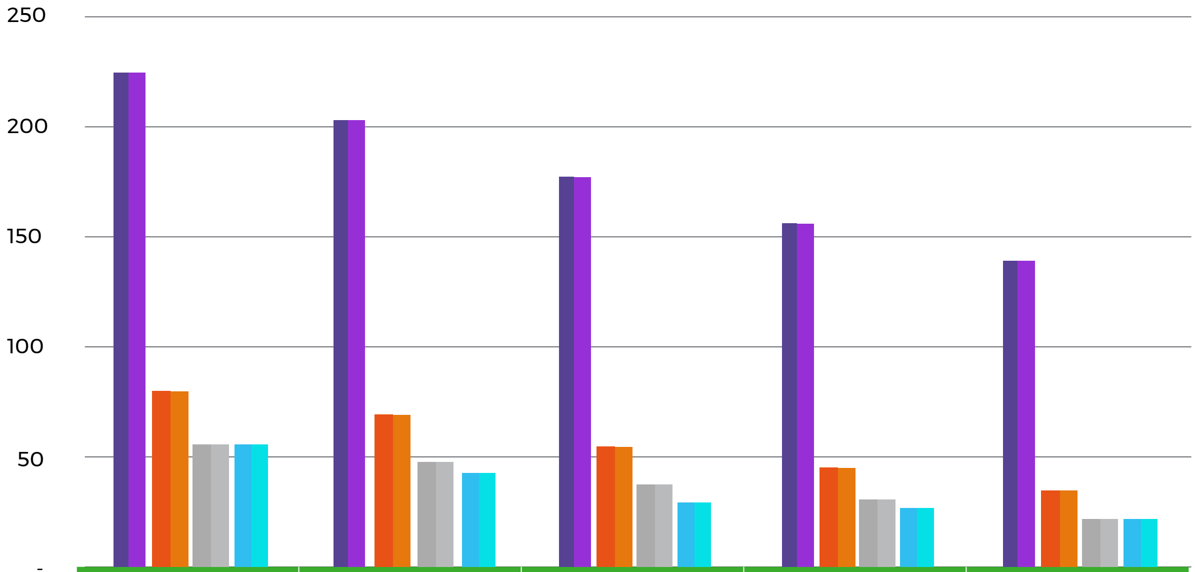
Safaricom exists to transform lives. We provide voice, data, financial services and enterprise solutions for a range of subscribers, small businesses and government using a variety of platforms.

Our corporate strategy is guided by three main pillars namely:

Customer First, Relevant Products and Services and Operational Excellence. These pillars have helped us grow our loyal customer base and produce excellent results across our key financial and commercial performance indicators and provide a positive impact on the lives of the customers we serve.

The 5 year key performance indicators is as below:

Key Performance Indicators
Amount in Shs billions



	2018	2017*	2016	2015	2014
Service Revenue	225	204	178	156	138
EBIT	79	70	55	46	35
Net Income	55	48	38	32	23
Free cash flow	56	44	30	28	23

Service Revenue EBIT Net Income Free cash flow

* FY 17 results include a one off upside adjustment. Refer to note 6 of the financial statements.

BUSINESS REVIEW (continued)

Our risk identification and mitigation processes have been designed to be responsive to the ever-changing environment that we operate in. We classify our risks into two categories; Strategic and Operational.

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

Strategic Risks	
Regulatory environment	**Mitigation**
The Regulatory environment that Safaricom operates in is increasingly becoming complex and a key area of focus. The dominance debate continues to receive a lot of attention and we are closely monitoring the developments. The nature of products and services that we provide requires that we comply with a wide range of rules and laws from our regulators namely Communications Authority of Kenya (CA), Competition Authority of Kenya (CAK) and Central Bank of Kenya (CBK).	We continue to build constructive relationships with the regulators as well as contribute to discussions on emerging legislation and regulations as we prepare to comply with the same. Our products and services are carefully and continuously monitored to ensure they do not contravene competition/dominance regulations.
Economic growth prospects	**Mitigation**
Kenya has continued to experience challenges from a volatile currency, increased inflation and a reduction of forex earnings. The prolonged electioneering period in the year also caused uncertainty among investors thereby shying away from local investment opportunities. The 2017 economic outlook showed a decline in the GDP due to a combination of domestic and international constraints. Other factors such as crippling drought and the ongoing cap on lending rates also contributed to a reduction in consumers purchasing power.	We continue to proactively monitor these factors, implement measures to mitigate the effects and cushion the business from adverse effects.
Competition	**Mitigation**
The industry has become increasingly competitive in terms of product and service offerings. Entrance of new players in the market have also intensified the competition with value proposition as the competitive edge.	Our strategies to manage competition focus on growing and retaining our customers by offering quality services and leveraging on strategic partnerships within different sectors to ensure we provide our customers with relevant products and services.
Political uncertainties and unrest	**Mitigation**
The last year has seen the country experience an extended period of political quagmire which has had adverse impact on the economic, social and business environments. These uncertainties have also led to security concerns affecting our staff and business premises.	The business continues to monitor the political situation keenly while taking appropriate business measures to safeguard our operations. To manage these security risks, we have invested heavily to ensure our staff, contractors and assets are protected and we continue to work closely with Law enforcement authorities to ensure our customers' interests are well protected. Further, we carry out proactive intelligence gathering, screening and security surveillance. We will continue to invest in security training and awareness as well as maintenance and improvement of our security infrastructure and tools.
Operational Risks	
Information and cyber threats	**Mitigation**
An external cyber-attack, insider threat or supplier breach (malicious or accidental) could result in service interruption and/or the breach of confidential data, with resulting negative impact on customers, revenues and reputation and potential costs associated with fraud and/or extortion.	Safaricom has enhanced its capacity to handle cybercrime incidents and technology related crime. Of particular note are robust cyber security controls complemented by the 24/7 Security Operations Centre to ensure we safeguard the services that we offer. Our ISO 27001 Information Security Certification is an independent confirmation to our customers that we have implemented appropriate processes and controls relating to our M-PESA, billing, mobile data, customer support and cloud services to protect the privacy of their information.

RESULTS AND DIVIDEND

The net profit for the year of Shs 55,289 million (2017: Shs 48,444 million) has been added to retained earnings. During the year, no special dividend was declared (2017: Shs 27,244 million was declared and was paid by 1 December 2016).

The directors recommend the approval of a final dividend of Shs 44,071 million (2017: Shs 38,863 million).

DIRECTORS

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

Nicholas Nganga	Chairman	Kenyan
Bob Collymore	Managing Director and Chief Executive Officer	British
Sateesh Kamath	Alternate to Bob Collymore	Indian
Bitange Ndemo	Non-Executive Director	Kenyan
Henry Rotich	Non-Executive Director	Kenyan
John Otty	Non-Executive Director	British
Michael Joseph	Non-Executive Director	American & Kenyan
Susan Mudhune	Non-Executive Director	Kenyan
Vivek Badrinath	Non-Executive Director	French
Esther Koimett	Alternate to Henry Rotich	Kenyan
Gianluca Ventura	Alternate to Vivek Badrinath	Italian
Linda Muriuki	Non-Executive Director (Appointed August 31 2017)	Kenyan
Mohamed Joosub	Non-Executive Director (Appointed August 31 2017)	South African
Till Streichert	Alternate to Mohamed Josuub (Appointed August 31 2017)	German
Nancy Macharia	Resigned May 9 2017	Kenyan

DISCLOSURES TO AUDITORS

The directors confirm that with respect to each director at the time of approval of this report:

a) there was, as far as each director is aware, no relevant audit information of which the Group's auditor is unaware; and

b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

TERMS OF APPOINTMENT OF AUDITORS

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and requirements of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board

Ms Kathryne Maundu

Company Secretary

May 8 2018

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. The directors are responsible for ensuring that the Group and Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and Company; disclose with reasonable accuracy at any time the financial position of the Group and Company; and that enables them to prepare financial statements of the Group and Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Group and Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

In preparing the financial statements, the directors have assessed the Group's and Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Group and Company will not remain a going concern for at least the next twelve months from the date of this statement.

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

Approved by the Board of Directors on May 8 2018 and signed on its behalf by:

Nicholas Nganga
Chairman and Non-Executive Director

Sateesh Kamath
Chief Financial Officer

Directors' remuneration report

INFORMATION NOT SUBJECT TO AUDIT

The Company's remuneration policy and strategy

Safaricom PLC presents the Directors' Remuneration Report for the year ended March 31 2018 as stipulated in the Kenyan Companies Act, 2015 and in accordance with the Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 which provides guidelines on Directors' remuneration.

The Directors for the Company, for the year ended March 31 2018, comprised of the following:-

(a) Seven Non - Executive Directors:

i. Nicholas Nganga

ii. Henry Rotich (Cabinet Secretary, National Treasury). Alternate: Esther Koimett

iii. John Otty

iv. Michael Joseph

v. Vivek Badrinath. Alternate: Gianluca Ventura wef August 31 2017 (resigned as a substantive director w.e.f August 31, 2017)

vi. Linda Muriuki - appointed August 31, 2017

vii. Mohamed Joosub - appointed August 31, 2017. Alternate: Till Streichert

viii. Nancy Macharia - resigned w.e.f May 9, 2017

(b) Two Independent Non - Executive Directors:

i. Susan Mudhune

ii. Bitange Ndemo

(c) One Executive Director:

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

In the financial year ended March 31, 2018, the total directors' remuneration was Shs 328 million compared to Shs 316 million in the previous year.

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 account the prevailing market conditions.

Safaricom PLC seeks to remunerate Non-Executive directors at least at the 75th percentile. The current remuneration structure is based on a survey commissioned by the Nominations and Remuneration Committee, and carried out by PwC across peer organizations comparable with Safaricom. Remuneration for Non-Executive directors is reviewed annually.

The below fees and allowances have been agreed upon:

- ❖ Annual directors' fees paid to the Chairman of the Board agreed at Shs 4,500,000 per annum.
- ❖ Annual Directors' fees paid to the Non-Executive directors agreed at Shs 1,900,000 per annum.
- ❖ Sitting allowance payable to the Chairman of the Board agreed at Shs 85,000 per meeting.
- ❖ Sitting allowance payable to the Chair of a Committee agreed at Shs 75,000 per meeting.
- ❖ Sitting allowance payable to the Non-Executive directors agreed at Shs 50,000 per meeting.

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

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

The Board members are also entitled to telephone usage allowance.

The Board has in place a formal annual process of reviewing its performance and that of its committees and individual directors. Evaluation of the Board is facilitated by an independent external consultant.

Executive Director's remuneration

The Executive Director's (CEO) remuneration is as per the negotiated employment 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.

Safaricom does not grant loans to its Directors.

Changes to Directors' remuneration

During the year, there were no changes in the Non-Executive Directors' remuneration fees and allowances as shown on this page.

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

During the Annual General Meeting held on September 15 2017, the shareholders in attendance approved the payment of the Directors' fees for the year ended March 31 2017 by show of hands.

At the Annual General Meeting to be held on August 31 2018, the shareholders will also approve the directors' remuneration report of the financial year ended March 31 2018.

INFORMATION NOT SUBJECT TO AUDIT (continued)

The following table shows a single figure remuneration for the Executive and Non-Executive Directors in respect of qualifying services for the financial year ended March 31 2018 and comparative figures for the year ended March 31 2017. The aggregate Directors' emoluments are shown in Note 29(iii).

Directors' remuneration for the year ended March 31 2018

Executive Directors

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

Non-Executive Directors

Name	Salary	Directors' Fees	Bonus	Non-Cash Benefits	EPSAP*	Totals
	Shs 'm'	Shs 'm'	Shs 'm'	Shs 'm'	Shs 'm'	Shs 'm'
Nicholas Nganga	-	6.37	-	0.03	-	6.40
Henry Rotich	-	-	-	-	-	-
Bitange Ndemo	-	2.48	-	0.13	-	2.61
John Otty	-	2.45	-	-	-	2.45
Michael Joseph	-	2.40	-	0.53	-	2.93
Linda Muriuki	-	1.03	-	-	-	1.03
Mohamed Joosub	-	1.31	-	-	-	1.31
Susan Mudhune	-	3.15	-	5.33	-	8.48
Vivek Badrinath	-	2.25	-	-	-	2.25
Esther Koimett	-	1.00	-	0.14	-	1.14
Till Streichert	-	1.31	-	-	-	1.31
Gianluca Ventura	-	2.30	-	-	-	2.30
Nancy Macharia	-	0.00	-	0.29	-	0.29
National Treasury	-	1.90	-	-	-	1.90
Total	**-**	**27.95**	**-**	**6.45**	**-**	**34.40**
Grand Total	**147.11**	**27.95**	**46.93**	**62.68**	**42.80**	**327.47**

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

INFORMATION NOT SUBJECT TO AUDIT (continued)

Directors' remuneration for the year ended March 31 2017

Executive Directors

Name	Salary	Directors' Fees	Bonus	Non- Cash Benefits	EPSAP*	Totals
	Shs 'm'	Shs 'm'	Shs 'm'	Shs 'm'	Shs 'm'	Shs 'm'
Robert Collymore	87.68	-	29.00	30.31	21.46	**168.45**
Sateesh Kamath	36.81	-	5.32	11.02	-	**53.15**
John Tombleson	25.68	-	15.49	5.55	16.70	**63.42**
TOTAL	**150.17**	**-**	**49.81**	**46.88**	**38.16**	**285.02**

Non-Executive Directors

Name	Salary	Directors' Fees	Bonus	Non- Cash Benefits	EPSAP*	Totals
	Shs 'm'	Shs 'm'	Shs 'm'	Shs 'm'	Shs 'm'	Shs 'm'
Nicholas Nganga	-	8.41	-	0.04	-	**8.45**
Bitange Ndemo	-	-	-	-	-	**-**
Henry Rotich	-	-	-	-	-	**-**
John Otty	-	2.40	-	-	-	**2.40**
Michael Joseph	-	2.55	-	0.44	-	**2.99**
Susan Mudhune	-	4.03	-	0.13	-	**4.16**
Vivek Badrinath	-	2.05	-	-	-	**2.05**
Esther Koimett	-	1.45	-	0.20	-	**1.65**
Gianluca Ventura	-	2.55	-	-	-	**2.55**
Nancy Macharia	-	3.04	-	0.95	-	**3.99**
Serpil Timuray	-	0.15	-	-	-	**0.15**
National Treasury	-	1.9	-	-	-	**1.9**
Total	**-**	**28.53**	**-**	**1.76**	**-**	**30.29**
Grand Total	**150.17**	**28.53**	**49.81**	**48.64**	**38.16**	**315.31**

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

On behalf of the Board

Chairman, Nominations and Remuneration Committee

May 8 2018

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Report on the audit of the financial statements

Our opinion

We have audited the accompanying separate financial statements of Safaricom PLC (the Company) and the consolidated financial statements of the Company and its subsidiaries (together, the Group) set out on pages 108 to 147, which each comprise a statement of financial position at March31 2018 and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company at March 31 2018 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

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

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

Key Audit Matter	How our audit addressed the key audit matter
Revenue recognition – Accuracy of revenue recorded given the complexity of products and systems The high volume of transactions and the multiple revenue streams make revenue recognition complex. The determination of the quantum and timing of revenue recognition is complicated by the multiple tariff structures and pricing models for the various products to customers. Refer to note 2 (e) in the financial statements for the accounting policy on revenue recognition and notes 5 and 27 for disclosures on revenue streams and deferred revenue respectively.	We tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that relate to revenue. We tested the IT general and application controls on the revenue billing systems and their interfaces with the general ledger. We re-performed some of the work done by the Group's Revenue Assurance department on capturing and recording of revenue transactions, authorisation of rate changes and input of this information into the billing system during the year. We performed substantive analytical reviews on relevant revenue streams and traced revenue amounts on a sample basis to source systems and other supporting documentation to determine the reasonableness of the amounts.
Asset capitalisation and useful lives The Group incurs significant capital expenditure on an annual basis to meet its growth and modernisation strategy. Changes in the Group business strategy are driven by rapid technological changes that could significantly affect the expected useful life of some of the infrastructure. This involves an adjustment to useful lives to match the changes in the technology. The Group also carries significant capital work in progress related to network infrastructure. Management has to determine the timing of capitalisation based on the evaluation by management experts. The determination of that timing is complex and involves the analysis of the various components to determine the point of capitalisation. Refer to notes 2 (f) in the financial statements for the accounting policy for property, plant and equipment and note 18 for disclosures on the movement in property, plant and equipment in the year.	We understood management process and policy of monitoring and capitalisation of assets. On a sample basis, we tested the additions and the timing of capitalisation of assets by tracing to supporting documentation. We tested the aging and valuation of assets classified as capital work in progress at year end. We checked the consistency with which the useful lives of assets and related depreciation policies have been applied over the years. We obtained and read the management experts' reports and assessed the reasonableness of the carrying values of property, plant and equipment identified. We assessed the sufficiency of the disclosures under note 18 of the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we 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 financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other matters prescribed by the Kenyan Companies Act, 2015

Report of the directors
In our opinion the information given in the directors' report on pages 98 to 100 is consistent with the financial statements.

Directors' remuneration report
In our opinion the auditable part of the directors' remuneration report on page 102 to 104 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 Peter Ngahu - Practising Certificate No.1458.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi
May 8 2018

Statement of Comprehensive Income

	Notes	Group 2018	Group 2017	Company 2018	Company 2017
		Shs'm	**Shs'm**	**Shs'm**	**Shs'm**
Service revenue	5(a)	224,535	204,109	224,053	203,766
Handset and other revenues	5(b)	8,980	8,700	9,041	8,761
Construction revenue	5(c)	202	76	202	76
Total Revenue		**233,717**	**212,885**	**233,296**	**212,603**
Other income	6	510	2,509	597	2,569
Direct costs	7(a)	(70,555)	(66,782)	(71,360)	(67,569)
Construction costs	7(b)	(202)	(76)	(202)	(76)
Other expenses	7(c)	(50,636)	(44,928)	(50,320)	(44,498)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**112,834**	**103,608**	**112,011**	**103,029**
Depreciation of property, plant and equipment	18(a)	(31,908)	(31,546)	(31,899)	(31,538)
Amortization – Indefeasible Rights of Use (IRUs)	19(a)	(301)	(345)	(301)	(301)
Amortization - intangible assets	21(a)	(1,359)	(1,343)	(1,358)	(1,122)
Impairment of investment in subsidiaries	22(a)	-	-	(822)	(11)
Operating profit		**79,266**	**70,374**	**77,631**	**70,057**
Finance income	8	1,830	1,723	1,836	1,794
Finance cost	9	(1,197)	(1,484)	(1,234)	(1,476)
Share of profit of associate	22(b)	10	19	10	19
Profit before income tax		**79,909**	**70,632**	**78,243**	**70,394**
Income tax expense	12	(24,620)	(22,188)	(24,429)	(22,139)
Profit and total comprehensive income for the year attributable to the owners of the Company		**55,289**	**48,444**	**53,814**	**48,255**
Earnings per share					
Basic and diluted (Shs per share)		**1.38**	**1.21**	**1.34**	**1.20**

Statement of Financial Position

	Notes	Group 31 March 2018	Group 31 March 2017	Company 31 March 2018	Company 31 March 2017
		Shs'm	Shs'm	Shs'm	Shs'm
Share capital	14	2,003	2,003	2,003	2,003
Share premium	14	2,200	2,200	2,200	2,200
Retained earnings		75,640	64,422	74,790	65,047
Proposed dividend	15	44,071	38,863	44,071	38,863
Total equity		**123,914**	**107,488**	**123,064**	**108,113**
Non-current assets					
Deferred income tax	17(a)	2,160	1,946	2,127	1,910
Property, plant and equipment	18(a)	121,709	117,199	121,709	117,190
Indefeasible rights of use (IRUs)	19(a)	3,854	4,155	3,854	4,155
Investment property	20	845	845	845	845
Intangible assets	21(a)	8,756	10,115	8,749	10,107
Investment in subsidiaries	22(a)	-	-	24	846
Investment in associate	22(b)	145	135	145	135
Prepaid operating lease rentals	23	45	1	45	1
Loan to subsidiaries	29(x)	-	-	122	474
Restricted cash	26(b)	1,584	1,338	1,584	1,338
Deferred restricted cash asset	26(c)	879	793	879	793
		139,977	**136,527**	**140,083**	**137,794**
Current assets					
Inventories	24	1,605	1,371	1,605	1,371
Receivables and prepayments	25	15,857	17,835	14,999	17,359
Cash and cash equivalents	26(a)	9,497	5,956	9,043	5,821
Current income tax		503	-	503	-
		27,462	**25,162**	**26,150**	**24,551**
Current liabilities					
Payables and accrued expenses	27 (a)	35,313	33,805	35,101	33,873
Provisions	27 (b)	4,028	2,766	4,028	2,766
Current income tax		144	1,086	-	1,049
Borrowings	16	4,040	16,544	4,040	16,544
		43,525	**54,201**	**43,169**	**54,232**
Net current liabilities		(16,063)	(29,039)	(17,019)	(29,681)
		123,914	**107,488**	**123,064**	**108,113**

The financial statements on pages 108 to 147 were approved for issue by the Board of Directors on May 8 2018 and signed on its behalf by:

Director
Nicholas Nganga

Director
Sateesh Kamath

Consolidated statement of changes in equity

	Notes	Share capital	Share premium	Retained earnings	Proposed dividends	Total equity
		Shs'm	Shs'm	Shs'm	Shs'm	Shs'm'
Year ended March 31 2017						
At start of year		2,003	2,200	82,052	30,483	116,738
Profit and total comprehensive income for the year		-	-	48,444	-	48,444
Transactions with owners:						
Dividends:						
- Final for 2016	15	-	-	-	(30,483)	(30,483)
- Rounding off adjustment for prior year dividend	15	-	-	33	-	33
- Special dividend for 2017	15	-	-	(27,244)	-	(27,244)
- Proposed final for 2017	15	-	-	(38,863)	38,863	-
		-	-	(66,074)	8,380	(57,694)
At end of year		**2,003**	**2,200**	**64,422**	**38,863**	**107,488**
Year ended March 31 2018						
At start of year		2,003	2,200	64,422	38,863	107,488
Profit and total comprehensive income for the year		-	-	55,289	-	55,289
Transactions with owners:						
Dividends:						
- Final for 2017	15	-	-	-	(38,863)	(38,863)
- Proposed final for 2018	15	-	-	(44,071)	44,071	-
		-	-	(44,071)	5,208	(38,863)
At end of year		**2,003**	**2,200**	**75,640**	**44,071**	**123,914**

Company statement of changes in equity

	Notes	Share capital	Share premium	Retained earnings	Proposed dividends	Total equity
		Shs'm	Shs'm	Shs'm	Shs'm	Shs'm
Year ended March 31 2017						
At start of year		2,003	2,200	82,866	30,483	117,552
Profit and total comprehensive income for the year		-	-	48,255	-	48,255
Transactions with owners:						
Dividends:						
- Final for 2017	15	-	-	-	(30,483)	(30,483)
- Rounding off adjustment for prior year dividend	15	-	-	33	-	33
- Special dividend for 2017	15	-	-	(27,244)	-	(27,244)
- Proposed final for 2017	15	-	-	(38,863)	38,863	-
		-	-	(66,074)	8,380	(57,694)
At end of year		**2,003**	**2,200**	**65,047**	**38,863**	**108,113**
Year ended March 31 2018						
At start of year		2,003	2,200	65,047	38,863	108,113
Profit and total comprehensive income for the year		-	-	53,814	-	53,814
Transactions with owners:						
Dividends:						
- Final for 2017	15	-	-	-	(38,863)	(38,863)
- Proposed final for 2018	15	-	-	(44,071)	44,071	-
		-	-	(44,071)	5,208	(38,863)
At end of year		**2,003**	**2,200**	**74,790**	**44,071**	**123,064**

Statement of Cash Flows

		Group		Company	
	Notes	2018	2017	2018	2017
		Shs'm	Shs'm	Shs'm	Shs'm
Cash flows from operating activities					
Cash generated from operations	28	117,230	101,997	116,472	101,686
Movement in restricted cash		(390)	108	(390)	108
Interest received	8	1,400	1,423	1,406	1,495
Income tax paid		(26,280)	(24,000)	(26,199)	(23,924)
Net cash generated from operating activities		91,960	79,528	91,289	79,365
Cash flows from investing activities					
Purchase of property, plant and equipment	18(a)	(36,422)	(35,334)	(36,422)	(35,334)
Proceeds from disposal of property, plant and equipment		23	124	23	124
Purchase of intangible assets	21	-	(2,517)	-	(2,517)
Net cash used in investing activities		(36,399)	(37,727)	(36,399)	(37,727)
Cash flows from financing activities					
Dividends paid	15	(38,863)	(57,694)	(38,863)	(57,694)
Interest paid	9	(653)	(915)	(653)	(915)
Proceeds from short-term borrowings	16	18,606	27,400	18,606	27,400
Repayments on short-term borrowings	16	(31,110)	(10,856)	(31,110)	(10,856)
Repayment of loans by subsidiaries		-	-	352	363
Net cash used in financing activities		(52,020)	(42,065)	(51,668)	(41,702)
Increase/(Decrease) in cash and cash equivalents		3,541	(264)	3,222	(64)
Movement in cash and cash equivalents					
At start of the year		5,956	6,220	5,821	5,885
Increase/(Decrease) in cash and cash equivalents		3,541	(264)	3,222	(64)
At end of year		**9,497**	**5,956**	**9,043**	**5,821**

Notes

1. General information

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

The address of the registered office of the Company is:

L.R. No. 13263
Safaricom House, Waiyaki Way
P.O Box 66827-00800
Nairobi

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

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of 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 periods presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest millions, 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.

i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing April 1 2017:

Amendment to IAS 7 Disclosure Initiative

The Group adopted the amendment to IAS 7 – Cash flow statements published in February 2016 and effective for annual periods beginning on or after 1 January 2017. This amendment to IAS 7 introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities, as disclosed under Note 4 to the financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements.

ii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31 2018 reporting period and have not been early adopted by the Group. The standards expected to have an impact on the financial statements of the Group are set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. The standard is expected to impact mainly receivables and restricted cash but it's not currently considered likely to have any major impact on the Group's current accounting. The standard is mandatory for financial years commencing on or after 1 January 2018.

IFRS 16 Leases - IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of Shs 10,362 million (see note 31). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The standard is mandatory for financial years commencing on or after January 1 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS 15 Revenue from Contracts with Customers - The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The standard is mandatory for financial years commencing on or after January 1 2018.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's financial statements and has agreed to

2.Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

ii) New standards and interpretations not yet adopted (continued)

adopt modified retrospective approach. The following are the areas identified to be affected:

- Connection revenue and costs – Currently the connection revenue and costs is recognised upfront upon activation of a sim card by a customer. IFRS 15 requires that the connection revenue be deferred and costs capitalised and amortised over the customer's life. This will give rise to a connection cost contract asset and connection revenue contract liability in the statement of financial position.
- Connection commission payable to dealers - Currently the connection commission is recognised upfront upon dealers successfully connecting a subscriber and the subscriber attaining a pre-determined usage level. IFRS 15 requires that the cost be capitalised and amortised over the customer's life. This will give rise to a connection commission contract asset in the statement of financial position.
- Emergency Top Up access fee – This revenue will be recognised over time as a subscriber utilizes the borrowed airtime.
- Bulk SMS and Initial set up fees for Premium Rate Service Providers (PRSP's) – On purchase of bulk SMS the revenue will be deferred and recognised as and when the customer utilises the SMS. The initial set up fee will be recognised over the contract period.
- Collocation revenue – This will be accounted for as a lease as required by IAS 17 'Leases'.
- Integrated / bundled revenue – IFRS 15 requires that reallocation to various revenue lines is done using stand alone selling prices for all performance obligations in the contract i.e. voice, data handset revenue and SMS. In addition deferral of any unutilised customer resources will reflect the respective stand alone selling prices.

(b)Consolidation

i) Subsidiaries

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

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interest are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

i) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting. Under the equity method, the investments are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss as appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the

2.Summary of significant accounting policies (continued)

(b) Consolidation (continued)

Disposal of subsidiaries (continued)

i) Associates (continued)

associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit / (loss) of associate' in the statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising from investments in associates are recognised in the statement of profit or loss.

ii) Separate financial statements

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

(c) Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

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

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

(d) 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. Further details are included under Note 5.

(e) Revenue recognition

Revenue represents the fair value of the consideration received or receivable for sales of goods and services, and is stated net of value-added tax (VAT), excise duty, rebates and discounts. The Group's principal business is the provision of telecommunication services. The business is transforming itself to a Total Telecommunication Solution provider. Airtime can be bought as scratch cards or PINless top ups through dealers and own-retail centres spread across the country. Customers can also buy airtime through M-PESA, emergency top up and direct top up for bulk purchases. Revenue from sale of the airtime is deferred and recognised as revenue on usage or expiry. Customers can use airtime to make voice calls, send SMS and browse the internet.

i) Voice and SMS revenue

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

The Safaricom PLC headline voice tariff for prepay customers is called Uwezo and Advantage tariff for Postpay customers. The on-net and off-net rate is Shs 4 during the day and Shs 2 from 10 pm to 8 am applicable to both Prepay and Postpay customers. Revenue from prepay voice customers is recognised on usage whereas post pay revenue is recognized at the end of every month based on a monthly charge.

The Group has in place call drop guarantee and Stori Ibambe bonus categories.

Under the call drop guarantee, the Group assures both its Prepay and Postpay subscribers that it is committed to providing them with uninterrupted connectivity once their Safaricom to Safaricom local calls are connected such that should a connected call disconnect or drop other than for fair access terms indicated in the Safaricom Postpay and Prepay usage terms, Safaricom will give the subscriber a token of the duration of the call before the drop up to a maximum of one (1) minute per call drop. The token awarded is valid for seven (7) days from date of the award.

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

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

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

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

2.Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

ii) Data revenue

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

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

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

The validity of purchased but un-utilised data bundles is extended upon additional purchase of data bundles and the Group prompts the subscriber in advance before unutilised bundles expire and are consequently unavailable for use.

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

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

Revenue is based on the bandwidth and speed contracted by the customer. Revenue is recognized at the end of every month based on a standard monthly charge.

iii) 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 Tunukiwa tariff, BLAZE, FLEX, Songa Music App and Platinum products under this category.

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

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

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

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

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

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

Songa by Safaricom is a music application (App) that will enable our Prepay and Postpay subscribers' to get in one place and stay entertained, 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 Shs 1,000 to Shs 10,000 with a 30 day validity. Currently the subscribers who opt in to the Platinum Plus plan have accessibility to incentivised services from Shell Petrol station, TicketSasa and Eat Out outlets accessible through the mySafaricom App, 'Hot Deals" tab.

Revenue from integrated bundles is recognised on usage in line with customers utilisation under the respective revenue stream i.e. voice, SMS and/or mobile data revenue streams.

iv) 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 PLC 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 tariff that is graduated depending on the funds being transacted is applied on all transactions which are cumulatively reported as M-PESA transaction commission revenue.

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.

To further drive financial inclusion Safaricom has partnered with Commercial Bank of Africa (CBA) and Kenya Commercial Bank (KCB) to offer Mshwari and KCB-M-PESA services respectively. These services enable customers to save as little as Shs 1 (USD 0.01) and get loans from Shs 50 (USD 0.495) to Shs 1 million (USD 9,900.99). Revenue is shared on the basis of the facility fee and other charges to customers.

This has enabled more subscribers to get access to mobile banking services that they did not have before. There are no application forms, no ledger fees, no limits on the frequency of withdrawal, no minimum operating balance and no charges for moving money from M-PESA to bank accounts and vice versa. M-Shwari lock box product enables customers to make fixed deposit savings at a higher interest rate.

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

v) Other service revenue

This includes among others access fees charged on emergency top up service when a customer borrows airtime (Okoa Jahazi) and data bundles (Okoa Data) with the debt being repayable within five days and rental fee charged for codes allocated to premium rate services providers

vi Loyalty programme

A loyalty programme, 'Bonga Points', was introduced in January 2007 for both Prepay and Postpay subscribers. Under this scheme, subscribers earn one Bonga point for every Shs 10 spent on voice calls, short messages service (SMS), data and M-PESA services.

2.Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

These points can be redeemed for free airtime, SMS or merchandise such as phones, modems and tablets at Safaricom retail outlets. The Group has in place the 'Bonga everywhere' scheme where subscribers are able to utilise their Bonga points in appointed retail outlets e.g. Naivas supermarkets amongst others to purchase goods and services.

Management defers revenue for every point accumulated and recognises the revenue relating to the points earned on redemption. The position as at March 31 2018 was that 85% (2017:82%) of the points redeemed in the year were for non-merchandise items (voice minutes, data bytes and SMS) while 15% (2017:18%) was redeemed for merchandise items. Management also recognizes revenue on the remaining loyalty points for the churned Simcards.

vii) E-commerce revenue

In November 2017, the Group launched ' Masoko' an e-commerce portal aimed at leveraging the mobile phone to provide local merchants with unlimited potential to sell their products and customers access to the best in technology fashion, latest trends and everyday essentials at the click of a button through either their mobile phones or computers.

All mobile money payments as well as Visa and Master card payments are accepted and dedicated delivery fulfilment partners have been appointed to ensure customer experience is versatile, fast and secure.

Revenue recognition is based on a graduated platform usage fee as per contracts with respective merchants. Cash payout is done weekly to the respective vendors and delivery fulfillment partners based on successfully delivered orders.

viii) 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 when the customer activates the line through initial top up.

ix) Construction and managed service contract

The Company has a construction contract for the construction of a national secure communication network and surveillance system for the National Police Service. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions, or their ultimate purpose or use. Construction costs incurred are accumulated under inventory work in progress until when they are billed or the percentage of completion is determined. Revenue from construction is recognized progressively on a percentage of completion basis.

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

x) 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.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost and subsequently depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Network infrastructure	3 - 10 years
Equipment and motor vehicles	3 - 5 years
Fibre	25 years
Leasehold improvements	Shorter of life of lease or useful life of the asset
Network maintenance spares	3 – 10 years

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

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

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

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

Asset Retirement Obligations

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

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

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

2.Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Asset Retirement Obligations (continued)

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

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

(g) Investment property

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

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

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

(h) Intangible assets

i) Goodwill

Goodwill represents the excess of the aggregate of the fair value of compensation transferred, the acquisition date fair value of any previously held interest and any non-controlling interest over fair value of assets and liabilities acquired.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investment in associates. Any negative goodwill arising from an acquisition is credited to the statement of comprehensive income.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

ii) Network licenses

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

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

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

Currently, the Group has the following licences:

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

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

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

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

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

The following licences are also in place:

- Local Loop Operator Licence (LLO) issued to Comtec Training and Management Services Limited in March 2006;
- Internet Service Provider (ISP) issued to Flexible Bandwidth Limited in March 2006;
- Digital Carrier Network Operation (DCNO) issued to Comtec Integration Systems Limited in March 2006;
- Public Data Communications Network Operator Licence (PDCNO) transferred to Safaricom PLC in September 2011 (held by PacketStream Data Networks Limited from July 2005);
- Public Data Network Operators Licence (PDNO) transferred to Safaricom PLC in September 2011 (held by IGO Wireless Limited from July 2005); and Content Service Provider (CSP) and Application Service Provider Licence (ASP) issued to Instaconnect Limited in April 30 2009; and
- Additional LLO and DCNO Licences are held under One Communications Limited, a WIMAX service provider, since August 31 2008.

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

(i) Impairment of non-financial assets

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

(j) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating

2.Summary of significant accounting policies (continued)

(i) Impairment of non-financial assets (continued)

leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(k) Financial assets

i) Classification

The Group and Company classify financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. The directors determine the classification of the financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if expected to be realised within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or the directors intend to dispose of the investment within 12 months of the end of the reporting period.

ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the entity commits to purchase or sell the asset. Investments are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets, carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the entity has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Changes in their fair value are dealt with through the profit and loss. Loans and receivables are carried at amortised cost using the effective interest method.

iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

iv) Impairment of financial assets

Assets carried at amortised cost

The Group and Company assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets classified as available-for-sale

The Group and Company assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the entity's right to receive payments is established.

(l) Indefeasible rights of use

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

The Group also has rights to use sites for which lease agreements with respective landlords are with East Africa Tower Company Limited (EATCL). The rights are amortised over the period in which the lease agreements remain between EATCL and the landlords. On expiry, the lease agreements will be transferred to Safaricom.

IRU	Contract period
TEAMS	20 years
KPLC	20 years
SEACOM	20 years
TATA	15 years
ETISALAT	15 years
EATCL	Dependent on individual lease period

(m) Inventories

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

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

(n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course

2.Summary of significant accounting policies (continued)

(n) Trade and other receivables (continued)

of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a classified as current assets. If not, they are presented as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the carrying amount of all balances in each class of debt older than:

Debt category	Criteria
Postpay, roaming and corporate debt	91 days
Collocation and fibre debt	61 days
Interconnect and premium rate service deb	31 days
Emergency Top Up debt (ETU)/Okoa Jahazi	5 days
Others	Specific customer terms

(o) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable 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.

Deferred revenue is accounted for as described under Note 2(e) and Note 27. Management makes assumptions and applies judgements in estimating the amount of deferred data revenues.

(p) Share capital

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

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

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

Non-participating preference shares have the right to preference in the payment of the paid up par value in the event of liquidation of the Company and may be redeemed at any time by the Board of Directors of the Company subject to the provisions of the Kenyan Companies Act 2015.

(q) 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.

(r) Restricted cash

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

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

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

(s) Employees benefits

i) Retirement benefit obligation

The Group and Company have defined contribution plan for its employees. The Group and Company 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. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the Group and Company pay contributions to publicly or privately administered plans on a mandatory, contractual or voluntary basis. The entity has no further payment obligations once the contributions have been paid. 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.

(t) Share-based payments

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

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

(u) Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is

2.Summary of significant accounting policies (continued)

(u) Current and deferred income tax (continued)

subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

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

(v) Borrowings

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

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

Capitalisation of Borrowing cost

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

(w) Dividend distribution

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

(x) 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.

(y) Comparatives

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

3. Critical accounting estimates and judgements

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

i) Critical accounting estimates and assumptions

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

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

Fair value estimation

The fair value of financial instruments is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the statement of financial position date. The financial instruments subject to fair value estimation have been disclosed under Note 4.

Income taxes

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

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

Property, plant and equipment

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

Valuation of Bonga points

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

3. Critical accounting estimates and judgements (continued)

i) Critical accounting estimates and assumptions (continued)
Valuation of Bonga points (continued)

If the fair value per point was +/- 2% higher / lower, there would be a decrease/ increase in profit before tax of Shs 66 million respectively (2017: Shs 48 million).

Provisions

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

ii) Critical judgement 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 and leases; and
- Whether assets are impaired.

iii) Critical judgement on going concern

The Group's current liabilities exceed its current assets by Shs 16 billion (2017: Shs 29 billion) at the statement of financial position date as shown on page 109. For items that significantly impact the net working capital, refer to Notes 16 and 24 to 27.

The Shs 16 bn is explained by among others, creditors relating to network infrastructure (Shs 7.2 billion) and short term loans (Shs 4 billion).

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. This is due to payment terms for capital creditors being longer than receivables and inventory turnover period owing to longer project implementation period, agreed credit terms and payment milestones with the vendors in this category. 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 Shs 3.5 billion (2017: 3.4 billion). Prepaid airtime when sold to customers is held as a liability in the statement of financial position (deferred revenue) until the customer uses it, at which point revenue is recognized by reducing the liability and reporting revenue.

Loyalty points earned by customers (Bonga points) of Shs 3.5 billion (2017: Shs 3.3 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). It is at this point that the liability is reduced and the redeemed Bonga points recognized as revenue. In addition, loyalty points earned by Enterprise Business customers in the year was Shs 533 million. (2017: Shs 482 million). Enterprise Business customers earn loyalty points upon achievement of their monthly revenue targets and the accumulated amounts are only redeemable after the maturity of the underlying revenue contracts with the Group.

Deposits held for postpaid customers of Shs 1.1 bn (2017: Shs 1.1 billion). Deposits for postpaid customer are held until the customer opts to leave Safaricom when he/she is refunded the deposits or the deposit is transferred to customer's prepay account if the customer changes to a prepaid tariff.

These amounts are included under Payables and accrued expenses in the statement of financial position.

Further, the Group finances its long term projects with short term debt. In the year ended March 31 2018, the Group borrowed Shs 18.6 billion and repaid Shs 31.1 billion. The outstanding amount of Shs 4 billion is due for payment by September 25 2018. The directors are confident that sufficient funds will be available and accessible to meet obligations as they fall due.

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

4. Financial risk management

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

Financial risk management is carried out by the Treasury section in Finance division under policies approved by the Board of Directors. The Treasury section identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

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

Market risk

i) Foreign exchange risk

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

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

At March 31 2018, if the Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, the impact on consolidated post tax profit for the year would have been Shs 256 million (2017: Shs 243 million) lower/higher, mainly as a result of US dollar denominated cash and bank balances, receivables and payables.

At March 31 2018, if the Shilling had weakened/strengthened further by 10% against the Euro with all other variables held constant, the impact on theconsolidated post tax profit for the year would have been Shs 68 million (2017: Shs 26 million) lower/higher, mainly as a result of increased Euro denominated creditors balances.

ii) Price risk

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

iii) Interest rate risk

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

At March 31 2018, an increase/decrease in interest rates of 100 basis points (2017: 100 basis points) would have resulted in a decrease/ increase in consolidated post tax profit of Shs 107 million (2017: Shs 124 million).

4. Financial risk management (continued)

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from deposits with banks as well as trade and other receivables. The Group has no significant concentrations of credit risk. Bank deposits are re-valued at closing rates at the end of the period.

For banks and financial institutions, only reputable well established financial institutions are used. Category 1 is made up of counterparties with international credit ratings; Category 2 are counterparties who are subsidiaries of parents with international credit ratings; Category 3 counterparties have local credit ratings or are not rated but are classified as large by the Central Bank of Kenya.

Cash at bank and short term bank deposits

	Group		Company	
	2018	**2017**	**2018**	**2017**
	Shs'm	**Shs'm**	**Shs'm**	**Shs'm**
Category 1	3,811	3,905	3,811	3,905
Category 2	3,781	1,320	3,780	1,320
Category 3	1,743	731	1,452	596
	9,335	5,956	9,043	5,821

The Group also has short term treasury bills (government securities) of Shs 162 million which do not expose it to credit risk.

Trade and other receivables

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

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

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

The Group currently has 560 (March 31 2017: 548) signed international roaming agreements in place. 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. All fully performing balances are within 90 days. The other categories are past due.

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	Shs'm	**Shs'm**	**Shs'm**	**Shs'm**
Past due but not impaired:				
- by up to 30 days	967	2,615	967	2,610
- by more than 30 days	946	201	946	178
Total past due but not impaired	1,913	2,816	1,913	2,788
Receivables individually determined to be impaired	2,271	1,410	2,271	1,410

4. Financial risk management (continued)

Credit risk (continued)

Trade and other receivables (continued)

(a) Group	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	Shs'm	Shs'm	Shs'm	Shs'm
At March 31 2018				
Dealers	86	-	-	86
Post-pay	1,117	-	582	1,699
Roaming and interconnect	463	-	708	1,171
Amounts due from related parties	1,877	35	30	1,942
Other receivables	4,666	-	752	5,418
Construction contract receivable	192	1,878	199	2,269
Total	8,401	1,913	2,271	12,585
At March 31 2017				
Dealers	41	-	2	43
Post-pay	866	274	325	1,465
Roaming and interconnect	399	397	497	1,293
Amounts due from related parties	2,141	269	8	2,418
Other receivables	4,409	167	409	4,985
Construction contract receivable	2,591	1,709	169	4,469
Total	10,447	2,816	1,410	14,673

(b) Company	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	Shs'm	Shs'm	Shs'm	Shs'm
At March 31 2018				
Dealers	86	-	-	86
Post-pay	1,117	-	582	1,699
Roaming and interconnect	463	-	708	1,171
Amounts due from related parties	1,437	35	30	1,502
Other receivables	4,259	-	752	5,011
Construction contract receivable	192	1,878	199	2,269
Loan to related parties	122	-	-	122
Total	7,676	1,913	2,271	11,860
At March 31 2017				
Dealers	41	-	2	43
Post-pay	866	274	325	1,465
Roaming and interconnect	399	397	497	1,293
Amounts due from related parties	1,794	269	8	2,071
Other receivables	4,334	139	409	4,882
Construction contract receivable	2,591	1,709	169	4,469
Loan to related parties	474	-	-	474
Total	10,499	2,788	1,410	14,697

Dealers' debt is fully secured by bank guarantees. The Group has bank guarantees of Shs 267 million as at March 31 2018 (2017: Shs 315 million), which can be enforced in the event of default. Customers under the 'past due but not impaired' category continue paying their debts as they trade. The default rate is low. The credit control department is actively following the debts that are overdue but not impaired.

The balances that are impaired have been fully provided for. However, external debt collectors as well as the Group's Legal department are following up on the impaired balances.

In determination of the impaired balances above, management considered the age of the debt and financial position of the debtor.

4. Financial risk management (continued)

Liquidity risk

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

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

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

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

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

(a) Group	Less than 1 year	Between 1 and 2 years	Total
	Shs'm	Shs'm	Shs'm
At March 31 2018:			
- payables and accrued expenses	26,463	-	26,463
- borrowings	4,040	-	4,040
Total financial liabilities	30,503	-	30,503
At March 31 2017:			
- payables and accrued expenses	26,067	-	26,067
- borrowings	16,544	-	16,544
Total financial liabilities	42,611	-	42,611

(b) Company	Less than 1 year	Between 1 and 2 years	Total
	Shs'm	Shs'm	Shs'm
At March 31 2018:			
- payables and accrued expenses	26,093	-	26,093
- borrowings	4,040	-	4,040
Total financial liabilities	30,133	-	30,133
At March 31 2017:			
- payables and accrued expenses	25,961	-	25,961
- borrowings	16,544	-	16,544
Total financial liabilities	42,505	-	42,505

Guarantees amounting to Shs 234.9 million (2017: Shs 149 million) have been issued against credit cards for use of senior staff and to various suppliers for services provided to the Group as detailed under Note 30.

Excluded from the payables and accrued expenses is deferred revenue amounting to Shs 8,318 million (2017: Shs 7,253 million) and Enterprise Business customer loyalty of Shs 533 million (2017: Shs 482 million) which are not expected to result into cash outflow in the normal course of business. There are also undrawn bank facilities amounting to Shs 36.34 billion (2017: Shs 20.87 billion) that would be utilized to settle its obligations as they fall due.

Capital management

The Group and Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders.

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

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

4. Financial risk management (continued)

Capital management (continued)

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, with respect to the initial dividend payment under the current policy, such dividends will not necessarily be at the level declared in the previous years.

Past dividend payments should not be taken as an indication of future payments.

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

Net (cash)/debt reconciliation and gearing ratio

	Group		Company	
	2018	**2017**	**2018**	**2017**
	Shs'm	**Shs'm**	**Shs'm**	**Shs'm**
Total borrowings	4,040	16,544	4,040	16,544
Less: cash and cash equivalents	(9,497)	(5,956)	(9,043)	(5,821)
Net (cash)/ debt	(5,457)	10,588	(5,003)	10,723
Total equity	123,914	107,488	123,064	108,113
Total capital	118,457	118,076	118,061	118,836
Gearing ratio	0%	8.97%	0%	9.02%

Fair value estimation

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

5. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker (CODM). The CODM, 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 considers the business as one operating segment for purpose of financial performance. The SLT also reviews the results of the segment on a monthly basis in a formal session where the Chief Financial Officer takes the SLT through all the activities and their impact on the results of the segment.

The reason for looking at the business as one segment is because of the interrelated nature of the products and services on offer as well as their dependence on the network infrastructure. Total profitability is discussed and action plans agreed where necessary to improve performance. Other than revenue and related non-financial drivers and statistics, there is no other discrete financial information relating to the revenue streams that the CODM looks at.

The reportable operating segment derives its revenue from the provision of telecommunication services to its customers as explained in Note 2 (e).

Revenue is derived from Kenya. There is no single customer who accounts for more than 10% of the revenue. The SLT assesses the performance of the operating segment from revenue to net income.

Revenue from subscribers is derived from the sale of airtime, handsets, accessories, M-PESA transaction fees and data products through the dealer/agent network or through the Company's retail outlets across the country and direct airtime top-up via M-PESA.

5. Segment information (continued)

(a) Service Revenues

Breakdown of the revenue from all activities is as follows:

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Voice revenue	92,271	90,173	92,271	90,173
Interconnect voice revenue generated from local interconnect partners	3,368	3,286	3,368	3,286
Messaging revenue	17,656	16,619	17,656	16,619
Interconnect messaging revenue generated from local interconnect partners	66	60	66	60
Mobile data revenue	36,357	29,328	36,357	29,328
Fixed service revenue	6,673	5,242	6,673	5,242
M-PESA revenue	62,907	55,084	62,425	54,741
Other service revenue	5,237	4,317	5,237	4,317
	224,535	204,109	224,053	203,766

Service revenue grew by 10.0% to Shs 224.5 bn driven predominantly by growth in 30 day active users and increased usage of non–voice services mainly M-PESA and Mobile data. Non-voice service revenue accounted for 57.4% of service revenue, recording a growth of 16.5% to Shs 128.9 bn.
Overall voice service revenue now stands at 42.6% of service revenue and remained resilient in the year growing by 2.3% to Shs 95.6 bn.

Mobile data revenue, which accounts for 16.2% of our service revenue, grew at 24% to Shs 36.4 bn. This was driven by a 6.2% growth in 30 day active mobile data customers to 17.7 million, increased bundle users and smartphone penetration.

Bundle users in the period declined by 2.7% to 8.4 million. By March 31 2018 the Company had 11 million customers on 3G and 4G enabled devices.

Fixed data revenue increased by 27.3% to Shs 6.7 bn on the back of 20.5% growth in fixed service customers. Included in fixed service revenue is Shs 972 million (2017: Shs 729 million) relating to annual management service charge for the national secure communication network.

M-PESA revenue recorded a growth of 14.2% to Shs 63 bn driven by 8.0% increase in 30 day active M-PESA customers to 20.5 million and a 14.6% growth in monthly usage per customer to 11.0 transactions per month.

(b) Handsets and other revenues

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Handset revenue	5,829	5,991	5,829	5,991
Acquisition and other revenue	3,151	2,709	3,212	2,770
	8,980	8,700	9,041	8,761

(c) Construction revenue

National Police Service contract revenue	202	76	202	76

Construction revenue relates to a national secure communication network and surveillance system for the National Police Service. This revenue is based on%age of completion which is determined based on work done compared to the estimated costs to completion.

Equivalent costs have been reported as construction costs. No profit or loss has been recognised in the statement of comprehensive income.

In addition to the construction revenue, a management service charge for the year amounting to Shs 972 million (2017: Shs 729 million) (see (a) above) has been recognized as part of fixed data revenue. Billings have been raised as per the agreed contract terms. The total debt outstanding has been classified as construction contract and maintenance receivable under Note 25.

The Group's interest-bearing liabilities are equal to the segment liabilities. Such liabilities are tracked and managed by the Treasury function.

5. Segment information (continued)

(c) Construction revenue (continued)

The segment information provided to the SLT for the reportable segment for the years ended March 31 2018 and 2017 is as follows:

	31 March 2018 Shs'm	31 March 2017 Shs'm
Total equity and non-current liabilities	123,914	107,488
Non-current assets	139,977	136,527
Current assets	27,462	25,162
Current liabilities	(43,525)	(54,201)
Net current liabilities	(16,063)	(29,039)
	123,914	107,488

There are no discontinued operations. The amounts reported with respect to total assets and total liabilities are measured in a manner consistent with these financial statements. Reportable segment assets are equal to total assets hence no reconciliation is required.

6. Other Income

This category includes income from disposal of assets and other miscellaneous incomes which includes any one off transactions not likely to recur in future.

In the year ended March 31 2017, the Group released accruals relating to principal and interest on tax matters with the Kenya Revenue Authority totaling to Shs 2.2 bn upon resolution of the matter.

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Gain on disposal of property, plant and equipment	18	116	18	116
Miscellaneous income	492	2,393	579	2,453
	510	2,509	597	2,569

7 (a) Direct Costs

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
M-PESA commissions	(19,765)	(17,750)	(19,765)	(17,750)
Airtime commissions	(11,422)	(11,416)	(11,422)	(11,416)
License fees (spectrum, M-PESA & link leases)	(9,344)	(10,176)	(9,344)	(10,176)
Interconnect and roaming costs	(7,053)	(7,360)	(7,773)	(8,147)
Handset costs	(6,635)	(6,177)	(6,635)	(6,177)
Customer acquisition and retention	(7,317)	(7,239)	(7,317)	(7,239)
Value Added Services costs (Voice and SMS)	(5,988)	(5,702)	(5,988)	(5,702)
Provision for bad debts	(1,041)	(32)	(1,126)	(32)
Other direct costs	(1,990)	(930)	(1,990)	(930)
	(70,555)	(66,782)	(71,360)	(67,569)

7 (b) Construction costs

National Police Service contract costs	(202)	(76)	(202)	(76)

7 (c) Other expenses

	Group		Company	
	2018	2017	2018	2017
	Shs' m	Shs' m	Shs' m	Shs' m
Repairs and maintenance expenditure on property, plant and equipment	(279)	(301)	(279)	(301)
Operating lease rentals - buildings	(1,117)	(957)	(1,117)	(957)
Operating lease rentals - sites	(2,501)	(2,181)	(2,440)	(2,126)
Warehousing costs	(318)	(315)	(318)	(315)
Employee benefits expense	(15,153)	(13,722)	(15,153)	(13,722)
Auditor's remuneration	(49)	(48)	(44)	(39)
Sales and advertising	(7,217)	(6,257)	(7,152)	(6,186)
Consultancy including legal fees	(1,517)	(2,149)	(1,517)	(2,163)
Network operating costs	(13,918)	(12,532)	(13,538)	(12,207)
Travel and accommodation	(790)	(765)	(790)	(765)
Computer maintenance	(2,246)	(1,836)	(2,246)	(1,836)
Office upkeep	(1,354)	(1,097)	(1,354)	(1,097)
Net foreign exchange losses, other than on borrowings and cash and cash equivalents	(24)	(7)	(24)	(7)
Other operating expenses	(4,153)	(2,761)	(4,348)	(2,777)
	(50,636)	(44,928)	(50,320)	(44,498)

8. Finance Income

Interest income	1,400	1,423	1,406	1,495
Foreign exchange gain on cash and borrowings	488	342	488	341
Amortisation of initial fair valuation loss on restricted cash	(58)	(42)	(58)	(42)
	1,830	1,723	1,836	1,794

9. Finance Costs

Interest expense	(653)	(915)	(653)	(915)
Foreign exchange gain on cash and borrowings	(514)	(400)	(551)	(392)
Impairment loss on construction and maintenance contract	(30)	(169)	(30)	(169)
	(1,197)	(1,484)	(1,234)	(1,476)

10. Employee benefits expense

	Group & Company	
The following items are included within employee benefits expense:		
	Shs 'm	Shs 'm
Salaries and wages	(9,182)	(8,226)
Employee Performance Share Award Plan (EPSAP)	(457)	(285)
Retirement benefits costs:		
- Defined contribution scheme	(586)	(535)
- National Social Security Fund	(12)	(11)
	(10,237)	**(9,057)**

Number of employees	**Group & Company**	
Permanent Employees	4,376	4,245
Fixed Term Contract Employee	1,754	1,189
	6,130	**5,434**

11. Employee Performance Share Award Plan

On July 1 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, 16.93 million shares were bought by the Trust, at a cost of Shs 473 million. Additionally, 15.1 million shares historically valued at Shs 268.2 million (2017: 13.7 million shares valued at 193.2 million) vested and were exercised by eligible staff.

The Trust currently holds 28.13 million shares at a total cost of Shs 667.5 million (2017: 26.34 million shares at a cost of Shs 462.3 million).

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

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

12. Income tax expense

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Current income tax	(24,834)	(22,714)	(24,646)	(22,642)
Deferred income tax (Note 17) (b)	214	526	217	503
Income tax expense	(24,620)	(22,188)	(24,429)	(22,139)

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Profit before income tax	79,909	70,632	78,243	70,394
Tax calculated at the applicable income tax rate of 30% (2017: 30%)	(23,973)	(21,190)	(23,473)	(21,118)
Tax effect of:				
- Income not subject to tax	125	22	2	9
- Expenses not deductible for tax purposes	(960)	(897)	(1,153)	(827)
- Under/ (over) provision of deferred tax in prior years	163	(43)	163	(127)
- Under/ (over)provision of current tax in prior years	25	(76)	32	(76)
- Deferred tax asset not recognised	-	(4)	-	-
Income tax expense	(24,620)	(22,188)	(24,429)	(22,139)

13. Earnings per share

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

	31 March	31 March
	2018	2017
Profit attributable to equity holders of the Company (Shs million)	55,289	48,444
Weighted average number of ordinary shares in issue (million)	40,065	40,065
Basic earnings per share (Shs)	1.38	1.21
Diluted earnings per share (Shs)	1.38	1.21

14. Share capital and share premium

	Number of shares (million)	Ordinary shares Shs'm	Share premium Shs'm	Total Shs'm
At 1 April 2016, 31 March 2017 and March 2018	40,065	2,003	2,200	4,203

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

The issued share capital comprises 40,065,428,000 (2016: 40,065,428,000) ordinary shares with a par value of Shs 0.05 each.

15. Dividend per share

In the year ended March 31 2018 no special dividend was declared (2017: Shs 27.2 bn at Shs 0.68 per share.)

At the Annual General Meeting to be held on August 31 2018, a final dividend in respect of the year ended March 31 2018 of Shs 1.10 (2017: Shs 0.97) per share amounting to a total of Shs 44 bn (2017: Shs 39 bn) is to be proposed.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

Total dividends payouts in the year were as follows:

	March 31	March 31
	2018	**2017**
	Shs'm	**Shs'm**
Special dividend	-	(27,244)
Rounding off adjustment for 2016 dividend	-	33
Final dividend	(38,863)	(30,483)
	(38,863)	(57,694)

16. Borrowings

The Group has a short term revolving facility with Commercial Bank of Africa totaling Shs 2,400,000,000 with a maturity date of December 2017 at an interest rate of 0.45% above the 91 day treasury bill rate payable monthly. This facility was fully drawn and repaid as at March 31 2018.

The Group has a short term revolving facility with Standard Chartered Bank of Kenya totaling Shs 8,000,000,000 with a maturity date of November 2018 at an interest rate of 0.425% above the 91 day treasury bill rate payable monthly. This facility was fully drawn and repaid as at March 31 2018.

The Group has a short term facility with Barclays Bank of Africa totaling Shs 6,900,000,000 with a maturity date of September 2017; at an interest rate of 1.75% above the 91 day treasury bill rate payable monthly. Shs 6,900,000,000 was fully drawn and repaid as at March 31 2018.

The Group has a short term revolving facility with Citibank Limited totaling USD 40,000,000 with a maturity date of December 2018 at an interest rate of 0.50% above the 6 months US Libor payable semi-annually. This facility was fully drawn and repaid as at March 31 2018.

The Group has a short term revolving facility with Standard Chartered Bank of Kenya totaling USD 40,000,000 with a maturity date of October 2018 at an interest rate of 0.125% above the 6 months US Libor payable semi-annually. This facility was fully drawn as at March 31 2018.

As at March 31 2018, the Group had undrawn credit facilities with various banks totalling Shs 36,340 million (2017: Shs 20,870 million).

Borrowings are made up as follows:

	Group and Company	
	March 31	**March 31**
	2018	**2017**
	Shs'm	Shs'm
Movement in the borrowings		
Opening balance	16,544	-
Additions	18,606	27,400
Repayments	(31,110)	(10,856)
	4,040	16,544

17. Deferred income tax

(a) Group

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

	March 31 2018 Shs'm	March 31 2017 Shs'm
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	817	785
- Deferred tax assets to be recovered within 12 months	1,966	1,609
	2,783	2,394
Deferred tax liabilities:		
- Deferred tax liability recoverable after 12 months	(606)	(432)
- Deferred tax liability recoverable within 12 months	(17)	(16)
	(623)	(448)
Net deferred income tax asset	2,160	1,946

Deferred income tax is calculated using the enacted income tax rate of 30% (2017: 30%).

	2018	2017
At start of year	1,946	1,420
Credit to statement of comprehensive income (Note 12)	214	526
At end of year	2,160	1,946

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

Year ended March 31 2018	April 1 2017 Shs'm	Credit/(charged) to SOCI Shs'm	March 31 2018 Shs'm
Deferred income tax liabilities			
Property, plant and equipment	(432)	(174)	(606)
Unrealised exchange gains	(16)	(1)	(17)
	(448)	(175)	(623)
Deferred income tax assets			
Unrealised exchange loss	-	3	3
Provisions	2,381	386	2,767
Arising from fair value adjustment on acquisition of subsidiary	13	-	13
	2,394	389	2,783
Net deferred income tax asset	1,946	214	2,160

Year ended March 31 2017	April 1 2016 Shs'm	Credit/(charged) to SOCI Shs'm	March 31 2017 Shs'm
Deferred income tax liabilities			
Property, plant and equipment	(610)	178	(432)
Unrealised exchange gains	-	(16)	(16)
	(610)	162	(448)
Deferred income tax assets			
Unrealised exchange loss	4	(4)	-
Provisions	2,013	368	2,381
Arising from fair value adjustment on acquisition of subsidiary	13	-	13
	2,030	364	2,394
Net deferred income tax asset	**1,420**	**526**	**1,946**

17. Deferred income tax (continued)

(b) Company

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

	March 31	
	2018	2017
	Shs'm	Shs'm
Deferred tax assets:		
– Deferred tax assets to be recovered after 12 months	804	772
– Deferred tax assets to be recovered within 12 months	1,964	1,608
	2,768	2,380
Deferred tax liabilities:		
– Deferred tax liability recoverable after 12 months	(625)	(454)
– Deferred tax liability recoverable within 12 months	(16)	(16)
	(641)	(470)
Net deferred income tax asset	2,127	1,910

Deferred income tax is calculated using the enacted income tax rate of 30% (2017: 30%).

At start of year	1,910	1,407
Credit to statement of comprehensive income (Note 12)	217	503
At end of year	2,127	1,910

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

Year ended March 31 2018	April 1 2017 Shs'm	Credit/(charged) to SOCI Shs'm	March 31 2018 Shs'm
Deferred income tax liabilities			
Property, plant and equipment	(454)	(171)	(625)
Unrealised exchange gains	(16)	-	(16)
	(470)	(171)	(641)
Deferred income tax assets			
Unrealised exchange loss	-	3	3
Provisions	2,380	385	2,765
	2,380	388	2,768
Net deferred income tax asset	1,910	217	2,127

Year ended March 31 2017	April 1 2016 Shs'm	Credit/(charged) to SOCI Shs'm	March 31 2017 Shs'm
Deferred income tax liabilities			
Property, plant and equipment	(610)	156	(454)
Unrealised exchange gains	-	(16)	(16)
	(610)	140	(470)
Deferred income tax assets			
Unrealised exchange loss	4	(4)	-
Provisions	2,013	367	2,380
	2,017	363	2,380
Net deferred income tax asset	**1,407**	**503**	**1,910**

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

18. Property, plant and equipment

(a) Group	Network infrastructure	Capital work in progress (CWIP)*	Network maintenance spares	Leasehold improvements	Vehicles & equipment	Fibre	Total
	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm
At March 31 2016							
Cost	212,233	18,502	1,289	5,542	40,829	13,661	292,056
Accumulated depreciation	(146,291)	-	(609)	(3,887)	(27,011)	(840)	(178,638)
Net book amount	65,942	18,502	680	1,655	13,818	12,821	113,418
Year ended March 31 2017							
Opening net book amount	65,942	18,502	680	1,655	13,818	12,821	113,418
Additions**	-	34,777	150	-	407	-	35,334
Transfers from CWIP	19,593	(34,082)	-	431	12,349	1,709	-
Disposal	-	-	(106)	-	(172)	-	(278)
Depreciation charge	(20,821)	-	(192)	(512)	(9,418)	(603)	(31,546)
Depreciation on disposal	-	-	107	-	164	-	271
Closing net book amount	64,714	19,197	639	1,574	17,148	13,927	117,199
At March 31 2017							
Cost	231,826	19,197	1,333	5,973	53,413	15,370	327,112
Accumulated depreciation	(167,112)	-	(694)	(4,399)	(36,265)	(1,443)	(209,913)
	64,714	19,197	639	1,574	17,148	13,927	117,199
Year ended March 31 2018							
Opening net book amount	64,714	19,197	639	1,574	17,148	13,927	117,199
Additions**	-	36,227	195	-	-	-	36,422
Transfers from CWIP	17,299	(40,382)	-	737	17,698	4,648	-
Disposal	-	-	-	-	(59)	-	(59)
Depreciation charge	(18,444)	-	(125)	(558)	(12,021)	(760)	(31,908)
Depreciation on disposal	-	-	-	-	55	-	55
Closing net book amount	63,569	15,042	709	1,753	22,821	17,815	121,709
At March 31 2018							
Cost	249,125	15,042	1,528	6,710	71,052	20,018	363,475
Accumulated depreciation	(185,556)	-	(819)	(4,957)	(48,231)	(2,203)	(241,766)
Net book amount	63,569	15,042	709	1,753	22,821	17,815	121,709

(b) Company	Network infrastructure	Capital work in progress (CWIP)*	Network maintenance spares	Leasehold improvements	Vehicles & equipment	Fibre	Total
	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm
At March 31 2016							
Cost	212,096	18,502	1,289	5,542	40,724	13,655	291,808
Accumulated depreciation	(146,163)	-	(609)	(3,887)	(26,914)	(834)	(178,407)
Net book amount	65,933	18,502	680	1,655	13,810	12,821	113,401
Year ended March 31 2017							
Opening net book amount	65,933	18,502	680	1,655	13,810	12,821	113,401
Additions**	-	34,777	150	-	407	-	35,334
Transfer from CWIP	19,593	(34,082)	-	431	12,349	1,709	-
Disposal	-	-	(106)	-	(170)	-	(276)
Depreciation charge	(20,813)	-	(192)	(512)	(9,418)	(603)	(31,538)
Depreciation on disposals	-	-	107	-	162	-	269
Closing net book amount	64,713	19,197	639	1,574	17,140	13,927	117,190
At March 31 2017							
Cost	231,689	19,197	1,333	5,973	53,310	15,364	326,866
Accumulated depreciation	(166,976)	-	(694)	(4,399)	(36,170)	(1,437)	(209,676)
	64,713	19,197	639	1,574	17,140	13,927	117,190

18. Property, plant and equipment (continued)

(b) Company (continued)	Network infrastructure	Capital work in progress (CWIP)*	Network maintenance spares	Leasehold improvements	Vehicles & equipment	Fibre	Total
	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm
Year ended March 31 2018							
Opening net book amount	64,713	19,197	639	1,574	17,140	13,927	117,190
Additions**	-	36,227	195	-			36,422
Transfer from CWIP	17,299	(40,382)	-	737	17,698	4,648	-
Disposal	-	-	-	-	(59)	-	(59)
Depreciation charge	(18,444)	-	(125)	(558)	(12,012)	(760)	(31,899)
Depreciation on disposals	-	-	-	-	55	-	55
Closing net book amount	63,568	15,042	709	1,753	22,822	17,815	121,709
At March 31 2018							
Cost	248,988	15,042	1,528	6,710	70,949	20,012	363,229
Accumulated depreciation	(185,420)	-	(819)	(4,957)	(48,127)	(2,197)	(241,520)
Net book amount	63,568	15,042	709	1,753	22,822	17,815	121,709

* 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.

** Borrowing costs of Shs 21 million (2017: Shs 186 million) were capitalized in the year and included in the additions for the year.

19. Indefeasible rights of use (IRUs)

(a) Group	TEAMS	SEACOM	KPLC	ETISALAT	TATA	EATCL	Total
	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm
Year ended March 31 2017							
Opening net book amount	2,599	1,074	580	76	127	44	4,500
Amortisation charge	(163)	(77)	(42)	(7)	(12)	(44)	(345)
Closing net book amount	2,436	997	538	69	115	-	4,155
At March 31 2017							
Cost	3,253	1,535	838	112	184	91	6,013
Accumulated amortization	(817)	(538)	(300)	(43)	(69)	(91)	(1,858)
	2,436	997	538	69	115	-	4,155
Year ended March 31 2018							
Opening net book amount	2,436	997	538	69	115	-	4,155
Amortisation charge	(163)	(77)	(42)	(7)	(12)	-	(301)
	2,273	920	496	62	103	-	3,854
At March 31 2018							
Cost	3,253	1,535	838	112	184	91	6,013
Accumulated amortization	(980)	(615)	(342)	(50)	(81)	(91)	(2,159)
	2,273	920	496	62	103	-	3,854

19. Indefeasible rights of use (IRUs) (continued)

(b) Company	TEAMS	SEACOM	KPLC	ETISALAT	TATA	Total
	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm	Shs'm
Year ended March 31 2017						
Opening net book amount	2,599	1,074	580	76	127	4,456
Amortisation charge	(163)	(77)	(42)	(7)	(12)	(301)
Closing net book amount	2,436	997	538	69	115	4,155
At March 31 2017						
Cost	3,253	1,535	838	111	184	5,921
Accumulated amortization	(817)	(538)	(300)	(42)	(69)	(1,766)
	2,436	997	538	69	115	4,155
Year ended March 31 2018						
Opening net book amount	2,436	997	538	69	115	4,155
Amortisation charge	(163)	(77)	(42)	(7)	(12)	(301)
	2,273	920	496	62	103	3,854
At March 31 2018						
Cost	3,253	1,535	838	111	184	5,921
Accumulated amortization	(980)	(615)	(342)	(49)	(81)	(2,067)
	2,273	920	496	62	103	3,854

20. Investment property

Group and Company	2018	2017
	Shs'm	Shs'm
At 1 April	845	845
Fair value adjustment	-	-
At March 31	845	845

The investment property relates to Land Title No. 164259 and Title No. 164260 located in the Nairobi area. In 2016, management changed the purpose for which the land was held and therefore transferred it from property, plant and equipment to investment properties.

The fair value measurement of the investment property as at March 31 2018 was performed by registered and independent valuers. They are members of the Institute of Surveyors of Kenya, have appropriate qualifications, relevant and recent experience in the fair value measurement of properties in various locations in Kenya.

The fair value was determined by reference to market evidence of recent transactions for similar properties. In estimating the fair value of the properties, the highest and best use of those similar properties was assumed.

Details of the Company's investment property and information about fair value hierarchy as at March 31 2018 is as follows:

Non- financial asset	Fair Value as at March 31 2018 Shs'm	Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Investment property	845	Level II	Open market value basis - highest and best use model	Not applicable	Not applicable

21. Intangible assets

(a) Group	Goodwill	License fees	Total
	Shs'm	Shs'm	Shs'm
Year ended March 31 2017			
Opening net book amount	220	8,721	8,941
Additions (LTE licence)	-	2,517	2,517
Impairment and amortisation	(220)	(1,123)	(1,343)
Closing net book amount	**-**	**10,115**	**10,115**
At March 31 2017			
Cost	-	18,983	18,983
Accumulated amortization	-	(8,868)	(8,868)
Net book amount	-	**10,115**	**10,115**
Year ended March 31 2018			
Opening net book amount	-	10,115	10,115
Amortisation		(1,359)	(1,359)
Closing net book amount	-	**8,756**	**8,756**
At March 31 2018			
Cost	-	18,983	18,983
Accumulated amortization		(10,227)	(10,227)
Net book amount	-	**8,756**	**8,756**

(b) Company	License fees	
	2018	2017
	Shs'm	Shs'm
Opening net book amount	10,107	8,712
Additions (LTE licence)	-	2,517
Amortisation charge	(1,358)	(1,122)
Closing net book amount	8,749	10,107
Cost	18,960	18,960
Accumulated amortisation	(10,211)	(8,853)
Net book amount	**8,749**	**10,107**

22. Investments

(a) Investment in subsidiaries

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

	Company	
	2018	2017
	Shs'm	Shs'm
At start of year	846	857
Impairment (One communication Limited)	(742)	-
Impairment (East African Tower Company Limited)	(80)	(11)
At end of year	24	846

22. Investments (continued)

(a) Investment in subsidiaries (continued)

The Company's interest in its subsidiaries was as follows

			Company	
	Year end	% interest	2018	2017
		Held	Shs'm	Shs'm
One Communications Limited and its subsidiaries*	March 31	100	-	742
Packet Stream Data Networks Limited	March 31	100	-	-
IGO Wireless Limited	March 31	100	-	-
Instaconnect Limited	March 31	100	4	4
East Africa Tower Company Limited	March 31	100	-	80
Safaricom Money Transfer Services Limited	December 31	100	20	20
			24	846

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

The investments in subsidiaries are carried at cost. The investments were assessed for impairment indicators as required as at March 31 2018 and the directors concluded that;

i. The investments in One Communications Limited and East African Tower Company Limited are impaired to the amount of Shs 822 million (2017: Shs 11 million); and

ii. The investments in Safaricom Money Transfer Services Limited and Instaconnect Limited are not impaired.

Safaricom Money Transfer Services Limited has a December 31 year end and derives its revenues from the provision of international money transfer services. The fluctuation of the results of the subsidiary is not expected to have a significant impact on the results of the Group. As such, the unaudited 3 months results have been incorporated to the Group's financial statements as at March 31 2018.

(b) Investment in associate

The movement in investment in associate is as follows:

	2018	2017
	Shs'm	Shs'm
At start of year	135	116
Share of profit after tax	10	19
At end of year	145	135

The investment in associate represents the investment of 32.5% (2017: 32.5%) of the ordinary shares of The East African Marines Systems Limited (TEAMS). TEAMS is a private company and there is no quoted market price available for its shares. TEAMS's place of business and country of incorporation is Kenya. There are no contingent liabilities relating to the Group's interest in the associate.

TEAMS has a June 30 year end and derives its revenues from the provision of submarine fibre optic cable system. Changes in the risk and fluctuation of the results of the associate is not expected to have a significant impact on the results of the Group. As such, the unaudited 9 months results for the associate have been incorporated in the Group's financial statements. Set out below is the summarised financial information for TEAMS as at March 31 2018 and March 31 2017 which is accounted for using the equity method.

Summarised statement of financial position	2018	2017
	Shs'm	Shs'm
Total equity	**336**	**323**
Non-current assets	10	11
Current assets		
Cash and cash equivalents	567	688
Other current assets	41	19
Total current assets	608	707
Current liabilities	(282)	(395)
Net current assets	326	312
Net assets	336	323

22. Investments (continued)

(b) Investment in associate (continued)

Summarised statement of comprehensive income for the 9 months period ended March 31	2018	2017
	Shs'm	Shs'm
Revenue	231	354
Operating expenses	(155)	(259)
Administrative expenses	(48)	(56)
Total expenses	(203)	(315)
Profit before tax	28	39
Income tax expense	-	-
Profit after tax	28	39
Share of profit before tax (32.5%)	9	13
Profit for the 3 months ended 30 June (2017 and 2016 respectively)	1	6
	10	19

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

23. Prepaid operating lease rentals – Group and Company

Prepaid operating lease rentals relate to payments made in advance for the rental of sites on which the Company's equipment is located. The analysis of prepaid operating lease rentals is as follows:

	2018	2017
	Shs'm	Shs'm
At start of year	494	483
Additions	1,400	1,125
Amortisation charge for the year	(1,185)	(1,113)
At end of year	709	495
Current portion reflected in prepayments	(664)	(494)
Prepaid operating lease rentals	45	1

24. Inventories – Group and Company

	Group	
	2018	2017
	Shs 'm'	Shs 'm'
Handsets and accessories	995	949
Scratch cards	98	116
Starter packs	188	278
Stationery and other stocks	8	7
Set top boxes	85	25
Less: Provision for obsolescence	(119)	(135)
	1,255	1,240
Inventory work-in-progress	350	131
	1,605	1,371

25. Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Current:				
Trade receivables	8,304	6,390	7,912	6,308
Less: Provision for impairment losses	(2,041)	(1,230)	(2,041)	(1,230)
	6,263	5,160	5,871	5,078
Receivable from related parties (Note 29 (viii))	1,942	2,418	1,502	2,071
Less: Provision for impairment losses	(30)	(8)	(30)	(8)
	1,912	2,410	1,472	2,063
Other receivables	2,343	2,807	2,327	2,785
Less: Provision for impairment losses	(1)	(3)	(1)	(3)
	2,342	2,804	2,326	2,782
Prepayments	3,270	3,161	3,260	3,136
Construction and maintenance contract receivable	2,269	4,469	2,269	4,469
Less: Provision for impairment losses	(199)	(169)	(199)	(169)
Net construction and maintenance contract receivable	2,070	4,300	2,070	4,300
	15,857	17,835	14,999	17,359

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

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
At start of year	1,410	1,603	1,410	1,589
Provisions made in the year – trade and other receivables	2,298	1,945	2,298	1,946
– related parties	30	8	30	8
Release prior year provisions	(1,173)	(1,753)	(1,173)	(1,753)
Receivables written off during the year as uncollectible	(294)	(393)	(294)	(380)
	2,271	1,410	2,271	1,410

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

In connection with the National Police Service contract, bills have been raised for both the construction and maintenance service as per the contract terms. An amount of Shs 3.56 billion was received during the year and the outstanding balance at the year end was Shs 2.27 billion. Due to the extended payment terms of the contract, a provision for impairment of Shs 199 million has been made in arriving at the outstanding receivable.

26. Cash and cash equivalents and restricted cash

a) Cash and cash equivalents

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Cash at bank and in hand	9,335	5,956	9,043	5,821
Investment in short term treasury bills	162	-	-	-
	9,497	5,956	9,043	5,821
b) Restricted cash				
Restricted cash	2,563	2,173	2,563	2,173
Fair value adjustment at inception (c)	(979)	(835)	(979)	(835)
	1,584	1,338	1,584	1,338

26. Cash and cash equivalents and restricted cash (continued)

c) Deferred restricted cash asset

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Fair value adjustment at inception (b)	979	835	979	835
Amortisation	(100)	(42)	(100)	(42)
Net deferred restricted cash asset	879	793	879	793

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

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

27. (a) Payables and accrued expenses

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Trade payables	3,208	3,177	3,063	3,098
Amounts due to related companies (Note 29 (ix))	956	870	974	1,047
Accrued liabilities				
- Network infrastructure	7,230	6,619	7,230	6,619
- Customer loyalty credits	4,041	3,805	4,041	3,805
- Deferred revenue	4,811	3,930	4,749	3,930
- Inventory	389	536	389	536
- Other expenses	9,371	7,758	9,365	7,747
Other payables				
- Indirect and other taxes payable	2,544	2,898	2,526	2,879
- M-PESA agent accrual	1,827	1,699	1,827	1,699
- Other accrued payables	936	2,513	937	2,513
	35,313	33,805	35,101	33,873

All customer loyalty credits (Bonga points) which form a separate component of the sales transaction are reported as deferred revenue and forms part of accrued liabilities. The accrued liability relating to customer loyalty credits of Shs 3,508 million (2017: Shs 3,323 million) is expected to be recognised into revenue as customers redeem their points. Also included in the customer loyalty credits is an amount of Shs 533 million (2017: Shs 482 million) earned by Enterprise Business customers which will be redeemed on maturity of their revenue contracts.

Deferred revenue Shs 4,811 million (2017: Shs 3,930 million) relates mainly to unused airtime and bundled resources which will be recognized as revenue upon customer usage. This also includes an amount of Shs 243 million (2017: Shs 243 million) for managed services to be rendered in the next financial period under the National Police Service contract. The carrying amounts of the current trade payables and accrued expenses approximate to their fair values.

27. (b) Provisions

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
At April 1	2,766	1,873	2,766	1,873
Charge for the year	1,262	2,016	1,262	2,016
Payments/release for the year	-	(1,123)	-	(1,123)
At March 31	4,028	2,766	4,028	2,766

27. (b) Provisions (continued)

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

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

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

In the directors' opinion after taking appropriate legal and management's advice, the outcome of existing claims and obligations will not give rise to any significant loss beyond the recorded provisions at March 31 2018. Due to the nature of these provisions, management is unable to estimate the timing of their settlement with certainty. The impact of discounting on the provision is not considered to be material.

28. Cash generated from operations

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Profit before income tax	79,909	70,632	78,243	70,394
Adjustments for:				
Interest income (Note 8)	(1,400)	(1,423)	(1,406)	(1,495)
Interest expense (Note 9)	653	915	653	915
Depreciation on property, plant and equipment (Note 18)	31,908	31,546	31,899	31,538
Amortisation of intangible assets (Note 21)	1,359	1,123	1,358	1,122
Share of profit from associate (Note 22 (b))	(10)	(19)	(10)	(19)
Amortisation of IRUs (Note 19)	301	345	301	301
Movement in non-current prepaid operating lease rentals (Note 23)	(44)	(1)	(44)	(1)
Profit on sale of property, plant and equipment (Note 6)	(18)	(116)	(18)	(116)
Fair valuation of restricted cash (Note 8)	58	42	58	42
Fair valuation of Construction contract receivable	30	169	30	169
Impairment of goodwill (One Communication Limited)	-	220	-	-
Impairment of investment in One Communications and East African Tower Company Limited (Note 22)	-	-	822	11
Movement in provision for other liabilities (Note 27(b))	1,262	893	1,262	893
Changes in working capital				
- receivables and prepayments	1,948	2,620	2,330	3,013
- inventories	(234)	(554)	(234)	(554)
- payables and accrued expenses	1,508	(4,395)	1,228	(4,527)
Cash generated from operations	117,230	101,997	116,472	101,686

29. 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.

During the year, Vodafone Group PLC sold 87.5% shareholding in Vodafone Kenya Limited to Vodacom Group Limited representing an effective interest of 35% in the Company.

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

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

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

29. Related party transactions (continued)

Vodafone Sales and Services Limited (VSSL), which owns the M-PESA solution, has entered into a managed services agreement with the Company under which VSSL agrees to provide the M-PESA solution to the Company against which a license fee is charged quarterly. The license fee is based on 2% of the M-PESA transaction revenue effective April 1 2017.

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

(c) The Company has signed an agreement with Vodafone Sales and Services Limited, a company incorporated in England. The agreement was effective from April 1 2011 to March 31 2014, 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).

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

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

The following relationships exist within Safaricom PLC:

Related parties	Held by	Percentage of interest held as at 31 March	
		2018	**2017**
Subsidiaries			
One Communications Limited	Safaricom PLC	100%	100%
Instaconnect Limited	Safaricom PLC	100%	100%
Packet Stream Data Networks Limited	Safaricom PLC	100%	100%
Safaricom Money Transfer Services Limited	Safaricom PLC	100%	100%
East Africa Tower Company Limited	Safaricom PLC	100%	100%
IGO Wireless Limited	Safaricom PLC	100%	100%
Safaricom Foundation*	Safaricom PLC	-	-
Flexible Bandwidth Services Limited	One Communications Limited	100%	100%
Comtec Training and Management Services Limited	One Communications Limited	100%	100%
Comtec Integration Systems Limited	One Communications Limited	100%	100%
Associate			
The East African Marines Systems Limited (TEAMS)	Safaricom PLC	32.5%	32.5%

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

The following transactions were carried out with related parties:

(i) Sale of goods and services

	Group		Company	
	2018	**2017**	**2018**	**2017**
	Shs'm	**Shs'm**	**Shs'm**	**Shs'm**
Vodafone Roaming Services S.à r.l	62	61	62	61
Vodacom Tanzania Public Limited Company	67	89	67	89
M-PESA Holding Co. Limited	61,176	52,921	60,693	52,921
Vodacom South Africa Limited	91	-	91	-
Vodafone UK	184	-	184	-
Vodafone Group Enterprises	179	123	179	123
Vodacom Business (Kenya) Limited	6	-	6	-
Safaricom Money Transfer Services Limited	-	-	163	148
One Communications Limited	-	-	566	509
	61,765	53,194	62,011	53,851

29. Related party transactions (continued)

ii) Purchase of goods and services

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Vodafone Sales and Services Limited	2,247	3,727	2,247	3,727
Vodafone Group Services Limited	411	721	411	721
Vodafone Roaming Services S.à r.l	129	116	129	116
Vodafone UK	20	-	20	-
Vodacom South Africa Limited	4	-	4	-
Vodacom Tanzania Public Limited Company	299	328	299	328
Vodafone D2 GMBH	1	-	1	-
One Communications Limited	-	-	721	789
	3,111	4,892	3,832	5,681

iii) Directors' remuneration

	Group and Company	
	2018	2017
	Shs'm	Shs'm
Fees for services as director	28	29
Salaries	147	150
Bonuses	47	50
Value for non-cash benefits	63	49
Employee Performance Share Award Plan	43	38
	328	316

iv) Key management compensation

Salaries and other short-term employment benefits	842	639
Employee Performance Share Award Plan	211	87
Pension contribution	14	14
Termination benefits	15	36
	1,082	776

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

v) Loans from shareholders
There no loans from shareholders outstanding at March 31 2018 (2017: Nil).

vi) Loans to directors of the Company
There are no loans to directors of the Company at March 31 2018 (2017: Nil).

vii) Donations to Safaricom Foundation
Donations made during the year amounted to Shs 378 million (2017: Shs 382 million).

29. Related party transactions (continued)

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

	Group		Company	
	2018	2017	2018	2017
Current:	Shs'm	Shs'm	Shs'm	Shs'm
Vodafone Roaming Services S.à r.l	6	11	6	11
Vodafone Group Enterprises	44	58	44	58
M-PESA Holding Co. Limited	1,803	2,136	1,218	1,382
Vodacom Tanzania Public Limited Company	6	7	6	7
Vodafone Sales and Services Limited	-	206	-	206
Vodacom South Africa Limited	55	-	55	-
Vodafone UK	26	-	26	-
Vodacom Business (Kenya) Limited	1	-	1	-
Vodafone Egypt Telecom. S.A.E.	1	-	1	-
One Communications Limited	-	-	105	52
Packet Stream Data Networks Limited	-	-	-	76
IGO Wireless Limited	-	-	-	8
Safaricom Money Transfer Services Limited	-	-	40	271
	1,942	2,418	1,502	2,071

The receivables arise mainly from trading, are unsecured and bear no interest. A provision of Shs 30 million (2017: Shs 8 million) (Note 25) is held against receivables from related parties.

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

	Group		Company	
	2018	2017	2018	2017
	Shs'm	Shs'm	Shs'm	Shs'm
Vodafone Sales and Services Limited	380	99	380	99
Vodafone Group Services Limited	316	686	316	686
Vodafone Roaming Services S.à r.l	20	42	20	42
Vodacom Tanzania Public Limited Company	37	43	37	43
Vodacom South Africa Limited	2	-	2	-
Vodafone UK	1	-	1	-
Vodafone Network PTY Ltd	1	-	1	-
VODAFONE SVERIGE AB	1	-	1	-
VODAFONE D2 GMBH	1	-	1	-
Vodafone Qatar Q.S.C.	8	-	8	-
One Communications Limited	-	-	207	77
East Africa Towers Limited	-	-	-	100
Safaricom Money Transfer Services Limited	189	-	-	-
	956	870	974	1,047

(x) Loan to related party

	Company	
	2018	2017
	Shs'm	Shs'm
Safaricom Money Transfer Services Limited	122	347
One Communications Limited	-	127
	122	474

29. Related party transactions (continued)
(x) Loan to related party (continued)

The loan due from One Communication Limited was at an interest rate based on 91 days treasury bill rate plus 100 basis points. During the year, Shs 1.6 million (2017: Shs 20.6 million) was charged as interest on this loan and Shs 126.9 million (2017: Shs 210.6 million) was repaid towards the outstanding loan balance. The loan was fully repaid by March 31 2018.

In 2016, the Company gave a five year revolving loan facility to its other subsidiary company, Safaricom Money Transfer Services Limited, at an interest rate based on 91 day Treasury bill rate plus 500 basis points. During the year, Shs 28.8 million has been charged as interest on this loan (2017: Shs 53.2 million) and Shs 225 million (2017: Shs 152.6 million) was repaid towards the outstanding loan balance. The fair value of the loan approximates its carrying amount.

30. Contingent liabilities
The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business.

At March 31 2018, a guarantee of Shs 20 million (2017: Shs 20 million) had been given to Citibank NA against credit cards for the use by senior staff during travel and a guarantee of Shs 214.9 million (2017: Shs 129.5 million) to various suppliers for goods and services regularly provided to the Company.

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

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

31. 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	
	2018	**2017**
	Shs'm	**Shs'm**
Property, plant and equipment	8,034	7,532
Operating lease commitments		
Not later than 1 year	1,269	870
Between 1 year and 5 years	5,908	3,950
Later than 5 years	3,185	3,090
	10,362	7,910

Operating lease commitments relate to contracted leases for facilities and site rentals at the statement of financial position date. The lease terms are between 6 years and 20 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.

PRINCIPAL SHAREHOLDERS

The ten largest shareholders in the Company (ordinary shares only) and the respective number of shares held as at March 31 2018 were as follows:

	Name of shareholder	Number of shares
1	VODAFONE KENYA LIMITED	16,000,000,000
2	CABINET SECRETARY TO THE TREASURY	14,022,572,580
3	STANDARD CHARTERED NOMINEES NON-RESD. A/C 9069	741,793,244
4	STANDARD CHARTERED KENYA NOMINEES LTD,A/C KE19796	375,891,000
5	KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 1019D	272,449,500
6	STANDARD CHARTERED NOMINEES ACCOUNT KE14442	147,869,793
7	KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B	137,277,286
8	STANDARD CHARTERED KENYA NOMINEES LTD A/C KE20531	128,950,800
9	STANDARD CHARTERED NOMINEES RESD A/C KE11443	117,779,707
10	STANDARD CHARTERED KENYA NOMINEES LTD,A/C KE20435	100,019,100
11	OTHERS	8,020,824,990
Total		**40,065,428,000**

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
1 to 1000	370,747	222,439,434	0.56%
1001 – 10,000	176,142	502,618,487	1.25%
10,001 – 100,000	19,804	496,213,088	1.24%
100,001 – 1,000,000	1,727	474,590,440	1.18%
1,000,001 – 10,000,000	498	1,747,446,242	4.36%
10,000,001 – 100,000,000	175	4,577,517,299	11.43%
100,000,001 – 1,000,000,000	8	2,022,030,430	5.05%
1,000,000,001 – 100,000,000,000	2	30,022,572,580	74.93%
Total	**569,103**	**40,065,428,000**	**100.00%**

BOARD OF DIRECTORS' PROFILES

Executive Directors

Name	Skills and Experience
Bob Collymore (59) Appointed CEO in November 2010	Previously worked in the UK, Japan, and South Africa in a number of senior executive roles in Marketing, Purchasing, Retail, Governance and Corporate Affairs. He has more than 30 years of commercial experience working in senior executive roles in the telecommunications sector **Other current appointments** · Board member of Acumen, the United Nations Global Compact Board · Member of the B TEAM, a not-for-profit initiative formed by a global group of business leaders · Board Member Kenya Vision 2030 · Founder Trustee in the National Road Safety Trust and Chairman of the TEAMS Board · UN Commission on Life Saving commodities for women and children
Sateesh Kamath (44) (Alternate to Bob Collymore) Chief Financial Officer Appointed CFO August 2016	Sateesh was the Chief Financial Officer and Executive Director on the board of Vodacom Tanzania, with over the last 12 years at both a global and local level for Vodafone operations in London, Australia, New Zealand, Turkey and Fiji. Sateesh has over 19 years' experience in both mature and emerging markets across Asia, Europe and Africa, where he has built a strong background in strategic performance management and streamlining robust operations across the telecoms, FMCG and manufacturing sectors. He holds a Bachelor of commerce from Mahatma Gandhi University (First Class). Sateesh is a Qualified Accountant from the Institute of Cost and Works Accountants of India.

Independent Non-Executive Directors

Name	Skills and Experience
Dr. Bitange Ndemo (59) Appointed May 2017	Dr. Ndemo is a noted ICT industry expert who currently lectures on entrepreneurship and research methods at the University of Nairobi's Business School. Most of his research centers on the link between ICT and small and medium enterprises in Kenya. **Other current appointments** Former ICT Permanent Secretary. He is a professor at the University of Nairobi; senior advisor, UNCDF; Chairman of the Task Force on Blockchain and Artificial Intelligence.
Susan Mudhune (67) Appointed May 2009	She holds a Bachelor of Arts degree in Education and an MBA. She is a former Chairman of Kenya Commercial Bank. **Other current appointments** · A fellow of Kenya Institute of Bankers (KIB) · Director of Eveready East Africa board · Director of Kenya Commercial Bank · Member of Institute of Directors (K) · The national chairperson of Kenya Girl Guides Association.

* The Company has 2 independent directors who duly represent the interests of the minority shareholders who hold 25% of the Company's shareholding.

Non-Executive Directors

Name	Skills and Experience
Nicholas Nganga (78) Chairman Joined the Board May 2004 and was appointed Chairman January 2007	He is a holder of a BA degree from Makerere University and served as Permanent Secretary in the Ministries of Finance, Foreign Affairs and Health. Mr. Nganga has been extensively involved in the tea industry and was Chairman of the Tea Board of Kenya. He is a past Chairman of the National Bank of Kenya. **Other current appointments** · Chairman G4S Security, Car & General Kenya · Member of the Board of Kakuzi Limited
Esther Koimett (60) (Alternate to Henry Rotich) Appointed May 2005	She previously served on the Board between April 2001 and September 2002. She holds Bachelor of Commerce and MBA degrees from the University of Nairobi and has also served as Permanent Secretary in the Ministry of Tourism and Information and Managing Director, Kenya Post Office Savings Bank. **Other current appointments** PS Ministry of Transport

Non-Executive Directors

Name	Skills and Experience
Vivek Badrinath (48) Non-Executive Director Appointed May 2017	He was the Deputy Chief Executive at the international hospitality group Accor Hotels where he was responsible for marketing, digital solutions, distribution and information systems. He was previously Deputy Chief Executive with Orange and has a long career in telecommunications and technology. Other roles held include Executive Director responsible for Orange's Business Services division, leadership of Orange's global networks and operators division and Chief Technology Officer for Orange's mobile activities. Vivek was appointed to the Vodacom Group Board in December 2016. He holds an Engineering degrees from Ecole Polytechnique and Telecom ParisTech (France), Degree in Statistics **Other current appointments** CEO, AMAP Region for Vodafone and the Executive Committee overseeing Vodafone's operations in the Vodacom Group, India, Australia, Egypt, Ghana, Kenya, Qatar, New Zealand and Turkey.
Gianluca Ventura (50) (Alternate to Vivek Badrinath) Appointed March 2015	He joined Vodafone in 2003 as Head of HR Technology and became Director of the Vodafone Group's Technology Department in 2006, based in Newbury. He held the role of HR Director of Vodafone Southern Europe since 2012 and of HR and Organisation Director of Vodafone Italy since 2008. Previously, he worked at L'Oreal, where he held the role of Italy HR Director. He is a graduate of Bocconi University in Milan and has a CEMS Master's Degree from Esade in Barcelona. **Other current appointments** Vodafone Group's Human Resources Director Africa, Middle East and Asia Pacific, a role he has held since October 2013.
Mohamed Shameel Aziz Joosub (47) Non – Executive Director Appointed August 2017	He is a former CEO of Vodafone Spain. He was previously the Managing Director of Vodacom South Africa from March 2005 to March 2011 prior to taking up the position as CEO of Vodafone Spain. Prior to that, he was the Managing Director of Vodacom Service Provider Company and Managing Director of Vodacom Equipment Company. Shameel served on the Vodacom Group Board from 2000 until March 2011, when he was seconded to Spain. He holds a Bachelor of Accounting Science (Honors) (Unisa) and MBA (Southern Queensland University, Australia), Associated General Accountant and Commercial and Financial Accountant (SA) **Other current appointments** • CEO of Vodacom Group since September 2012 • Chairman of the Vodacom Group Executive Committee & Vodacom (Pty) Limited • Re-appointed to the Vodacom Group Board in September 2012 after his return from Spain.
Till Streichert (44) Non – Executive Director and (Alternate to Mohamed Joosub) Appointed August 2017	He has vast experience finance and commercial roles, including CFO and Head of Channel Marketing and Sales Operations at Vodafone Romania and Finance Director at Vodacom South Africa. He began his career at T-Mobile Germany before undertaking various roles at T-Mobile UK as well as a strategy consultant at The Boston Consulting Group. He has more than 15 years' experience supporting financial and operational transformations through expertise in financial strategy, business leadership, revenue and profit growth in international environments. Till was recently awarded the 2017 CFO of the Year award by CFO South Africa. **Other current appointments** The Chief Financial Officer and Executive Director of Vodacom

Non-Executive Directors

Name	Skills and Experience
Michael Joseph (72) Non-Executive Director Appointed September 2008	Michael was the CEO of Safaricom Limited from July 2000 when the company was re-launched as a joint venture between Vodafone UK and Telkom Kenya. During his tenure, he steered the company from a subscriber base of less than 20,000 to over 16.71 million subscribers. This phenomenal growth straddling nearly a decade was motored by the launch of many innovative products and services such as M-PESA. Today, Safaricom is one of the leading companies in East Africa and one of the most profitable companies in the region. He has extensive international experience in company start-ups, the implementation and operation of large wireless and wire-line networks, including operations in Hungary, Spain, Brazil, Peru, Argentina, Korea, the USA, Australia and the Middle East. He has dual citizenship, American and Kenyan. He holds a B. Sc. (cum laude) in Electrical Engineering from the University of Cape Town, and a Honorary Doctorate degree (Doctor of Letters) from Africa Nazarene University, bestowed to him in recognition of his contribution to the growth of Safaricom as one of the most innovative, influential and profitable company in the East African region. **Other current appointments** • Director of Mobile Money Vodafone Group Services. • Chairman of Kenya Airways since October 2016. • Vodafone's Strategic Advisor appointed to the Boards of Vodacom Group South Africa, Vodacom Tanzania, Vodacom Mozambique and Safaricom Limited in Kenya. • Conservationist and serves as chairman of Lewa Wildlife Conservancy • Member of the Vodacom Group Board in May 2009. • Member of the I.E.E.E. and I.E.E. (U.K.).
Linda Watiri Muriuki (54) Non – Executive Director Appointed August 2017	She served as a Non-Executive Director of Old Mutual Life Assurance Company Limited from 2004 to 2010 and the Capital Markets Authority from 2015 to 2017. She holds a B.A. Economics degree from York University, Canada an LLB (Honors) from the University of Leeds, United Kingdom and a Master's Degree as a Graduate of the Global Executive Masters of Business Administration from United States International University in collaboration with Columbia University New York, U.S.A. **Other current appointments** • Senior Partner at LJA Associates and practicing Advocate of the High Court of Kenya with over Twenty-Seven years' experience ranked by Chambers and Partners in 2015 and 2016. • Non-Executive Director of East Africa Reinsurance Company Limited. • Commissioner for Oaths, Notary Public. • Member of the Institute of Certified Public Secretary (Kenya). • Member of the Institute of Directors (K). • Member of the Law Society of Kenya.
Kathryne Maundu (39) Company Secretary Appointed February 2016	She has over 14 years of consulting experience guiding local and multinational companies and their boards in discharging their statutory and Corporate Governance mandate. She has vast knowledge in corporate laws and statutory regulations having worked in various jurisdictions in the East African Countries of Kenya, Uganda and Tanzania. Kathryne holds a Bachelor of Laws Degree from the University of Nairobi and a Post Graduate Diploma in Law from the Kenya School of Law. **Other current appointments** • Senior Manager in the Company Secretarial and Registration Services Department at Deloitte Limited. • Accredited Governance Auditor • Advocate of the High Court of Kenya • Registered Certified Public Secretary • Member of the Women on Board Network

Corporate information

Registered Office
Safaricom House Waiyaki Way, Westlands
P.O. Box 66827, 00800 Nairobi
Telephone: +254 722 00 3272
Website: www.safaricom.co.ke

Registrars
Image Registrars Limited
5th Floor, Barclays Plaza Loita Street
P.O. Box 9287, 00100 Nairobi
Telephone: +254 709 170 000 / +254 735 565 666
Email: info@image.co.ke
Website: www.image.co.ke

Shareholder Related Issues
Telephone: +254 7090170041
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Investor Relations
Safaricom House Waiyaki Way, Westlands
P.O. Box 66827, 00800 Nairobi
Telephone: +254 722 00 6218/4233/4746
Email: investorrelations@safaricom.co.ke
Website: www.safaricom.co.ke/investorrelations

Auditors
PricewaterhouseCoopers
PwC Tower Waiyaki Way, Westlands
P.O. Box 43963, 00100 Nairobi
Tel: +254 (20) 285 5000
Fax: +254 (20) 285 5001
Email: PwC.kenya@ke.PwC.com

NOTICE OF THE ANNUAL GENERAL MEETING

TO ALL SHAREHOLDERS

NOTICE is hereby given that the Annual General Meeting of Safaricom PLC for the year 2018 will be held at Bomas of Kenya, Nairobi on Friday, 31 August 2018 at 11:00 a.m. to conduct the following business:-

1. To receive, consider and adopt the audited Financial Statements for the year ended 31 March 2018 together with the Chairman's, Directors' and Auditors' reports thereon.

2. Dividend

   To approve a final dividend of Kshs 1.10 per share for the Financial Year ended 31 March 2018 as recommended by the Directors. The dividend will be payable on or before 30 November 2018 to the Shareholders on the Register of Members as at the close of business on 31 August 2018.

3. Directors

   To re-appoint Dr Bitange Ndemo who retires at this meeting in accordance with the provisions of Articles 90 and 91 of the Company's Articles of Association, and, being eligible, offers himself for re-election.

4. In accordance with the provisions of Section 769 of the Companies Act, 2015, the following Directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:-

   - Dr Bitange Ndemo
   - Mrs Esther Koimett
   - Mr Mohamed Joosub
   - Mr Till Streichert

5. a) To approve the Directors' Remuneration Policy contained in the Directors' Remuneration Report for the year ended 31 March 2018.

   b) To approve the Directors' Remuneration Report for the year ended 31 March 2018 (other than the part relating to the Directors' Remuneration Policy).

6. To note that Messrs PricewaterhouseCoopers continue in office as Auditors by virtue of Section 721 (2) of the Companies Act, 2015 and to authorize the Directors to fix the Auditors' remuneration for the ensuing financial year.

7. Any other business of which due notice has been given.

BY ORDER OF THE BOARD

KATHRYNE MAUNDU (MS)
COMPANY SECRETARY
Date: 7 August 2018

NOTES:

(i) Shareholders are urged to carry their mobile devices which will be used to carry out the voting of various resolutions included in this notice.

(ii) A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company. A form of proxy may be obtained from the Company's website www.safaricom.co.ke, or at Safaricom House, Waiyaki Way, Westlands, Nairobi, or from any of the Safaricom Shops countrywide.

(iii) In the case of a member being a corporate, the proxy form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.

(iv) All proxy forms should be sent by post to Image Registrars, P.O Box 9287, 00100 Nairobi. Alternatively, duly signed proxy forms can be scanned and emailed to info@image.co.ke in PDF format. Proxy forms must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting.

(v) In accordance with Article 145 of the Company's Articles of Association, a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company's website (www.safaricom.co.ke) from 7 August 2018 or from the Registered Office of the Company i.e. Safaricom House, Waiyaki Way, Westlands, Nairobi. An abridged version of the Financial Statements for year ended 31 March 2018 has been published with this notice.

(vi) Registration of members and proxies attending the Annual General Meeting will commence at 7.00 a.m. on 31 August 2018. Production of a National Identity Card, a passport, a current Central Depository Statement of Account for shares held in the Company, or other acceptable means of identification will be required.

(vii) The preferred method of paying dividends which are below Shs 70,000/- is through M-PESA. Shareholders who wish to receive their dividend through M-PESA and who have not registered for this mode of payment should contact Image Registrars (Tel: +254 724 699 667/ +254 735 565 666/ +254 770 052 116, Email: info@image.co.ke,) or Safaricom Limited's Investor Relations Team Mobile: +254 722 004233/4746, Email: investorrelations@safaricom.co.ke).

(viii) Transport will be provided to Shareholders on the day of the meeting from the Kenyatta International Conference Centre (KICC) parking bay to the Bomas of Kenya

Proxy Form

I/We: ____

Share A/c no____

of (address) ____

Being a member(s) of Safaricom PLC, hereby appoint ____

or failing him/her the duly appointed chairman of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company, to be held on Friday, 31 August 2018 and at any adjournment thereof.

As witness, I/We lay my/our hand(s) this _________________________________ day of _____________________ 2018

Signature ____

Signature ____

Signature ____

NOTES:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead and a proxy need not be a member of the Company.

2. In the case of a member being a Limited Company this form must be completed under its common seal or under the hand of an office or attorney duly authorized in writing.

3. Proxies must be in the hands of the secretary not later than 48 hours before the time of holding the meeting. All proxies should be sent by post to Image Registrars of P.O. Box 9287, 00100 Nairobi. Alternatively, duly signed proxies can be scanned and emailed to info@image.co.ke in PDF format.

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