Vodacom Tanzania Public Limited Company

Annual report

for the year ended 31 March 2018

The future is exciting.

Ready?

Vodacom Tanzania's Annual Report 2018

This is Vodacom Tanzania's second annual report, and the first following our listing on the Dar es Salaam Stock Exchange on 15 August 2017.

This report provides an overview of our business model and operating environment, and reviews our strategic, operational and governance performance for the financial year ended 31 March 2018.
Our reporting process has been guided by the principles and requirements contained in the International Financial Reporting Standards ('IFRS'), the Dar es Salaam Stock Exchange PLC Rules, 2016 and the Companies Act, 2002. PricewaterhouseCoopers ('PwC') assured our annual financial statements and has provided an unmodified opinion (page 55).

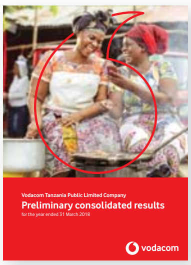
The Board has applied its collective mind to the preparation and presentation of the information in this report. The Board believes that this report addresses all material issues and presents a balanced and fair account of the Group's performance for the reporting period, as well as an accurate reflection of our core strategic commitments. The directors have applied their judgement regarding the disclosure of Vodacom Tanzania's strategic plans, and have ensured that these disclosures do not place the company at a competitive disadvantage. The Board approved this annual report on 12 July 2018.

Signed on the Board's behalf.

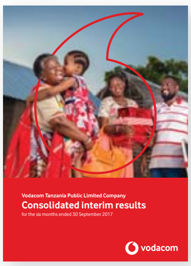
Ali A Mufuruki
Chairman
12 July 2018

Ian Ferrao
Managing Director
12 July 2018

Other sources of information available online



Preliminary consolidated results



Consolidated interim results

www.vodacom.co.tz/investor-relations

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Who we are

Vodacom Tanzania Public Limited Company ('Vodacom Tanzania' or 'the Company') is Tanzania's leading mobile operator and mobile financial services provider, with the highest voice population coverage, fastest nationwide data network and the largest mobile money network in the country.

We provide various communication services to over 12.8 million customers. Vodacom Tanzania listed on the Dar es Salaam Stock Exchange on 15 August 2017. Vodacom Tanzania and its subsidiaries (together 'the Group') are majority owned by Vodacom Group Limited, a company registered in South Africa, which in turn is majority owned by Vodafone Group Plc., a company based in the United Kingdom.

Our strategy

Our Purpose

Why we exist

To lead Tanzania into the digital age, connecting everybody to live a better today and build a better tomorrow

Our Vision

Where we are going

To be a leading digital company that empowers the digital lives of our customers

Our Way

How we need to do it

Speed, simplicity and trust in a connected society

Our Strategic Pillars

What we need to do

- Monetise data and digital opportunities
- Accelerate customer growth through Vodacom M-Pesa
- Continued enhancement of our Enterprise offering
- Brand leadership. Retain and increase market share
- Actively managing cost and process efficiency
- People. Best talent, best practice

How we performed

Service revenue grew

5.9% **(7.0%* excluding changes to the mobile termination rate ('MTR'))**

to **TZS966.3 billion**, a significant improvement to the growth seen over the past three years.

EBITDA grew

5.5% to **TZS266.4 billion**

representing an EBITDA margin of 27.2%.
Excluding non-recurring items, EBITDA grew 16.4%.

Earnings per share ('EPS') of

TZS83.81 up **196.0%**

includes gain from the sale of an equity stake in Helios Towers Tanzania Limited ('HTT') in October 2017.

Mobile data revenue grew

34.7%

achieving **TZS141.6 billion**, supported by network densification, capacity upgrades and 4G expansion. Active data customers grew by 882 thousand to 7.3 million, stimulated by digital social media partnerships and smartphone campaigns.

M-Pesa revenue grew

16.7% to **TZS291.2 billion**

representing 30.1% of service revenue. Growth was fuelled by greater customer spend across a growing mobile money ecosystem.

* Adjusted for reductions made to the MTR in January 2017 and January 2018.

Capital expenditure of

TZS159.7 billion

representing 16.3% of revenue, was reinvested to launch high speed 4G services in five new cities and improve data user experience countrywide.

We have the fastest high speed 4G coverage across Dar es Salaam, Dodoma, Arusha, Tanga, Morogoro, Moshi on

539 4G sites

with impressive average download speeds which are approximately **40% faster** than our next-best competitor[1].

We added

194 3G sites

as well as conducted capacity upgrades to over 40% of our 3G Sites.

3G population coverage
(%)

2018	**48%**
2017	28%
2016	22%

2G population coverage
(%)

2018	**89%**
2017	88%
2016	67%

The value we create

For our shareholders

- First and only telecommunications company to list on the Dar es Salaam stock exchange in response to the government's mandatory listing requirements.
- We paid shareholders TZS28.5 billion as a first dividend following our listing, representing 60% of our net profit after tax for the year ended 31 March 2017.

For our customers

- Extended our network coverage, adding 261 4G sites, 194 3G sites, and 72 2G sites this year.
- We are now able to provide 3G data services to around 48% of the population (2017: 28%).
- Following the launch of our commercial 4G services in Dar es Salaam last year, we launched 4G in Arusha, Dodoma, Morogoro, Moshi and Tanga.
- We maintained our position as the fastest data network in Tanzania. We offered 4G and 3G speeds that were approximately 40% and 20% faster than our nearest competitor[1].
- Over 6.3 million customers actively use our M-Pesa financial services.
- We grew our 'Lipa kwa M-Pesa' network, enabling consumers to pay via M-Pesa at over 6 300 active merchants across Tanzania. This makes M-Pesa the most convenient payment choice, outgrowing the number of payment card terminals across the country.
- We continue to have the highest weighted customer net promoter score ('NPS') in the industry – a key measure of customer satisfaction.

For our employees

- Total of 537 permanent employees.
- Invested over TZS40 billion in remunerating, training and developing our staff.
- Moved into a new head office building which provides a more collaborative work environment.
- Provided leadership and management training to 173 middle and senior managers.
- Supported a selection of high-potential employees to attend a programme at the University of Witwatersrand Business School.
- Recognised as an employer of choice.

In our community

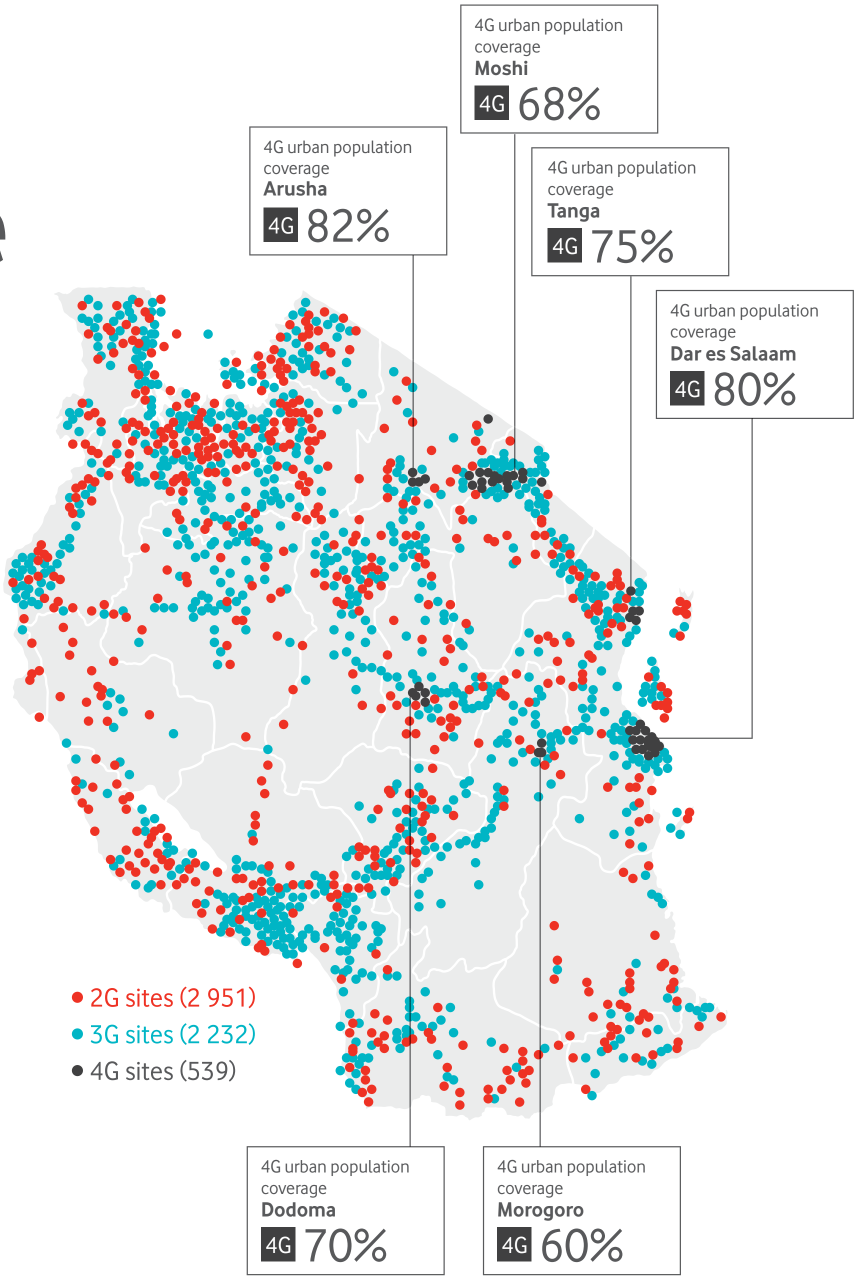
- TZS1.0 trillion of cash contributions to public finances in taxes, spectrum and regulatory fees over the last three years. In June 2018, a further TZS23 billion was paid as part of an auction for spectrum in the 700 MHz band.
- Vodacom's telecoms and mobile money networks are estimated to have created over 50 000 jobs in Tanzania.
- We have provided more than 6 000 students with devices to access online education.
- The Vodacom Tanzania Foundation, Vodafone Foundation and their respective partners have collectively facilitated grants of over $16 million towards mobilising maternal health, touching the lives of over 620 000 women and newborns.

1. Ookla speed test report, March 2018.

Vodacom Tanzania at a glance

2G population coverage
89%

3G population coverage
48%

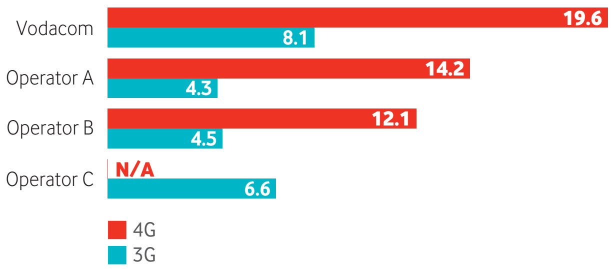


#1 mobile operator in Tanzania with the highest customer market share

	2018
Vodacom	32%
Competitor A	28%
Competitor B	27%
Competitor C	9%
Competitor D	3%
Other	1%

Source: Quarterly Communications Statistics Report, March 2018. TCRA.

Fastest data network in Tanzania
(millions of bits per second, Mbit/s)



Source: Ookla Speed Test Report, March 2018.

Our products and services

We have over **12.8 million active customers** using our wide range of products and services. We stand out in the market for having been the first to introduce various new products and services in the country.

M-Pesa

M-Pesa continues to be the leader in providing innovative products and services to make the lives of its customers simpler and better, with around TZS110 billion of transaction value going through M-Pesa daily.

Deposits and withdrawals: Over 6.3 million M-Pesa customers actively deposit and withdraw money from their M-Pesa accounts through over 85 thousand agents across the country at an affordable cost.

Person-to-person transfers: This allows Vodacom Tanzania's customers to send money to customers across selected mobile networks.

'Lipa kwa M-Pesa': Our M-Pesa merchant payment solution allows merchants to accept payments for goods and services sold to both Vodacom customers and those of some competitors. During the year, this became the most convenient electronic payment choice for Tanzanians through our network of over 6 300 active merchants, outgrowing the number of payment card terminals across the country.

M-Pawa: Our revolutionary savings and loans product, M-Pawa, allows customers to gain access to a savings account, and to draw a loan for a small fee payable through M-Pesa. In a country where the majority of the population is unable to gain access to formal banking services, M-Pawa promotes valuable financial inclusion.

International money transfers: M-Pesa customers can send money to Kenya for a small fee through their M-Pesa accounts.

Business services: M-Pesa allows businesses to send money to other businesses ('B2B') and consumers (disbursement accounts) for services such as salary payments, and for businesses to receive money through M-Pesa from their customers (collection accounts), for services such as paying bills.

Consumer products and services

Voice, data and SMS bundles
Offered across various price points.

Value added services
A wide array of services to cater to all market segments, including: M-Paper, SIMU.tv portal, iflix video streaming service, Mzikii music app, and our free text-based Facebook offering.

Customer care
Vodacom mini-store service-desks; dedicated support desk with prioritised queuing for high value customers; proactive digital customer alerts (after call notification, low balance, bundle depletion and expiry).

Devices

Mobile handsets, tablets and mobile broadband modems.

In March 2018, we had over 3.1 million active smart devices on our network, up 38.8% year-on-year, representing a 6.6ppts increase in smart device penetration to 29.5%.

Enterprise

We provide a variety of fixed and mobile solutions to cater for the growing enterprise, small and medium-sized enterprise ('SME') and small office-home office ('SoHo') segments; these include:

Connectivity
Wireless; Fixed-line; VPN; Mobile voice and data

Managed mobility
Internet of Things ('IoT'); Corporate APN

Security, cloud and hosting

No. 1
We are the leading mobile operator and mobile financial service provider in Tanzania.

89%
Superior network covering the largest proportion of the population.

Over 12.8 million
customers with 31.9% customer market share.

US$17.5 billion
of payments made across the M-Pesa system as a whole, equivalent to over ⅓ of Tanzania's GDP.

Chairman's review

It is my pleasure to present Vodacom Tanzania's first annual report since listing its shares on the Dar es Salaam Stock Exchange in August 2017.

This listing marked the conclusion of the largest initial public offering in the exchange's 19-year history, raising TZS476 billion and achieving subscriptions from more than 40 000 Tanzanians, many of whom were first time investors. Being the first and only mobile network operator to comply with the Government's listing requirements is evidence of Vodacom's commitment to supporting Tanzania's economic growth and development.

A business's ability to succeed is tantamount to its agility. Vodacom Tanzania has successfully navigated through significant changes to its operating context over the past three years, delivering a turnaround in service revenue growth and underlying profitability this year. During this same time period, modest growth in consumer spending placed a significant amount of pressure on the majority of industries across the country.

Furthermore, recent developments in the regulatory environment have raised additional challenges in the telecommunications sector. These include strict enforcement of customer registration requirements, mandatory investment in a new government electronic revenue collections system, as well as a 42.1% reduction in the mobile termination rate, all of which has had an adverse impact on our business. These changes have been accompanied by the adoption of aggressive pricing strategies by our competitors.

With the above in mind, I believe that this year's solid performance attests to Vodacom Tanzania having the right people and the right strategy in place.

We have a talented management team who adopts agile methods to achieve their targets while operating within a culture of innovation. Following this year's pleasing performance, I believe that the Group is well placed to realise exciting growth opportunities – particularly in M-Pesa, data and enterprise services – supported by continued enhancement to its data network, customers' experience as well as innovation through its 'big data' platforms.

As Chairman, I am responsible for ensuring that the Board provides the necessary oversight and stewardship required for the Group to achieve sustainable growth and act in the best interest of its shareholders. In fulfilling this function, I work alongside a strong Board of directors that bring diversity of perspective and experience across both public and private sectors. Following the Company's listing, the appointment of new independent directors has been incredibly valuable in ensuring that a strong culture of accountability is maintained.

This is my first year as Chairman of Vodacom Tanzania. It has been an incredible privilege working with my colleagues on

Ali A Mufuruki

the Board and the executive team within a dynamic industry that has great potential to deliver value for the broader Tanzanian economy. On behalf of the Board, I wish to express our appreciation to the executive team and to Vodacom Tanzania's employees for their contribution to the Group's commercial improvement. I would like to thank Ian Ferrao for his exemplary leadership and vision, which has transformed how our Group does business today. I wish Ian and his family every success in their new ventures.

We are looking forward to working with our new managing director, Sylvia Mulinge, who brings valuable leadership experience from Safaricom. Sylvia has extensive experience of launching innovative products which have augmented Safaricom's financial performance and transformed the lives of its customers over the years. We are confident that under her leadership, Vodacom Tanzania will continue to make a significant positive contribution to the communities that it serves.

Ali A Mufuruki

Chairman

12 July 2018

Taarifa ya Mwenyekiti

Ninayo furaha kuwasilisha taarifa ya kwanza ya mwaka ya Vodacom Tanzania tangu ilipoorodhesha hisa zake kwenye Soko la Hisa la Dar es Salaam mnamo Agosti 2017.

Uorodheshaji huo ulihitimisha zoezi kubwa kupita yote la uuzaji wa hisa za awali kwa umma katika historia ya miaka 19 ya soko la hisa ambapo kiasi cha shilingi za Tanzania bilioni mia nne sabini na sita zilipatikana na kujiunga kwa zaidi ya Watanzania elfu arobaini wengi wao ukiwa ni uwekezaji wa mara ya kwanza. Hii ilifanya Vodacom kuwa mwendeshaji wa mtandao wa kwanza na pekee wa simu za kiganjani kutekeleza sharti la Serikali la kuorodhesha hisa kwenye Soko la Hisa la Dar es Salaam, ni ushahidi tosha wa msimamo wa Vodacom kuunga mkono ukuaji na maendeleo ya uchumi wa Tanzania.

Uwezo wa biashara kufanikiwa ni kielelezo thabiti cha kusoma alama za nyakati. Katika miaka mitatu iliyopita, Vodacom imefanikiwa kuvuka vikwazo kadhaa vya kiundeshaji na kufanikiwa kubadili mwelekeo hasi wa ukuaji wa mapato yanayotokana na huduma mbalimbali na hata kupata faida ya msingi mwaka huu. Katika kipindi hiki, ukuaji hafifu katika matumizi ya wateja, umesababisha shinikizo kubwa kwenye tasnia mbalimbali nchini kote.

Zaidi ya hayo, mabadiliko katika mfumo mzima wa udhibiti yamekuja na changamoto za ziada katika sekta ya mawasiliano ya simu. Changamoto hizo ni pamoja na usimamizi makini wa usajili wa wateja, uwekezaji wa lazima katika mfumo mpya wa serikali wa ukusanyaji wa mapato kielektroniki, na vilevile punguzo la 42.1% katika viwango vya maingiliano baina ya simu, ambazo kwa pamoja zimekuwa na athari katika biashara yetu. Aidha, washindani wetu wamekuja na mikakati kabambe ya kupanga viwango vya bei zilizopo. Kwa kuzingatia yote yaliyotajwa hapo juu, ni wazi kuwa mafanikio ya Vodacom yasingepatikana pasi kuwa na wafanyakazi na mikakati sahihi.

Timu yetu ya menejimenti imesheheni watu wenye vipaji na umahiri mkubwa ambao umeiwezesha kampuni kufikia malengo yaliyowekwa na kwa kufanya hivyo, wanadumisha utamaduni wa miaka mingi wa ubunifu. Kufuatia mafanikio mazuri ya mwaka, nina amini kuwa Vodacom iko katika nafasi ya kuzitumia vizuri fursa za ukuaji – hususan katika M-Pesa, data na huduma mbalimbali kwa wateja wakubwa – zikisaidiwa na kuendelea kuboresha mtandao wake wa data, uzoefu wa wateja na vilevile ubunifu wa huduma bora kwa majukwaa yake makubwa ya data.

Kama Mwenyekiti, ni wajibu wangu kuhakikisha kuwa Bodi inatoa usimamizi na mwongozo unaotakiwa kuiwezesha kampuni kufikia ukuaji endelevu, na kwa kutanguliza maslahi ya wanahisa wa kampuni. Katika kutekeleza jukumu hili, ninafanya kazi pamoja na Bodi ya wakurugenzi iliyo imara ambayo inaleta uhusiano na uzoefu wa aina mbalimbali katika sekta zote mbili, sekta binafsi na ya umma. Kufuatia kampuni kuorodheshwa, uteuzi wa wakurugenzi wapya huru umekuwa na umuhimu wa kipekee katika kuhakikisha kuwa utamaduni wa uwajibikaji unadumishwa hasa katika kulinda maslahi ya wawekezaji wadogo wa Vodacom.

Huu ni mwaka wangu wa kwanza kama Mwenyekiti wa Vodacom. Ni heshima kubwa kwangu kufanya kazi na wenzangu katika Bodi na timu ya watendaji ndani ya tasnia inayobadilika, na ambayo ina fursa kubwa ndani yake ya kutoa mchango katika kukuza zaidi uchumi mpana wa Tanzania. Kwa niaba ya Bodi, ninapenda kutoa shukrani zetu kwa timu ya utendaji na kwa wafanyakazi wote wa Vodacom kwa mchango wao katika kukuza maslahi ya kibiashara ya Vodacom. Ninapenda kumshukuru Ian Ferrao kwa uongozi na maono yake ya mfano, ambayo yamebadili namna kampuni yetu inavyofanya shughuli zake. Ninamtakia Ian na familia yake kila la heri katika shughuli zake mpya.

Tunasubiri kwa hamu kubwa ujio wa Mkurugenzi mtendaji wetu mpya, Sylvia Mulinge, ambaye analeta uzoefu muhimu wa uongozi kutoka Safaricom. Sylvia ana uzoefu mkubwa wa kuzindua bidhaa za kibunifu ambazo zimeongeza mafanikio ya Safaricom kifedha na kubadili maisha ya wateja kwa miaka kadhaa. Tuna imani kuwa chini ya uongozi wake, Vodacom itaendelea kutoa michango mikubwa kwenye jamii inazozihudumia.

Ali A Mufuruki
Mwenyekiti
12 Julai 2018

> This has been a very pleasing year for Vodacom Tanzania, characterised by a turnaround in the growth of service revenue and underlying profitability that has been seen over the past three years.

Managing Director's review

Ian Ferrao

Our performance was underpinned by good execution of network investments, customer value management, promotional offers, and targeted M-Pesa and data propositions, with the early success of the 'Lipa kwa M-Pesa' merchant platform promising exciting further growth potential. This performance has been achieved in the context of a challenging trading environment, where improvements in our compliance with customer registration requirements lowered customer base growth for the year, and a reduction in the mobile termination rate ('MTR') dampened revenue growth in the final quarter. These pressures were largely offset by gains from effective cost optimisation and the sale of our equity stake in Helios Towers Tanzania. Furthermore, we continued to re-invest over 16% of our revenue in capital expenditure, improving our data user experience countrywide.

Strong results attest to the success of our strategy

Significant progress in monetising data and digital opportunities was made during the year. Mobile data revenue growth accelerated to 34.7% (2017: 1.1%) as we stimulated demand through our digital social media partnerships and smartphone campaigns, whilst nurturing our leading data user experience through network densification, capacity upgrades and 4G expansion. We gained over 882 thousand active data customers to reach 7.3 million, of which over 3.1 million use smart devices on our network, an increase of 38.8% year-on-year.

Following last year's successful launch of 4G services in Dar es Salaam, we expanded our high-speed 4G data network to five new cities this year, nearly doubling the number of 4G sites deployed across our network, while consistently providing our customers with the fastest average download speeds in Tanzania[1].

M-Pesa revenue grew 16.7% (2017: 11.2%) led by our focus on targeted propositions and ecosystem development. M-Pesa revenues account for 30.1% of service revenue, and M-Pesa customers make up 63.8% of our active customer base.

1. Ookla speed test report, March 2018.

We have seen significant growth in our innovative 'Lipa kwa M-Pesa' merchant payment solution, which allows merchants to accept payments for goods and services sold to both Vodacom customers and those of some competitors. Our solution is among the most mature across all of Vodafone's markets, enabling consumers to pay via M-Pesa at over 6 300 active merchants, outgrowing the number of payment card terminals across the country.

Although still a comparatively small contributor to service revenue, enhancements were made to our enterprise offering this year which enabled us to continue winning business from key accounts across various sectors. These enhancements included new partnerships which enable us to deliver the 'last mile' of a customer's connection to our network more efficiently, as well as expanding our data centre hosting services and the number of connections which we provide to the internet-of-things ('IoT').

In terms of our commitment to maintaining brand and market leadership, we maintained our leading weighted net promoter score ('NPS') despite a strong price-play seen from competitors during the year. Despite lower customer base growth of 1.9% (2017: 2.2%) as a result of actions taken towards improving compliance with customer registration requirements, we were able to maintain our leading customer market share (31.9%).

We continued to actively manage cost and process efficiency through our 'Fit for growth' cost containment programme, which realised costs savings of 6% of total expenses this year. Key savings were made from digitalising our marketing platforms and optimising staff expenses.

In terms of talent management, we focused on enhancing the skills of our employees across core specialisms such as customer value management, data analytics, digital marketing and customer care. Furthermore, a significant achievement this year was the successful move of our head-office from three separate buildings into a new, open-plan flexible workspace that fosters a more collaborative fast-paced work environment. These improvements reflect our commitment to ensuring that Vodacom is a fantastic place to work, as we seek to attract, develop and retain the best talent.

The challenging trading environment

This year's strong results were achieved in the context of an uncertain regulatory environment, as well as some aggressive competition.

A significant recent regulatory change was the implementation of a new MTR glide path by the Tanzania Communications Regulatory Authority ('TCRA' or the 'regulator') in December 2017. The new glide path essentially represents a downward shift and steepening to the previous MTR progression, cutting the MTR by 42.1% in January 2018, which reduced service revenue growth in the final quarter of the year. By January 2022, the MTR (currently TZS15.60) will reduce annually until it becomes TZS2.00, the lowest MTR globally[2]. Following an extensive process of engagement with the regulator, we have filed an appeal against these new rates with the Fair Competition Commission, primarily on the grounds that the 'glide path' sets MTRs below the costs incurred by operators. We continue to engage actively with the regulator on this issue.

Furthermore, we believe that the new MTR 'glide path' and some of the pricing decisions made by our competitors', particularly those on data, are unsustainable and ultimately counter-productive in the long term, as they undermine our collective ability to make the necessary investments required in order to provide the critical services needed by Tanzania's consumers and businesses. As a result, options for market consolidation continue to be amongst the primary strategic investments for market growth. Under the right conditions, Vodacom is best positioned to execute market consolidation and/or other strategic investments given its robust balance sheet.

The regulatory requirements relating to customer registration, coupled with the fact that many consumers lack appropriate identity documents, has lowered customer base growth. However, we believe that subdued customer growth is a short-term phenomenon and we remain fully committed to achieving compliance with the regulator's requirements. In the medium to longer term, these enhancements should provide greater opportunities for providing more secure financial services.

Our strategic outlook

Building on the strength of this year's performance, we now see an opportunity to prioritise investments over the short-term to further our leadership in data and M-Pesa user experience, while stimulating enterprise customer activity across strategically significant regions.

Following our success in securing 2 x 10 MHz in 700 MHz spectrum through the auction in June 2018, we may now provide a superior 4G data user experience to a greater number of communities across the country. We will continue to target improved data monetisation through digital partnerships with content and platform providers, invoking smartphone users to fully realise the potential of their devices on our network. We also expect further increases in smartphone penetration, stimulated by the continuation of partnership-led, low-cost smartphone campaigns.

We are confident that our M-Pesa customer base will continue to expand as we focus on building greater activity through our 'Lipa kwa M-Pesa' merchant platform, as well as establishing new partnerships that enhance the mobile money ecosystem.

Despite short-term subdued customer base growth, expected as a result of our actions to ensure full compliance with customer registration requirements, we believe that the encouraging trends seen in the adoption of personalised offers will continue to offset churn by building customer loyalty within our registered customer base. Our investments in 'big data' platforms and machine learning, coupled with a greater proportion of our base being engaged in personalised offers, are expected to provide a significant advantage over our competitors.

We are confident that our cost containment measures will facilitate earnings growth, despite the downward shift and steepening of the MTR glide path.

With the above in mind, we are targeting mid single digit service revenue growth, with broadly stable capital intensity in the financial year ahead. This guidance assumes a stable regulatory and macroeconomic environment, with broad stability of the Tanzanian shilling against major trading currencies, and excludes any potential merger and acquisition activity. The risks of further increases to regulatory levies and mandatory capital expenditure as part of government projects continue to threaten margin expansion and improved capital intensity respectively.

Acknowledgements

Following three years as Managing Director of Vodacom Tanzania and seven years within the broader Vodacom group, I have decided to leave the company and the group, to pursue new business ventures.

I am proud to have led our business through its commercial turnaround during my tenure, and feel very privileged to have seen the significant contribution the company has made to Tanzania's people and its economy. I would like to thank all of my colleagues on the Board, executive team and across the company for their active engagement, support and commitment over the years.

Finally, I wish my successor, Sylvia Mulinge, the very best as she takes on this challenging but rewarding position. I am confident that, under Sylvia's stewardship and direction, Vodacom Tanzania is well placed to drive profitable growth and to deliver on its core purpose of leading Tanzania into the digital age and connecting everybody to live a better today and build a better tomorrow.

Ian Ferrao

Managing Director

12 July 2018

2. Source: Ovum, EY analysis, Vodacom data, TCRA model.

> Huu umekuwa mwaka wa kufurahisha sana kwa Vodacom Tanzania PLC, ukiwa na mageuzi katika ongezeko la mapato yatokanayo na huduma na faida linganifu katika miaka mitatu iliyopita.

Taarifa ya Mkurugenzi Mtendaji

Ian Ferrao

Huu umekuwa mwaka wa kufurahisha sana kwa Vodacom Tanzania PLC, ukiwa na mageuzi katika ongezeko la mapato yatokanayo na huduma na faida linganifu katika miaka mitatu iliyopita.

Utendaji wetu ulijipambanua kwa matumizi yetu mazuri ya uwekezaji katika mtandao, udhibiti wa thamani ya wateja, ofa za promosheni, M-Pesa na mgawanyo maalum wa matumizi ya data, kukiwa na mafanikio ya awali ya majukwaa na biashara ya "Lipa kwa M-Pesa" yanayotoa matumaini ya ukuaji hapo baadae. Ufanisi huu umefikiwa katika muktadha wa changamoto za mazingira ya biashara, likiwemo la kutekeleza masharti ya kusajili wateja hatua iliyosababisha kusinyaa kwa wigo wa wateja kwa mwaka huo, kupungua kwa gharama za muingiliano baina ya ya simu na kushuka kwa ukuaji wa mapato katika robo mwaka ya mwisho. Kwa kiwango kikubwa, changamoto hizi zilipunguzwa na udhibiti wa matumizi na faida iliyopatikana kutokana na mauzo ya hisa zetu zote kwenye kampuni ya Helios Towers Tanzania. Aidha, tumeendelea kuwekeza zaidi ya asilimia 16 ya mapato yetu katika matumizi ya mtaji, na kuboresha matumizi yetu ya data kwa watumiaji nchini kote.

Matokeo makubwa yanathibitisha ubora wa mikakati yetu

Mafanikio makubwa yamepatikana katika uboreshaji wa mauzo ya data na fursa za kidigitali. Ukuaji wa mapato ya data uliongezeka kwa kasi na kufikia asilimia 34.7 (2017: asilimia 1.1) ikiwa ni matokeo ya kuhamasisha mahitaji ya huduma hiyo kupitia ubia wetu wa mtandao wa kijamii wa kidijitali na kampeni za simu janja, wakati tukiendelea kuongoza kutoa huduma bora ya data kwa wateja wetu kupitia kuongeza matumizi na watumiaji wa mtandao, kuongeza uwezo na upanuzi wa mfumo wa data wenye kasi ya 4G. Tulifanikiwa kuwapata zaidi ya wateja hai laki nane themanini na wawili, hivyo kufika jumla ya wateja milioni 7.3, kati yao zaidi ya milioni 3.1 wanatumia simu janja katika mtandao wetu, ambalo ni ongezeko la asilimia 38.8 kwa mwaka.

Kufuatia uzinduzi wa huduma za mfumo wa data wenye kasi ya 4G jijini Dar es Salaam mwaka jana, mtandao wetu huo umeenea kwenye miji mingine mitano mwaka huu, likiwa ni ongezeko la karibu maradufu la wigo wa miji yenye huduma ya 4G nchini, sambamba na kuwapatia wateja wetu kasi isiyo na ushindani ya wastani ya kupakua data nchini Tanzania[1].

1. Chanzo: Ookla speed test report, March 2018.

Mapato ya M-Pesa yaliongezeka kwa asilimia 16.7 (2017: asilimia 11.2), ikiwa ni utekelezaji wa dira yetu ya kuzingatia mapendekezo lengwa na kujenga mfumo wa kiekolojia. Mapato ya M-Pesa yamefikia asilimia 30.1 ya mapato yatokanayo na utoaji huduma, na wateja wa M-Pesa wanafikia asilimia 63.8 ya wateja wetu hai.

Kumekuwa na ongezeko kubwa sana la huduma yetu ya kibunifu ya "Lipa kwa M-Pesa" ambao ni mpango wa malipo kwa wafanyabiashara unaowawezesha kupokea malipo kwa ajili ya bidhaa au huduma zilizouzwa kwa wateja wa Vodacom na kwa baadhi ya washindani wetu. Mbinu zetu za ubunifu ni za hali ya juu katika masoko yote ya Vodafone, ikiwawezesha wateja wa M-Pesa kuwalipa zaidi ya wenye biashara 6300 hivyo kupita kiwango kinachofikiwa na vituo mbadala vya malipo ya kielektroniki nchini.

Ingawa mchango wa "Lipa Kwa M-Pesa" kwenye mapato yatokanayo na huduma bado ni mdogo, maboresho yaliyofanyika yametuwezesha kuendelea kupata wateja wengi zaidi katika sekta mbalimbali za biashara. Maboresho haya ni pamoja nakuingia ubia mpya ambao unatuwezesha kuongeza ufanisi katika kukamilisha uunganishwaji wa huduma kati ya mteja na mtandao wetu, na vilevile kupanua huduma za kituo chetu cha data na idadi ya miunganisho tunayotoa katika vifaa vya intaneti.

Kuhusu msimamo wetu katika kudumisha chapa yetu na kuendelea kuwa kinara katika soko, tumedumisha nafasi yetu ya kuongoza kwa kupata mrejesho chanya wa kiwango cha ubora wa huduma zetu, licha ya mikakati ya kuvutia ya washindani wetu katika suala la gharama za huduma kwa mwaka husika. Licha ya kuwa na ukuaji mdogo wa wigo wa wateja kwa asilimia 1.9 (2017: asilimia 2.2), hali hiyo ikisababishwa na hatua zilizochukuliwa katika ufuatiliaji wa masharti ya kufanya usajili wa wateja, tuliweza kudumisha nafasi yetu ya kinara kwa kuhodhi asilimia 31.9% ya soko.

Tumeendelea kusimamia kikamilifu suala la kudhibiti matumizi pamoja na ufanisi wa taratibu zetu ambazo zimefanikisha kuokoa asilimia 6 ya gharama ya jumla ya matumizi kwa mwaka huu. Gharama kubwa zimeokolewa kutokana na matumizi ya mifumo ya kidijitali iliyotumika kwenye majukwaa ya kutafutia masoko yetu na kuboresha thamani kampuni inayopata kutokana na gharama za wafanyakazi.

Kuhusu usimamizi wa vipaji, tumelenga kuboresha ujuzi wa wafanyakazi wetu katika nyanja mbalimbali za msingi kama vile utambuzi wa thamani ya mteja, uchanganuzi wa data, utafutaji masoko kidijitali na huduma kwa wateja. Aidha, mafanikio makubwa mwaka huu yalikuwa kuhamisha makao makuu yetu kutoka katika majengo matatu tofauti kwenda jengo lenye ofisi ambazo wafanyakazi hukaa eneo la wazi, mazingira ambayo yanachochea wepesi wa majadiliano na utendaji kazi. Maboresho haya yanaakisi dhamira yetu ya kuhakikisha kuwa Vodacom ni mahali pazuri sana kufanya kazi, wakati tukijaribu kuwavutia, kuwaendeleza na kubaki na vipaji vilivyotukuka.

Mazingira ya biashara na changamoto zake

Mafanikio makubwa yaliyopatikana mwaka huu yalifikiwa katika muktadha wa mazingira yasiotabirika ya udhibiti wa kufanya biashara, na vilevile ushindani mkubwa.

Mabadiliko makubwa kutokea hivi karibuni ya mfumo wa udhibiti ni yale yaliyotokana na utekelezaji wa gharama mpya za maingiliano baina ya simu ('MTR'), iliyotolewa na Mamlaka ya Udhibiti wa Mawasiliano Tanzania (TCRA au 'Mdhibiti') mwezi Desemba 2017. Utaratibu huu mpya kimsingi unawakilisha mabadiliko kwenda chini na kuzidi kushuka kwa MTR kulighanisha na kiwango kilichopita, kupunguza MTR kwa asilimia 42.1% mnamo Januari 2018, hatua ambayo imepunguza ongezeko la mapato ya huduma katika robo mwaka ya mwisho. Kufika Januari 2022, MTR (kwa sasa ni Shilingi za Tanzania kumi na tano na senti sitini (TZS15.60), itapungua kila mwaka hadi kufikia shilingi za Tanzania mbili (TZS2.00), na hivyo kuwa na MTR ndogo zaidi duniani[2]. Kufuatia mashauriano ya muda mrefu na Mdhibiti, tumekata rufaa katika Tume ya Ushindani kuhoji viwango hivi vipya, kwa msingi kwamba viko chini ya gharama wanazoingia watoa huduma wa sekta ya mawasiliano. Tunaendelea kuwasiliana kwa karibu na Mdhibiti katika suala hili.

Zaidi ya hayo, tunaamini kuwa viwango vipya vya MTR na baadhi ya maamuzi juu ya bei za bidhaa na huduma yaliyofanywa na washindani wetu, hususan kuhusiana na data, si endelevu na hayana tija katika kipindi kirefu kijacho kwani maamuzi hayo yataathiri uwezo wetu wa pamoja wa kuwekeza kama hali halisi inavyotaka katika kufanikisha upatikanaji wa huduma nyeti na muhimu kwa walaji na wafanyabiashara wa Tanzania. Kwa sababu hiyo, njia za kuunganisha soko zinaendelea kuwa moja ya mikakati yetu ya msingi ya kupanua wigo wa soko. Iwapo mazingira yatakuwa rafiki, na kwa kuzingatia mizania yake, Vodacom ipo kwenye nafasi nzuri zaidi kutekeleza mpango wa uunganishaji wa soko na/au uwekezaji mwingine wa kimkakati.

Masharti ya udhibiti yanayohusiana na usajili wa wateja, pamoja na ukweli kuwa watumiaji wengi hawana vitambulisho sahihi, yamepunguza ukuaji wa wigo la wateja. Hata hivyo, tunaamini kuwa kupungua kwa ongezeko la wateja ni jambo la muda mfupi, na msimamo wetu thabiti ni kuwa tutaendelea kufuata masharti ya Mdhibiti. Katika muda wa kati na mrefu, uimarishaji huu unapaswa kutoa fursa kubwa zaidi kwa ajili ya kutoa huduma za fedha zilizo salama zaidi.

Mtazamo wetu wa kimkakati

Mwendelezo wa mafanikio tuliyoyapata mwaka huu, tunaiona fursa ya kutoa kipaumbele kwa suala la uwekezaji wa muda mfupi ili kuendelea kuongoza katika matumizi ya data na M-Pesa, wakati tukihamasisha shughuli za wateja wafanyabiashara katika mikoa muhimu kimkakati.

2. Chanzo: Ovum, EY analysis, Vodacom data, TCRA model.

Kufuatia mafanikio yetu katika kupata masafa ya 2 x 10 MHz katika 700 MHz kupitia mnada mnamo Juni 2018, sasa tunaweza kutoa huduma bora za mfumo wa data wa kasi ya 4G kwa idadi kubwa zaidi kwa jamii nchini kote. Tutaendelea kulenga maboresho ya mapato yanayotokana na mauzo ya data kupitia ubia wa kidijitali na watoa huduma za maudhui na majukwaa, na kuwaomba watumiaji wa simu janja kutumia fursa za simu zao katika mtandao wetu. Pia tunataraji ongezeko zaidi katika matumizi ya simu janja, litakalochangiwa na mwendelezo wa ubia na kampeni za simu janja za gharama nafuu.

Tuna imani kuwa wigo wa wateja wa M-Pesa utaendelea kupanuka jinsi tunavyolenga kujenga shughuli kubwa zaidi kupitia jukwaa la wafanyabiashara la 'Lipa kwa M-Pesa', na vilevile kuanzisha ubia mpya ambao utaimarisha mfumo wa kiekolojia wa huduma za fedha kwa njia ya simu.

Licha ya ongezeko la wateja kupungua kwa muda mfupi, hali iliyotarajiwa kutokana na hatua tulizochukua kuhakikisha tunafuata kikamilifu masharti ya usajili wa wateja, bado tunaamini kuwa mwenendo chanya kutokana na matumizi ya ofa binafsi kunatarajiwa kupunguza kuhama kwa wateja na kujenga uaminifu wa wateja wetu waliosajiliwa. Pia uwekezaji wetu kwenye "majukwaa makubwa ya data" yanayowezesha kujifunza matumizi ya mashine pamoja na idadi kubwa ya watu wanaohamia kwenye ofa binafsi, kunatarajiwa kutupatia mafanikio zaidi kuliko washindani wetu.

Tuna uhakika kudhibiti gharama za uendeshaji, kutaongeza ukuaji wa mapato licha ya kupungua kwa viwango vya maingiliano baina ya simu, MTR.

Kwa kuzingatia hayo hapo juu, tunalenga kuongeza ukuaji wa mapato ya huduma zetu kwa kiwango cha kati cha tarakimu moja, kukiwa na mtaji imara katika mwaka wa fedha unaokaribia.

Mwongozo huu unachukulia kuwa kutakuwa na udhibiti na mazingira imara ya uchumi mkubwa, kukiwa na shilingi ya Tanzania iliyo imara dhidi ya sarafu kuu za kufanyia biashara, na kuondoa uwezekano wowote wa kuunganisha au kununua kampuni nyingine. Hatari ya kuzidi kuongezeka kwa ada za udhibiti na matumizi ya lazima ya mtaji kama sehemu ya miradi ya serikali inaendelea kutishia ukuaji wa faida na uboreshaji wa kiwango cha mtaji ikilinganishwa na mapato.

Shukrani

Baada ya kushika nafasi kama Mkurugenzi Mkuu wa Vodacom Tanzania, na miaka saba ndani ya kundi la makampuni ya Vodacom, nimeamua kuondoka kwenda kufanya shughuli nyingine za kibiashara.

Ninajivunia kuongoza biashara yetu kupitia mageuzi chanya ya kibiashara katika kipindi cha ajira yangu, na kujisikia nimependelewa sana kuona mchango mkubwa kampuni iliotoa kwa Watanzania na uchumi wake. Ninapenda kutoa shukrani zangu kwa wenzangu wote katika Bodi, timu ya uongozi na wote katika kampuni kwa ushiriki wao uliotukuka, kuniunga mkono na kujituma kwa miaka yote.

Mwisho, ninamtakia mrithi wangu, Sylvia Mulinge, kila la heri anapochukua nafasi hii yenye changamoto nyingi lakini na fursa pia. Nina uhakika kuwa, chini ya uongozi na maelekezo ya Sylvia, Vodacom Tanzania ipo kwenye mikono salama kuleta ongezeko la faida na kutekeleza madhumuni yake ya msingi ya kuongoza Tanzania kuingia katika zama za kidijitali na kumuunganisha kila mtu ili aishi maisha bora leo na ajenge kesho iliyo bora.

Ian Ferrao

Mkurugenzi Mtendaji

12 Julai 2018

Our business model

What we do

We secure access to spectrum, invest in mobile and fixed networks and information technology ('IT'), develop and widely distribute products and services tailored to our market segments, and run a strong customer care and brand programme.

These activities enable us to ensure revenue growth and high levels of cash generation, which is used to reinvest in the resources and relationships we rely on to do business. This virtuous circle of investment, revenue growth, cash conversion and reinvestment generates value across our stakeholder groups, and enables us to deliver on our core purpose: leading Tanzania into the digital age and changing lives through technology.

Our value chain activities

Spectrum, network and IT infrastructure

Most of our communication services depend on accessing spectrum, which we strive to secure at a competitive price through auctions, proactive engagement with government and the regulator, and/or through partnerships with, or acquisitions of, existing spectrum rights-holders. The limited availability of radio spectrum is one of the key challenges facing the sector in Tanzania, especially for the provision of 4G services. Over the past three years, we have invested over TZS526 billion in expanding and upgrading our mobile network; we now have the largest nationwide data network in the country and the fastest 4G service in Dar es Salaam[1].

Procurement activities

We manage a significant supplier landscape with total procurement spend in 2018 of TZS450 billion. We leverage off the global purchasing power and responsible procurement practices of the Vodafone Procurement Company ('VPC'), enabling the purchase of responsibly manufactured network equipment on favourable terms. This year 17% of purchases (TZS80 billion) were processed through VPC. We balance the benefits of global purchasing with our commitment to promoting economic opportunities in Tanzania by promoting local procurement when feasible and appropriate. This year, 73% of total procurement spend (amounting to TZS331 billion) was on local suppliers.

Product and service development

To maintain revenue growth, ensure revenue diversity and drive market share, we constantly seek opportunities to develop new products, services and pricing models. We are driving a segmented customer approach to ensure that we cater for all customers' needs, wants and behaviours in both the consumer and enterprise markets. We place a strong emphasis on protecting customer privacy, and on mitigating the risk of data theft or loss. We continue to invest and grow our traditional products of voice, messaging and data, while expanding new product offers for our customers.

Customer service

Providing the best customer experience, and instilling a 'customer first' attitude, is a key strategic priority and an important source of market differentiation. We seek constantly to deepen our understanding of customers and their needs, and to provide targeted product and service offerings. Our ambition is to provide a seamless, personalised digital customer experience, with exceptional customer service as our primary goal.

Sales and distribution

We use various sales and distribution channels including wholesale distributors, retailers, franchise stores, direct sales partners, street vendors and informal resellers. We have the largest retail footprint in Tanzania, with over 450 nationwide retail points, more than 22 000 freelance distributors and 85 000 active M-Pesa agents. This retail network is further supported by direct sales forces, independent dealers and agents, franchises, informal distribution channels and a nationwide network of wholesale channels.

Managing our brand and reputation

The future is exciting. **Ready?**

We build a brand with purpose, developing and maintaining a reputation as a company that is working to lead Tanzania into the digital age and improve lives through digital technology. We communicate our service offerings and maintain our strong brand presence through our marketing and brand strategy. The iconic Vodacom brand is an important driver of purchasing decisions for consumers and enterprise customers. External reputation surveys show Vodacom is consistently one of the most recognised and trusted brands in Tanzania.

1. Ookla speed test report, March 2018.

How we create value

We generate profit by efficiently utilising our network and mobile payment system to provide our customers with valued telecommunication and mobile financial services.
Our competitive differentiation lies in the reach and quality of our network, the innovative nature and relevance of our products, the quality of the relationships we have with key stakeholders and our proven ability to manage our cost base.

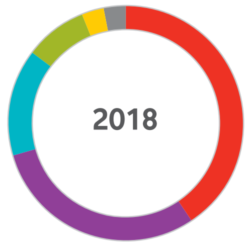
Our **revenues**

Most of our revenue is generated through selling mobile telecommunication services to 'pre-paid' customers, as well as fee income from providing mobile financial services to both consumers and merchants. The balance of our revenue is generated from various other communications products and services which we sell across both our consumer and enterprise customer bases. We focus investment across our key strategic drivers – data, M-Pesa, and enterprise – which are expected to yield strong growth, combatting the decline of our more mature and traditional revenue streams, such as mobile voice.

Key **revenue** differentiators

- Globally recognised brand with a strong reputation across Tanzania;
- World class network with superior voice and data coverage and state of the art technology;
- Largest retail footprint within Tanzania's telecoms sector;
- Leading mobile financial services offering (M-Pesa), supported by a world-class payment platform;
- We generate personalised offers to our customers through our 'Just for You' platform, which is the most sophisticated 'big data' platform in Tanzania;
- Leading provider of communications services to the large enterprise market in Tanzania;
- An ability to leverage our relationships with both Vodacom and with Vodafone, driving global best practice in performance.

Service revenue composition
(%)



	2018	2017
Mobile voice revenue	**40.6%**	45.6%
M-Pesa revenue	**30.1%**	27.3%
Mobile data revenue	**14.7%**	11.5%
Mobile incoming revenue	**8.5%**	10.5%
Messaging revenue	**3.3%**	2.6%
Other service revenue	**2.8%**	2.4%

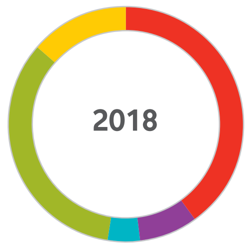
Our **costs**

We have a good track record of optimising expenses and converting revenue into cash flow. We have achieved significant results by instilling a culture of cost containment across the business through our 'Fit for growth' programme. Over the past two years we have realised considerable cost savings by enhancing efficiencies in network operating expenditure, renegotiating support services contracts, digitalising our marketing platforms to optimise publicity spend, and delivering a leaner, more efficient business through organisational restructuring. Our resulting strong cash flow helps us to continue upgrading and modernising our network, maintain our leading position in network coverage, call quality and data speed as well as expand our 4G high speed data services. We continue to allocate investments to directly support commercial strategies, such as projects that enhance our customers' experience.

Key **cost** differentiators

- Leveraging global best practice on cost optimisation through our 'Fit for growth' programme;
- Benefitting from the purchasing power of the Vodafone Procurement Company ('VPC');
- Continuously upgrading and modernising our network to deliver improvements in operating costs through more efficient technologies and network innovation; and
- Robust governance processes for approving new or revised products and investments.

Total expenses composition
(%)



	2018	2017
Direct expenses[1]	**40.0%**	41.4%
Staff expenses[2]	**8.1%**	8.2%
Publicity expenses	**4.5%**	5.9%
Network operating expenses[3,4]	**34.0%**	30.2%
Other operating expenses	**13.4%**	14.3%

1. Excluding acquisition and retention costs.
2. Excluding restructuring costs.
3. Normalised for a final retrospective adjustment and incremental charges agreed between Vodacom Tanzania and Helios Towers Tanzania following the conclusion of a joint equipment verification project.
4. Excludes credit notes related to both compensation and a retrospective reduction in fees from network service providers.

Our investment case

- We are part of the Vodafone group, who are globally recognised for their leadership in mobile financial services and innovative digital services in emerging markets.
- Tanzania has a young, growing population with significant scope for further data and digital adoption, in both telecommunications and mobile financial services.
- We are the leading mobile operator and mobile financial services provider in Tanzania, with the highest voice population coverage, fastest nationwide data network[1] and the largest mobile money network.
- We are best-placed to benefit from growing smartphone penetration and an improvement to the price of data – which is currently amongst the lowest globally. Following our success in securing 2 x 10 MHz in 700 MHz spectrum through the auction in June 2018, we may now provide a superior 4G data user experience to a greater number of communities across the country.
- Our merchant payment solution is among the most mature across all of Vodafone's markets and is the most convenient electronic payment choice, outgrowing the number of payment card terminals across the country.
- Our investments in 'big data' platforms which facilitate machine learning, coupled with a greater proportion of our base engaged in personalised offers, are expected to provide us with a significant advantage over our competitors.
- Market consolidation – achieved through merger-integration or through the failure of unprofitable operators – is virtually inevitable over the long-term. We have strong cash flow generation and a robust balance sheet to support further strategic investments.

1. Ookla speed test report, March 2018.

Our operating environment

Risks and opportunities for value creation

We have identified four trends in our operating environment that have a material impact on our business model. Our six strategic commitments are designed to ensure that we are best positioned to manage the risks and realise the opportunities associated with each of these trends.

The case for mobile data revenue growth in Tanzania: encouraging demographic fundamentals coupled with unsustainably low pricing.

Globally, the fastest growth area within the telecommunications sector is in data, driven by greater penetration of smart devices, improved networks and increased availability of data content. The greatest demand for mobile services is coming from emerging markets, where there is a young and growing population base, faster levels of economic growth, less fixed-line infrastructure, and low (but rapidly rising) mobile penetration.

Tanzania is no exception and we expect tremendous growth in data usage over the medium term, given the current low levels of smartphone penetration 18%[a], relatively low mobile internet penetration of unique subscribers 39%[a] and the country's young population 44%[b] (below the age of 15).

With a growing proportion of these customers using data and mobile money services such as M-Pesa, there are seen to be significant opportunities for the sector to grow its revenue base, particularly in rural areas which is home to around two-thirds of the country's population.

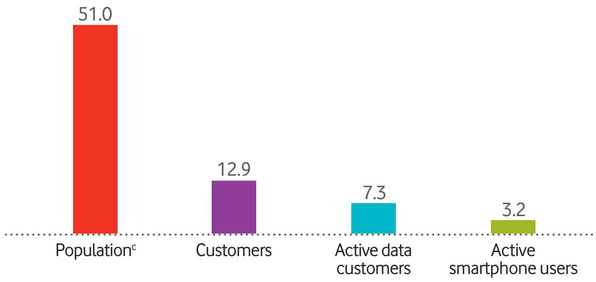
However, two interdependent pre-requisites for such opportunities to materialise would be: the industry having access to adequate spectrum; and a correction made to the price of data, which is currently amongst the lowest globally. Neither of these market inefficiencies should exist over the long-term given that market consolidation – achieved through merger-integration or through the failure of unprofitable operators – is virtually inevitable.

Implications for our strategy

To succeed in this emerging digital era, our new strategy overtly positions Vodacom to be a leading digital company, empowering a connected society. Digitalisation offers valuable opportunities for us to extend revenue streams beyond connectivity, and requires us to rethink the networks and technology of the future, redefine customer engagement and develop a company culture that attracts the best digital talent. It also presents unparalleled opportunities to drive positive social change in areas such as education, healthcare, financial services and agriculture.

a. GSM Association Intelligence.
b. 2012 Population and Housing Census, National Bureau of Statistics.
c. International Monetary Fund Staff Estimates, April 2018.

Potential data opportunities
(millions)



An excessively competitive market, ripe for consolidation

Globally, the telecommunications industry has become highly competitive, not only between the main service providers but also from non-traditional sources such as over-the-top content, messaging and voice providers.

The Tanzanian market has become excessively competitive as a result of less profitable operators actively seeking to drive differentiation through a strong price play.

Tanzania currently has eight mobile network operators, two fixed-line operators and some additional players licensed under a converged regulatory regime. The four major mobile operators hold 96% of customer market share.

During the year, some operators appear to be placing a strong focus on driving short-term customer growth in lieu of improved profitability, potentially to improve their prospects as a target for acquisition. It follows that while the 42.1% cut in MTR adversely impacted net-receivers of interconnect revenue – such as Vodacom Tanzania – it allowed less profitable, payers of interconnect, to re-invest some of the margin improvement from the MTR cut into their pricing strategy, presumably in a bid to stimulate customer base growth.

This impact, coupled with both the regulator's customer registration requirements and some of the lowest effective voice and data prices in Africa, placed significant pressure on already tight operating margins and heightened the challenge of driving customer growth in the lower-income segment specifically.

We believe that the new MTR 'glide path' and some of the pricing decisions made by our competitors', particularly those on data, are unsustainable and ultimately counter-productive in the long term, as they undermine our collective ability to make the necessary investments required in order to provide the critical services needed by Tanzania's consumers and businesses. As a result, options for market consolidation continue to be amongst the primary strategic investments for market growth.

Implications for our strategy

Our ability to compete effectively, and to deliver a differentiated customer experience, still depends on the strength of our network, the quality of our customer care, and the pricing and nature of our services and devices – all areas in which we have already demonstrated very competitive performance, with the fastest data network (as rated by Ookla) and one of the best customer service NPS. The increasing competition, sometimes from unexpected sources, underlines the importance of remaining fast and flexible, and identifying opportunities for innovation. In addition, we closely monitor the activities of existing and new competitors and are also exploring opportunities for innovative partnerships, including as part of a potential consolidation of the sector.

A dynamic regulatory environment

Given our industry's importance to the country, we are subject to significant legal and regulatory requirements as well as a high level of regulatory scrutiny. Government policy and regulatory decisions have a significant impact on our business model. Recent key developments include:

- **A new 'glide path' for mobile termination rates ('MTRs').** The TCRA's new 'glide path' reduces the MTR annually until it becomes TZS2.00 in January 2022, the lowest MTR globally. We have filed an appeal against these new rates with the Fair Competition Commission primarily on the grounds that the glide path sets MTRs below the costs incurred by operators. We believe that the new 'glide path' is likely to impede industry growth and investment over the long-term, which could adversely impact both government revenue and the quality of critical services needed by the country's consumers and businesses. The new glide path is likely to impede investment and industry growth over the long-term.
- **Customer registration.** We are subject to customer registration requirements for both our mobile telecommunications and mobile financial services businesses. During the year, we continued to invest in enhanced registration processes and took actions to improve our compliance with these requirements. However, the availability of identification documentation in Tanzania remains to be an issue and subdued customer base growth is expected to continue over the short-term as a result. In July 2017, the TCRA issued fines pursuant to non-compliance orders issued to operators, from which Vodacom Tanzania paid a total of TZS1.9 billion.
- **Transferability of spectrum.** Gaining access to spectrum through the acquisition of smaller operators is a challenge given the regulator's stance on spectrum transfer. During the year, the regulator advised that the spectrum licence held by Shared Networks Tanzania Limited ('SNT') – a company acquired by Vodacom Tanzania in July 2016 which holds a license for usage of spectrum in the 900MHz band in rural Tanzania – was not transferrable, meaning that SNT remains a multi-operator core network wholesaler.
- **Electronic revenue collection system ('ERC system'):** The Tanzanian Revenue Authority ('TRA') has implemented an ERC system designed to calculate and collect taxes, including value added tax and excise duty. All mobile network operators and financial institutions are mandated to provide information requested by the ERC system in compliance with the Tax Administration (Electronic Revenue Collection System) Regulations, 2017. Information provided under the ERC system includes mobile phone numbers, traffic and revenue. Vodacom Tanzania is compliant with the ERC system's requirements following mandatory investments in new IT infrastructure made during the year.
- **Government electronic payment gateway ('GePG').** In April 2018, the Ministry of Finance and Planning introduced the GePG where all mobile money payments to state-owned companies are to be routed for an incremental service fee borne by the customer. Commercial arrangements governing payments between Vodacom M-Pesa and the state-owned Tanzania Electric Supply Company Limited ('TANESCO'), where Vodacom received a payment facilitation fee, were also terminated.

Implications for our strategy

Anticipating, informing and responding to regulatory and policy developments requires that we engage proactively with government and regulators, and that, where appropriate, we co-ordinate our activities with others in the sector to ensure a consistent and efficient approach to compliance. In addition, internal governance processes are in place with the aim of ensuring full compliance with all regulatory requirements.

Short-term macroeconomic pressures, with some longer-term uncertainty

Tanzania continues to be one of the fastest growing economies in sub-Saharan Africa. Real GDP growth averaged 6.5% per annum between 2006 and 2016, during which time the information and communication industry increased its contribution to GDP from 2.1% to 4.7% as the fastest growing component of the services sector.

- Real GDP growth was estimated to be 7.1% year-on-year in 2017 (2016: 7.0%), however weaker private sector credit growth, tax collection and electricity consumption raised concerns from the International Monetary Fund over official estimates.
- Moreover, subdued economic activity was seen during 2017 with most industries struggling to achieve revenue growth during the period. This is primarily believed to be a consequence of weaker private sector credit growth, which the Bank of Tanzania has attempted to address through multiple cuts to the discount rate.
- Although the 2018 fiscal budget did not contain any significant changes which impacted the telecommunications sector, new mining laws coupled with an existing export ban on raw concentrates may adversely impact economic growth in 2018.
- We maintain a cautiously optimistic macroeconomic outlook, where we expect short-term growth to be supported by the services sector. Consensus short-term forecasts continue to show real GDP growth of approximately 7.0% and headline inflation between the 5 – 7% level.
- After remaining relatively stable in 2017, consensus forecasts are biased towards the depreciation of the Tanzanian shilling against major currencies. This is primarily as a result of weaker United States dollar inflows expected from mining and agriculture, coupled with the expected reduction in FX reserves as the government draws on foreign commercial loans to settle expenditure relating to public investment projects.

Implications for our strategy

It is anticipated that consumer spend will remain under pressure over the medium term. This underlines the importance of providing for this reality through personalised offers that are relevant to our customers' lifestyle and spend. In addition, through continued focus on our 'Fit for growth' cost containment programme, we aim to achieve more resilient earnings growth that is less susceptible to short-term macroeconomic shocks.

Monetise data and digital opportunities

We believe that there continues to be significant revenue growth opportunities through products and services that are powered by our data network. In Tanzania, there is currently low smartphone penetration, a young population, and rapidly growing demand for digital media and services.

01

We plan to monetise these growth opportunities through: developing innovative, data-centric offers; increasing the number of affordable data devices connected to our network; and maintaining our leadership through greater network densification, capacity upgrades and 4G expansion.

Our 2018 performance

Despite challenging market conditions, we have seen strong performance this year in all three of our focus areas.

Network expansion

- ✓ Following the launch of our commercial 4G services in Dar es Salaam last year, we nearly doubled the number of 4G sites on our network this year, launching 4G in five additional cities. Given the scarcity of spectrum during this time, our 4G expansion was limited by the amount of 2G spectrum that we were able to re-farm in order to offer 4G services. Following our success in securing 2 x 10 MHz in 700 MHz spectrum through the auction in June 2018, we may now provide a superior 4G data user experience to a greater number of regions across the country.
- ✓ We also increased the number of 3G sites to 2 232, enabling us to provide 3G data services to around 48% of the population, a significant improvement from the 28% 3G coverage reported last year.

Monetising data through segmented offers

- ✓ Our segmented marketing approach, coupled with digital social media partnerships and smartphone campaigns, accelerated demand for mobile data services, leading to a gain of over 882 thousand active data customers to 7.3 million, and data revenue growth of 34.7% to TZS141.6 billion.
- ✓ Our focus on developing targeted value propositions for the youth and high value customer segments has delivered positive results over a comparatively short time period.
- ✓ We have seen a good uptake this year in the personalised customer offerings available through our recently revamped 'Just for You' platform, which currently has more than three million monthly users.
- ✓ We have increased the number of data-active customers and increased data consumption by providing personalised data bundles and increasing the availability of compelling digital content, such as our exclusive iflix video streaming service, Mzikii music app, Vodacom M-Paper and our free text-based Facebook offering.
- ✗ Lower customer base growth was a result of actions taken towards improving compliance with customer registration requirements, which, when coupled with our enhanced registration processes, significantly reduced the risk of receiving additional compliance orders.

Promoting smartphone adoption and optimising our data user experience

- ✓ We maintained our position as the fastest data network in Tanzania. As reflected in the crowd-sourced download speed measurements from Ookla, we offered 4G and 3G speeds that were approximately 40% and 20% faster than our nearest competitor[1].

1. Ookla speed test report, March 2018.

- We drove a significant uptake of 3G and 4G smart devices this year, mainly by increasing the availability of lower-cost devices through partnership-led smartphone campaigns, as well as marketing affordable Vodacom-branded devices. As at 31 March 2018, there were over 3.1 million active smart devices on our network, up 38.8% year-on-year, representing a 6.6ppts increase in smart device penetration to 29.5%.
- We provided our frontline staff with digital tools and resources that increased their efficiency in resolving customers' issues upon first contact.

Our strategic outlook

Our growth strategy is aligned with the Vodacom Group's Vision 2020 ambitions aimed at driving significant further uptake and monetisation of data, and includes specific commitments relating to network expansion and smart device penetration, developing personalised data-centric offers, and maintaining a strong focus on enhancing the customer experience.

Network and IT

- To support our data strategy, we have ambitious targets in place over the medium-term for expanding and upgrading our 3G and 4G coverage countrywide. We will continue to roll-out 2G sites, mainly in rural areas in support of the Government's commitment to expanding rural coverage. We will also be investing in modernising our core network, expanding fibre connectivity and developing the upstream capacity for data.
- As part of our commitment to developing new enterprise solutions, we will be deploying technologies such as network function virtualisation ('NFV') and software-defined networking ('SDN'), driving enterprise unified communications, cloud solutions, and internet of things ('IoT') applications, as well as continuing to improve our cyber security measures.

Accelerating data monetisation

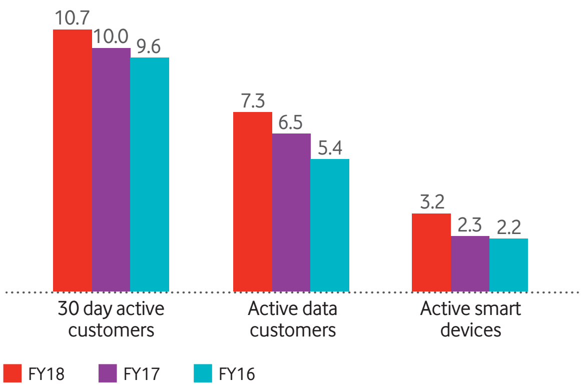
We will be looking to secure double-digit data revenue growth by:

- Broadening our 4G and 3G network coverage, while continuously upgrading capacity in order to secure our leadership as the fastest data network in Tanzania;
- Increasing smart-device penetration through appropriate pricing and payment options;
- Providing customers with a compelling digital content portfolio, comprising video, TV, music, sport, news, education and social media offerings;
- Driving the uptake of personalised offers through our 'Just for you' platform, while continuing to invest in 'big data' platforms that facilitate machine learning and deepen our insights into customers' behaviour to inform the development of personalised offers.
- Ensuring strong brand differentiation and an emotional connection with customers across our various engagement platforms through our targeted campaigns, quality service and segmented propositions.

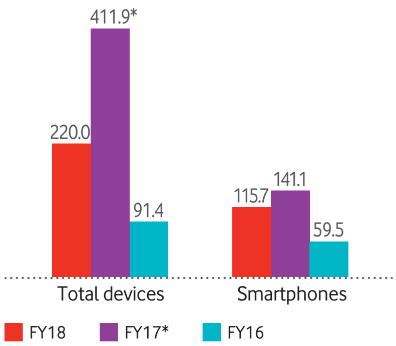
Optimising the customer experience

- We will continue to enhance customer experience across all channels and instil a customer-centric culture across our business.
- We will be driving uptake of the MyVodacom app, stocking up its customer care features, as we blend the best of technology and human interaction in a personal, instant and easy way.

Data customers and smart devices (million)

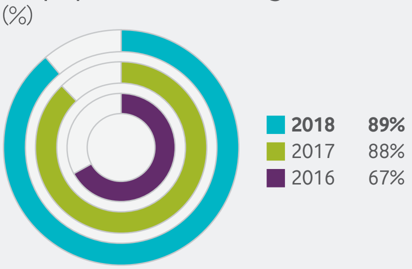


Device sales (thousand)

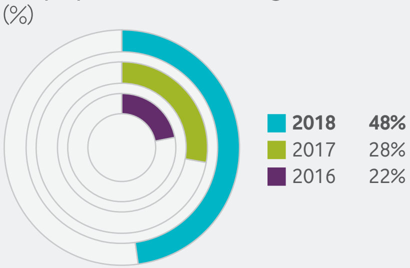


* Elevated sales were made during the year ended 31 March 2017 as a result of consumers replacing unregistered devices with those which were included on the TCRA's Central Equipment Identity Register ('CEIR').

2G population coverage
(%)



3G population coverage
(%)

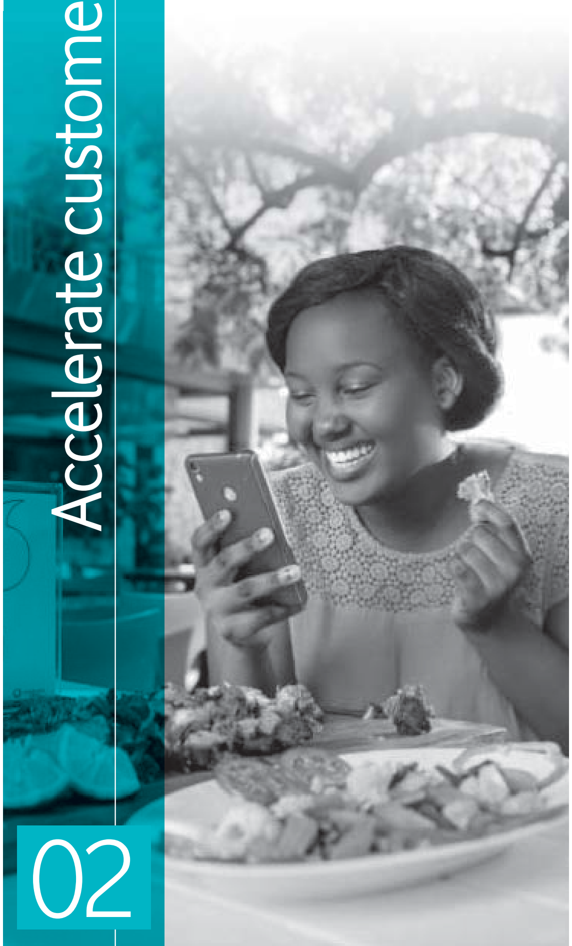


4G urban population coverage

Arusha 4G 82%	**Dodoma** 4G 70%
Tanga 4G 75%	**Morogoro** 4G 60%
Moshi 4G 68%	**Dar es Salaam** 4G 80%

02 Accelerate customer growth through Vodacom M-Pesa

Vodacom's mobile money service, M-Pesa, has been a phenomenal success story, significantly increasing financial inclusion and economic activity across the country, while serving as an important revenue and reputation driver for Vodacom Tanzania.



We currently have over 6.3 million 30-day active M-Pesa customers, supported by more than 85 thousand agents, which transact approximately TZS110 billion through our platform each day.

M-Pesa is integral to the Tanzanian economy. As a result, we believe that the platform continues to provide us with exciting opportunities for growth, particularly through our best-in-class merchant payment network, which is rapidly outgrowing the more traditional point-of-sale alternatives.

Our 2018 performance

- ✓ This has been another very positive year, with M-Pesa revenue growing 16.7% to TZS291.2 billion, led by our focus on targeted propositions and ecosystem development. M-Pesa revenues account for 30.1% of service revenue and M-Pesa customers make up 63.8% of our active customer base.
- ✓ We have seen significant growth in our innovative 'Lipa kwa M-Pesa' merchant payment solution, which allows merchants to accept payments for goods and services sold to both Vodacom customers and those of some competitors. Our solution is among the most mature across all of Vodafone's markets, enabling consumers to pay via M-Pesa at over 6 300 active merchants across Tanzania. This makes M-Pesa the most convenient payment choice, outgrowing the number of payment card terminals across the country. This year, total spend through our merchant payment solution exceeded TZS370 billion.
- ✓ Our 'Pesa ni M-Pesa' proposition – which offers data, minutes and cash-back awards to customers who made purchases at selected merchants – has catalysed significant growth in customer spend and merchant adoption.
- ✓ We continued to develop our mobile money ecosystem, establishing a number of new 'Paybill' partners during the year, enhancing customer spend across various revenue generating transactions.
- ✗ Although our international money transfer service has significant growth potential, we have observed subdued growth in remittances during the year.
- ✓ Our M-Pesa app, launched towards the end of the previous financial year, has significantly enhanced the smartphone user experience.
- ✓ Vodacom M-Pesa has benefitted from being fully interoperable with banks and other mobile wallets, as well through continued growth in the number of active M-Pesa agents across the country.

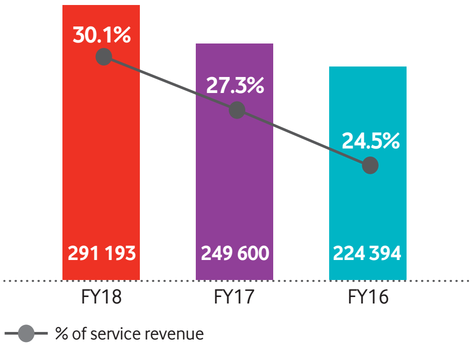
Our strategic outlook

Despite an increasingly competitive market, we anticipate a continuation of strong growth in M-Pesa revenue as we continue to establish new partnerships and drive greater activity through our 'Lipa kwa M-Pesa' merchant platform.

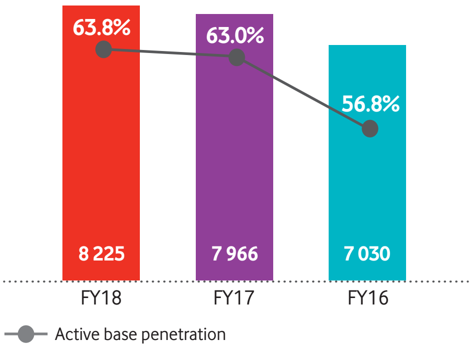
We have various initiatives in place, aimed at sustaining double-digit M-Pesa revenue growth:

- We will be placing a strong focus this year on growing active M-Pesa customer base penetration. This will be led through increasing the power of our customer value management ('CVM') platform, enabling us to design more innovative offers for specific customer segments, providing them with the best value and service available, while rewarding them for their loyalty.
- We will also focus on expanding business-to-customer ('B2C') transactions through designing innovative solutions for our partners that leverage both M-Pesa and M-Pawa platforms.
- We will continue to expand the number of active M-Pesa agents and seek to provide adequate incentives, ensuring that M-Pesa's services are available to a greater number of communities throughout Tanzania.

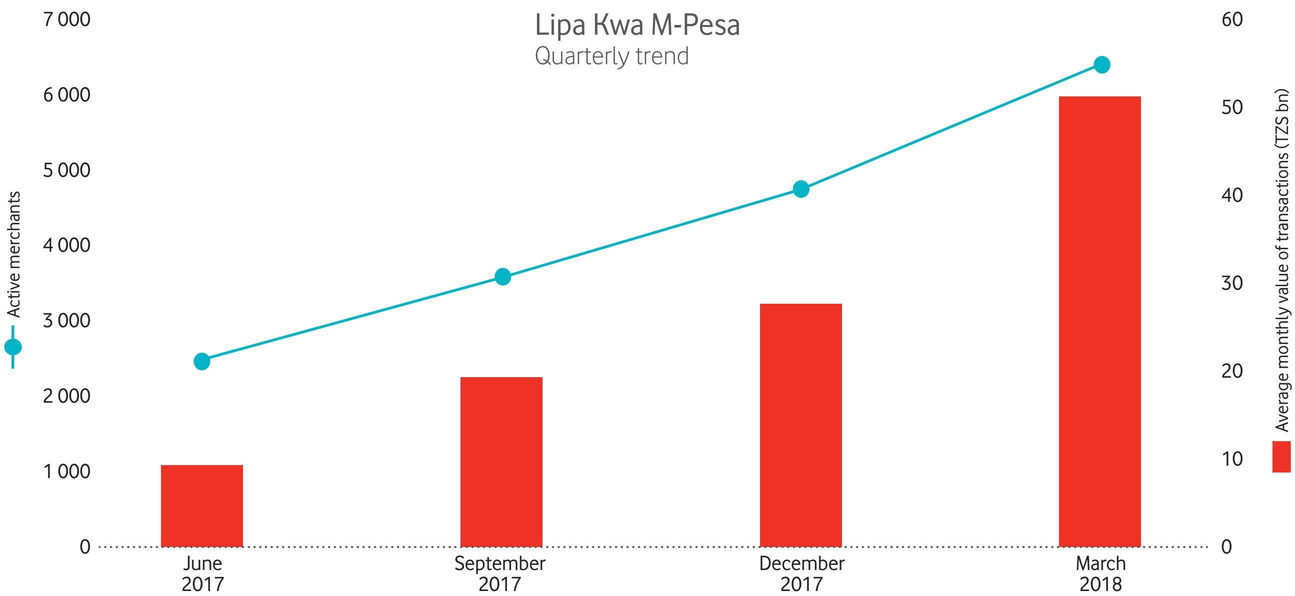
M-Pesa revenue
(thousands)



90 day M-Pesa customers
(thousands)



Lipa Kwa M-Pesa
Quarterly trend



Continued enhancement of our Enterprise offering

03

We are currently the leading provider of communications services to the large enterprise market in Tanzania, serving multiple industry segments through targeted solutions that meet specific customer needs. We believe that there is significant potential for revenue and customer growth within our enterprise business, building on our strong reputation and expertise.

Our 2018 performance

- ✔ Despite the sluggish economy and a competitive pricing environment, we continued to win business from key accounts across various sectors.
- ✔ We established partnerships which enable us to deliver the 'last mile' of a customer's connection to our network more efficiently, allowing us to expand our fixed line customer base nationwide.
- ✔ We expanded our data centre hosting services as well as the number of connections which we have to the internet-of-things ('IoT').
- ✔ Throughout the year, we continued to deploy state-of-the-art technology to enhance our voice, data, leased lines, PABX, WiMAX and remote communication solutions over satellite.
- ✘ There was a significant cut in the market price of fixed-line solutions this year, with key competitors driving prices down in an effort to penetrate the market.
- ✔ We have significantly reduced our solution deployment lead times to improve the customer experience

Our strategic outlook

Although our enterprise business currently makes up a relatively small proportion of service revenue, we are encouraged by the trends we are seeing and believe that this will be a key driver of future growth.

Our ambition is to become the preferred total communications provider for businesses in Tanzania, by maintaining our leadership in mobile, while expanding our presence in fixed and next generation networks.

- We will drive scale in our fixed-line services, accelerating the roll-out of commercial fibre into business parks and office buildings, implementing sophisticated cross-selling tool for congested links, and enhancing partnerships with wholesale providers.
- We will be identifying opportunities to commercialise our service offerings with Mezzanine in mobile health, education and agriculture, as well as scaling up more sophisticated IoT applications, harnessing Vodafone's recognised leadership in this area.
- We see exciting opportunities to build our cloud and hosting offerings, becoming a leading service provider for both basic and specialised variants.
- We will intensify our focus on improving the support we provide to our enterprise customers, while leveraging 'big data' to identify the future needs of businesses in Tanzania. This will enable us to develop solutions and provide a service that will ensure market leadership, both in terms of sales and customer satisfaction, over the long-term.

Maintain brand leadership. Retain and increase market share

04

Developing and maintaining strong trust-based relationships with our key stakeholders – our customers, our investors, the Government, regulators, suppliers, the media, and the general public – is the foundation of our ability to create value, and an important source of competitive differentiation.

Our goal is to ensure that Vodacom remains the customer brand of choice, which reflects our core purpose of leading Tanzania into the digital age and changing lives through technology.

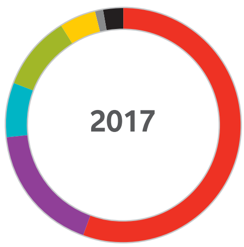
We have structured engagement processes in place with each of our key stakeholders (see table) to ensure that we fully appreciate and appropriately address their priority interests.

Our 2018 performance

- This year, in our stakeholder engagement and communication activities, we prioritised our efforts to
  - ensure the successful listing of our shares on the Dar es Salaam stock exchange,
  - engage with the Government and regulators on legal, policy and taxation matters, and
  - maintain proactive communication with our customers to ensure high-quality customer service.
- A key measure for tracking customer satisfaction is to observe our weighted customer net promoter score ('NPS') which continues to be the highest in the industry, despite a strong price-play seen from our competitors during the year. Having the highest score reflects the superior quality of our network and mobile money services, and indicates that our customers are satisfied with our promotions and tariff structures.
- We commissioned an independent research company to conduct an annual corporate reputation survey with internal and external stakeholders, benchmarking our reputation against our competitors and other leading brands. The latest survey results show that we have maintained our overall reputational leadership and increased our lead relative to both our competitors and other Tanzanian companies. The survey found that Vodacom Tanzania's 'overall impression' and 'overall trust' scores were the highest across almost all stakeholder groups, and identified our key strengths to be our financial position, business ethics, innovation and network reliability.

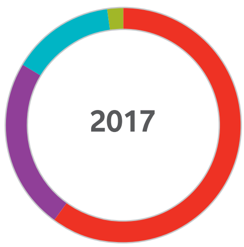
Top of mind – Reputational Leadership

When naming any company



	2017	2016
Vodacom	**44%**	26%
Competitor A	**14%**	12%
Tanzania Breweries Limited	**6%**	9%
Competitor B	**8%**	7%
Coca Cola	**4%**	7%
IPP Media	**1%**	6%
Pepsi	**2%**	5%

When naming a telecoms company



	2017	2016
Vodacom	**56%**	51%
Competitor A	**22%**	29%
Competitor B	**13%**	16%
Competitor C	**2%**	4%

Our strategic outlook

To further strengthen our competitive position across our mobile business, we will continue to: introduce market differentiated, personalised offerings; provide consistently high-quality customer service; and create more convenient ways for our customers to communicate with us. We intend to leverage and expand our distribution network through new channels such as additional direct sales points and new franchise shops.

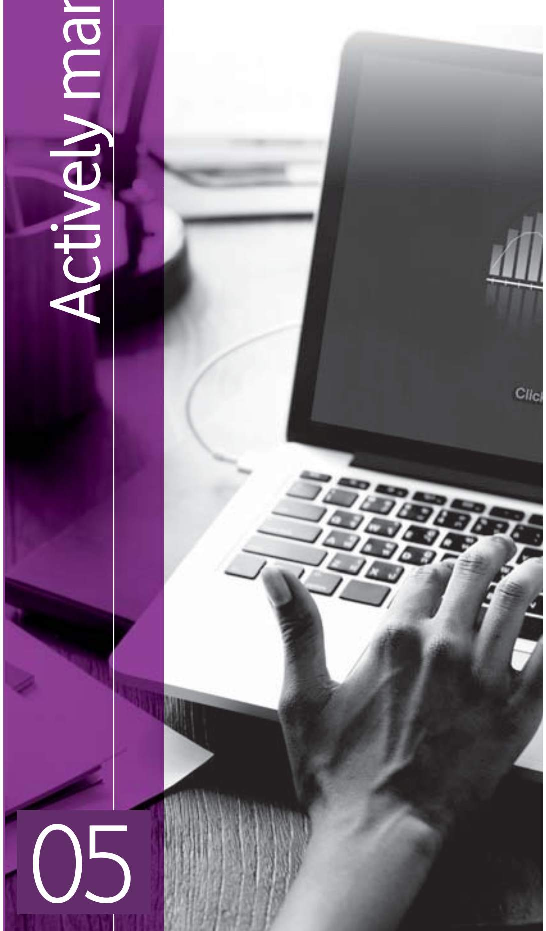
Our stakeholders

Material relationships	Means of engagement	Stakeholder's priority interests
Government and regulators Provide access to spectrum and operating licences, the basis for creating value	- Participation in public forums - Engagement on draft regulations and bills - Engagement through industry bodies - Publication of policy engagement papers - Partnering on key programmes in education and health	- Ensuring spectrum is managed as a strategic resource - Regulatory compliance on issues such as customer registration, mobile termination rates, service quality, price, security, safety, health and environmental performance - Promoting opportunities for economic development - Contribution to the tax base
Customers Purchase our products and services, providing the basis for revenue growth	- Call centres, retail outlets and online - MyVodacom app and USSD channels - Weighted net promoter score ('NPS') feedback interviews and focus groups - Social media interaction - Vodacom Tanzania website	- Better value offerings - Faster data networks and wider coverage - Making it simpler and quicker to deal with us - Converged solutions for business customers - Privacy of information - Feedback on service-related issues
Investors and shareholders Provide the financial capital needed to sustain and grow	- Investor interactions, including conferences and meetings - Annual and interim consolidated results - Quarterly trading updates	- Responsible practices to manage risks and opportunities and ensure financial growth - Sound corporate governance practices - Improved liquidity of shares - Stable dividend policy
Employees Their skills and involvement determine our ability to realise our vision	- Internal website - Newsletters, internal magazine and electronic communication - Employee hotline - Leadership road shows	- Opportunities for personal development - Competitive remuneration - More knowledge sharing across the Group - Building the coaching capability of leaders - Better understanding of reward structures
Suppliers Affect our ability to provide products and services	- Supplier forums - Ongoing site visits - Audits	- Timely payment and fair terms - Transparent and fair tender processes - Improving health and safety standards
Communities Strengthen the socioeconomic context	- Public participation where new base stations are required - Vodacom Tanzania Foundation partnering with communities	- Access to mobile voice, data and financial services, as well as digital health and education services - Free-to-use social media, education and job sites - Responsible expansion of infrastructure
Business partners Custodians of our brand, and key to delivering the best customer experience	- Store, franchise and retail visits - One-on-one business meetings - Training sessions on new products and services	- Fair treatment - Top management involvement with customers - Making it simpler and quicker to deal with us
Media Keep informed of business developments, and the impact of our activities	- Face-to-face and telephonic engagement - Interviews with key executives - Media releases - Roundtables - Product launches	- Being informed of key activities and offerings - Transparency on performance - Evidence of responsible business performance

Actively managing cost and process efficiency

05

Our aim is to improve operating leverage and maintain resilient earnings growth through our focus on cost optimisation. We have a strong track record of driving operational efficiencies through our 'fit for growth' programme, a Vodafone group-wide initiative that allows us to leverage global best practice on optimising costs.



Our 2018 performance

Total expenses increased by only 0.6%* this year, primarily as a result of savings realised as part of our cost optimisation programme.

These savings, coupled with lower interconnect costs, were offset by greater network operating expenditure, primarily due to 4G expansion and inflationary increases applied to service contracts.

- **Publicity cost optimisation**
  We achieved significant savings through migrating from traditional to digital marketing. This included a reduction in out-of-home media advertising and optimisation of television and radio spots while simultaneously leveraging our social media and other digital marketing platforms.
- **People efficiency**
  We have secured valuable savings through streamlining administrative functions and implementing a leaner, more efficient organisational structure. Our move to a new head office also resulted in improved efficiencies through providing our employees with a more collaborative work environment.
- **Network related cost optimisation**
  We unlocked significant savings through sharing network infrastructure with other operators, consolidating tower leases and increasing various lease tenures to yield cost benefits. We also continued our drive to revise the terms and scope of service contracts.
- **Global purchasing power**
  As part of Vodafone, we continued to benefit from the global purchasing power of the Vodafone Procurement Company ('VPC') across a range of procurement categories.
- **M-Pesa airtime sales**
  As the market leader in mobile financial services, we were able to unlock greater savings through increasing the proportion of airtime sales made through M-Pesa to more than 47%, thus avoiding discounts given via alternative channels.

Our strategic outlook

In addition to driving efficiencies through the above activities, we will be looking to achieve further savings through various new initiatives, including:

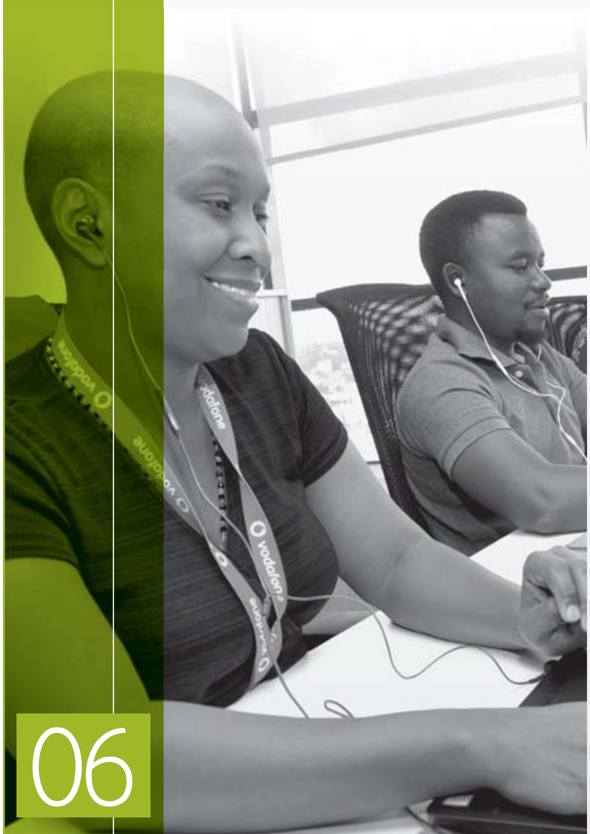
- **Creating an agile organisation that drives simpler, faster execution.** We have further streamlined our operating model, organisational structure and decision-making processes, with the goal of promoting a more agile, future-proof way of working. We will place a particular focus on the end-to-end automation of tasks and processes in an effort to improve the quality of engagement and focus on revenue generation across all of our business units.
- **Optimising the customer experience.** We will focus on developing digital platforms, including those which are social media based and the MyVodacom App, in an attempt to blend the best of technology and human interaction in a personal, instant and easy way. We expect to improve call volumes, handling time and first call resolution as a result.
- **Foreign exchange risk management.** As part of our broader foreign exchange risk management policies, we will continue to place a significant focus on localising our expenditure and reducing our foreign-denominated operating expenditure as far as possible.

* Normalised for a final retrospective adjustment and incremental charges agreed between Vodacom Tanzania and Helios Towers Tanzania following the conclusion of a joint equipment verification project. Excludes credit notes related to both compensation and a retrospective reduction in fees from network service providers.

People: Best talent, best practice

06

Realising our vision of being a leading digital company requires that we have the right skills, talent and diversity, built on a culture that fosters organisational agility and collaborative working. Since our inception, we have focused on attracting and retaining the best talent, and we pride ourselves on being consistently rated an employer of choice.



Our 2018 performance

Driving an agile, collaborative culture

- A key development this year was the successful move into our new head office building, which has an open-plan, flexible work space that provides a more collaborative work environment.
- Bringing our divisions closer together has had a marked positive impact on employee sentiment and productivity.

Developing employee and leadership skills

- We focused on enhancing the skills of our employees across core specialisms such as customer value management, data analytics, digital marketing and customer care.
- We provided leadership and management training to 173 middle and senior managers.
- We supported a selection of high-potential employees to attend a programme at the University of Witwatersrand Business School.
- This year, 10 of our senior managers participated in INSEAD Business School's 'Strategy in the Age of Digital Disruption' programme.

Attracting and retaining talent

- In addition to developing skills and leadership internally, we have been attracting talent from outside our traditional business areas to ensure that we have the right capabilities for our new business activities. This year we made new appointments in areas relating to digital branding and data analytics.
- We continue to benefit from being part of the Vodafone and Vodacom groups, which allows us to provide our employees with access to global career development opportunities, including regional and international assignments, short-term rotational secondments, structured mentoring programmes and ongoing education and leadership development opportunities.

Employee health and safety

- There were no work-related fatalities for the sixth consecutive year. Road-related accidents remain the highest causal factor of safety incidents with 3 high potential road accidents, all without injuries. This year we undertook an independent audit of our occupational road risks.
- Vodacom Tanzania won the 2017 Occupational Safety and Health Award for the telecommunications sector.

Our strategic outlook

Our underlying objective is to ensure that we have the right skills, capabilities and culture to achieve the Group's vision of being a leading digital company. To deliver on this objective, we have prioritised the following focus areas over the short, medium and long-term:

Talent and retention

We will adopt a new retention strategy and embed an appropriate high-performance reward structure, with the aim of attracting and retaining the best talent across existing and new functional areas. In addition, we will strengthen our talent and succession pipeline, securing our position as the top employer in the country. We will continue to drive our localisation and gender diversity strategy, developing the skills and experience of identified high-potential Tanzanians through their participation in leadership development programmes and senior executive placements across the Vodacom and Vodafone groups.

Training and development

We will apply a training and development framework which will ensure that we have the right skills and culture for a leading digital company. This includes continued development of manager capabilities through Vodafone's specialist training programmes.

Engaging employees and building the employee brand

We will continue to work with our employees to create an environment where they may excel and grow.

top EMPLOYER TANZANIA 2017
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

The Vodacom Tanzania Foundation

The Vodacom Tanzania Foundation ('the Foundation') is responsible for managing the Group's corporate social investments, which leverage our technological capabilities and partnerships to deliver pioneering projects in **healthcare**, **education** and **financial inclusion** across Tanzania.

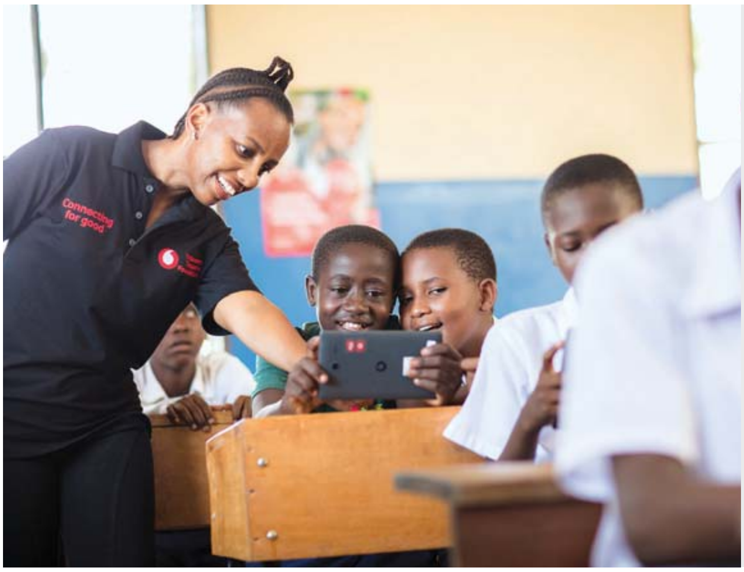
Since its establishment, the Foundation has focussed on helping women and girls access better healthcare and resources needed to create new enterprises, as well as improving access to education for students.

Healthcare

- Every year in Tanzania, thousands of pregnant women and babies die due to poor health care services, insufficient antenatal education, and the remoteness of health care facilities. Our 'mobilising maternal health' programme, a multi-partner, multi-million dollar effort led by the Foundation uses innovative mobile technology to reduce maternal morbidity and mortality. The Vodacom Tanzania Foundation, Vodafone Foundation and their respective partners have collectively facilitated grants of over $16 million towards mobilising maternal health, touching the lives of over 620 000 women and newborns. In rural Sengerema and Shinyanga districts, more than 52 000 women delivered their babies safely thanks to our network of approximately 250 community health workers and 150 registered taxi drivers, which have been trained and incentivised to assist pregnant women in an emergency. In addition, through our 'Healthy Pregnancy Healthy Baby' initiative – a free text-to-treatment messaging service – we provide guidance to more than one million pregnant woman on how to take care of themselves and their babies both during and after their pregnancy.
- The Foundation has also been working with the CCBRT hospital in Dar es Salaam, which provides free transport and treatment to women suffering from obstetric fistula. Our joint text-to-treatment project first raises awareness of the condition, assisting over 1 800 trained community ambassadors across Tanzania to refer patients for treatment. The hospital then sends money needed for the transportation of a patient to their premises via our M-Pesa network. This has allowed more than 5 600 women from across the country to receive free treatment since the programme started in 2010.
- Our 'hakuna wasichoweza' partnership, aimed at curbing girls' truancy in schools through the provision of sexual health education and female hygiene products has benefitted over 10 000 girls across the country since its launch in 2014. This partnership with the Tanzania Marketing and Communications Company ('TMARC') was initiated in the southern Tanzanian region of Mtwara, and has since moved to the neighbouring region of Lindi, with the aim of delivering innovative communications that invoke behavioural change across more communities and improve people's lives across Tanzania.

Education

- We are using technology to pioneer free online education and promote digital literacy to both students and teachers across the country. Our 'instant schools' online portal delivers free educational content, accessible through any mobile devices or computer with Internet access, to any Vodacom subscriber. The portal currently features resources suitable for both primary and secondary school students who are studying science, technology, engineering and mathematics.
- Through our 'smart schools' project, in partnership with Samsung, we have installed 'smart classrooms' in schools that are located in some of the most disadvantaged neighbourhoods of Dar es Salaam, as well as other parts of the country, to improve the learning environment for both students and teachers alike. Thus far we have provided more than 6 000 students with devices to access online education.

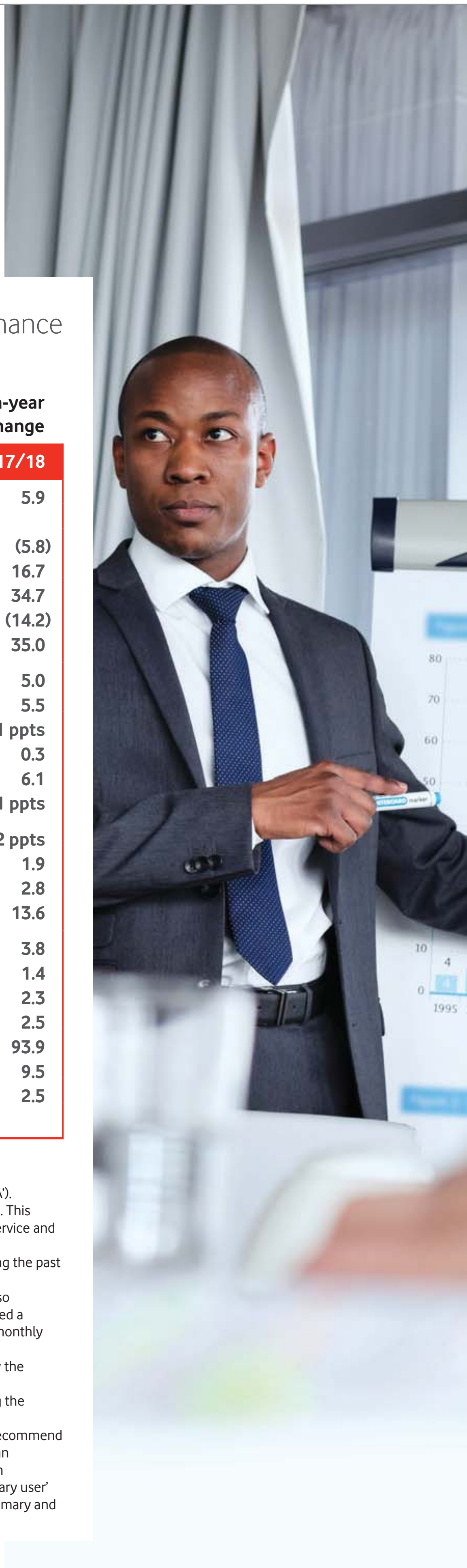


Financial inclusion

- We empowered women in Misungwi-Mwanza, engaging them in savings and credit schemes that are available through M-Pesa. Through this initiative more than 55 savings groups have been established, serving more than 1 000 women.
- Through our partnership with the 2Seeds organisation, we have provided business skills training to female farmers and connected them to farmers' networks, assisting them to improve productivity.

Our financial performance

This section provides a succinct review of our financial performance with commentary for the year ended 31 March 2018.



Consolidated, TZS million	Year ended 31 March 2018	2017	Year-on-year % change 17/18
Service revenue	**966 275**	912 715	**5.9**
of which			
Mobile voice revenue	**392 294**	416 349	**(5.8)**
M-Pesa revenue	**291 193**	249 600	**16.7**
Mobile data revenue	**141 610**	105 118	**34.7**
Mobile incoming revenue	**82 368**	95 981	**(14.2)**
Messaging revenue	**31 571**	23 383	**35.0**
Revenue	**977 994**	931 515	**5.0**
EBITDA	**266 370**	252 591	**5.5**
EBITDA margin (%)	**27.2**	27.1	**0.1 ppts**
EBIT	**95 509**	95 238	**0.3**
Capital expenditure	**159 705**	150 537	**6.1**
Capital intensity (%)[1]	**16.3**	16.2	**0.1 ppts**
Customer market share[2] (%)	**31.9**	31.7	**0.2 ppts**
Active customers[3] (thousand)	**12 899**	12 653	**1.9**
30 day active M-Pesa customers[4] (thousand)	**6 369**	6 198	**2.8**
Active data customers[5] (thousand)	**7 345**	6 463	**13.6**
MoU per month[6]	**163**	157	**3.8**
ARPU[7] (shillings per month)	**6 086**	6 003	**1.4**
Number of employees	**537**	525	**2.3**
Number of sites	**2 987**	2 914	**2.5**
4G	**539**	278	**93.9**
3G	**2 232**	2 038	**9.5**
2G	**2 951**	2 879	**2.5**
Weighted NPS[8] (position relative to competitors)	**1st**	1st	

Notes:
1. Capital expenditure as a percentage of revenue.
2. As at 31 March. Quarterly Communications Statistics Reports, Tanzania Communications Regulatory Authority ('TCRA').
3. Active customers are based on the total number of mobile customers using any service during the last three months. This includes customers paying a monthly fee that entitles them to use the service even if they do not actually use the service and those customers who are active while roaming.
4. 30 day active M-Pesa customers are the number of unique customers who have generated billable transactions during the past 30 days.
5. Active data customers are based on the number of unique users generating billable data traffic during the month. Also included are users on integrated tariff plans, or who have access to corporate APNs, and users who have been allocated a revenue generating data bundle during the month. A user is defined as being active if they are paying a contractual monthly fee for this service or have used the service during the reported month.
6. Minutes of use ('MoU') per month is calculated by dividing the average monthly minutes (traffic) during the period by the average monthly active customers during the period.
7. ARPU is calculated by dividing the average monthly service revenue by the average monthly active customers during the period.
8. The net promoter score ('NPS') is an index ranging from -100 to 100 that measures the willingness of customers to recommend an operator's products or services to others. It is used as a proxy for gauging the customers' overall satisfaction with an operator's product or service and the customers' loyalty to the brand. For each operator, responses are collected from customers who use its products or services as either the primary or alternative means of telecommunication (a 'primary user' or 'alternative user'). Responses from primary and alternative users are then weighted by the natural proportion of primary and alternative users for that operator in order to calculate the weighted NPS.

Our 2018 performance

- **Service revenue** grew 5.9% (7.0%*) to TZS966.3 billion, marking an upward shift from the subdued annual growth trend seen over the past three years, and attesting to our success in delivering a superior data user experience and mobile money ecosystem to our customers. Strong fundamental growth was seen throughout the year, however a 42.1% mobile termination rate ('MTR') reduction, made in the final quarter, dampened service revenue growth acceleration.
- **Revenue** grew 5.0% to TZS978.0 billion and includes lower equipment revenue as a result of elevated sales made in the previous year from replacing unregistered devices on our network. During the year we sold more than 220 thousand devices, of which over 115 thousand were smartphones or tablets.
- **Active customers**[9] increased 1.9% to 12.9 million. Lower customer base growth resulted from actions taken towards improving compliance with customer registration requirements which, when coupled with our enhanced registration processes, significantly reduced the risk of receiving additional compliance orders. Moreover, through strong commercial execution, we were able to maintain our leading **customer market share**[2] (31.9%).
- **Mobile voice** revenue decreased 5.8% to TZS392.3 billion as we continue to see competitive pressure on pricing. **MoU** increased by 3.8%, aided by personalised voice offers made through our 'Just for you' platform.
- **M-Pesa** revenue grew 16.7% to TZS291.2 billion, led by our focus on targeted propositions – such as 'Pesa ni M-Pesa' – and ecosystem development. 'Pesa ni M-Pesa' – a targeted 'Lipa kwa M-Pesa' proposition which offered data, minutes and cash-back awards to customers who made purchases at selected merchants – stimulated a significant increase in customer spend and merchant adoption. Total spend through our merchant payment solution exceeded TZS370 billion during the year as we grew our network to over 6 300 active merchants. We also continued to develop our mobile money ecosystem through establishing a number of new 'Paybill' partners during the year which enhanced customer spend across a greater number of revenue generating transactions. In addition, we gained 171 thousand **30 day active M-Pesa customers**[10] during the year, up 2.8% to 6.4 million.
- **Mobile data** revenue growth accelerated to 34.7%, achieving revenue of TZS141.6 billion for the year. Our focus on youth and high value customer segments, coupled with partnership-led smartphone campaigns, resulted in demand for mobile data services to accelerate and smartphone penetration to exceed 29%. During the period we gained over 882 thousand **active data customers** to reach 7.3 million, up 13.6%. Our digital partnerships have allowed us to tailor targeted data propositions to better monetise a growing trend of social media adoption in Tanzania.
- **Mobile incoming** revenue declined by 14.2% to TZS82.4 billion. The final quarter of the year was impacted by a 42.1% mobile termination rate ('MTR') reduction.
- **Messaging** revenue increased by 35.0% to TZS31.6 billion. Growth continues to be fuelled by the continued success of SMS-only bundles and greater activity seen from our wholesale SMS partners. The number of short message service ('SMS') messages sent increased by 81.1% to 38.6 billion.
- **EBIT** increased by 0.3% to TZS95.5 billion and includes a settlement agreed upon the conclusion of a joint equipment verification project[11] with Helios Towers Tanzania ('HTT'), a local provider of passive infrastructure services. In addition, network operating costs in the prior year were partially offset by credit notes[12] issued by our trading partners. Excluding these items, EBIT grew by 32.8% with the EBIT margin expanding by 2.1 ppts to 10.2%, fuelled by strong revenue growth and our focus on cost containment, which included initiatives to digitalise our marketing platforms and optimise staff expenses. These savings were offset by greater network operating expenditure, primarily due to 4G expansion and inflationary increases applied to service contracts. An increase in the depreciation and amortisation charge was also included, primarily a result of capital additions and a review of the useful lives of equipment held within Shared Networks Tanzania Limited ('SNT'), a subsidiary which we acquired in July 2016.
- **Capital expenditure** of TZS159.7 billion, representing 16.3% of revenue. Following the 42.9% increase in the number of 3G sites in 2017, we continued to focus on enhancing data user experience, deploying 261 new 4G sites, up 93.9% in 2018. We launched 4G in five cities[13] during the year while enhancing 4G data user experiences in Dar es Salaam. Fibre and high capacity microwave backhaul investments were integral to the deployment of 4G services. We also increased the number of 2G and 3G sites to 2 951 and 2 232 respectively (an additional 72 2G and 194 3G sites during the year) as well as conducted capacity upgrades to over 40% of our 3G sites.

9. Active customers are based on the total number of mobile customers using any service during the last three months. These customers grew 1.9% during the period whereas our 30 day active customer base, excluding customers which solely received incoming calls, grew by 7.5%. This is indicative of an improvement in revenue generating activity across our customer base.
10. As at 31 March 2018, 8.2 million customers, representing 63.8% of our active customer base, generated revenue related to M-Pesa within a trailing 90 day period.
11. During the year, Vodacom Tanzania and HTT deployed a joint project team to verify records of equipment located on each of HTT's sites. On the project's completion, the project team determined the actual space utilised by Vodacom on each of HTT's sites in order for an accurate charge to be determined in accordance with the service agreement made between HTT and Vodacom. In January 2018, Vodacom and HTT agreed a final retrospective fee adjustment and incremental charges (2018: TZS11.8 billion, of which approximately TZS8.4 billion are recurring incremental charges).
12. Credit notes related to both compensation and a retrospective reduction in fees from network service providers (2017: TZS12.7 billion).
13. During the year we launched 4G services in Arusha, Dodoma, Morogoro, Moshi and Tanga.

* Adjusted for reductions made to the mobile termination rate ('MTR') in January 2017 and January 2018.

Our financial performance continued

Summarised consolidated statement of profit or loss and other comprehensive income

for the year ended 31 March 2018

TZS m	2018 Audited	Restated 2017 Audited
Revenue	**977 994**	931 515
Direct expenses	**(302 712)**	(310 114)
Staff expenses	**(55 328)**	(58 668)
Publicity expenses	**(30 649)**	(40 057)
Other operating expenses	**(329 202)**	(280 406)
Depreciation and amortisation	**(164 594)**	(150 182)
Share-based payment charges	**(6 608)**	–
Operating profit	**88 901**	92 088
Gain on sale of equity stock investment	**120 251**	–
Finance income	**44 768**	50 045
Finance costs	**(34 485)**	(52 233)
Net loss on re-measurement of financial instruments	**(3 099)**	(18 560)
Profit before tax	**216 336**	71 340
Income tax expense	**(46 096)**	(23 786)
Net profit	**170 240**	47 554
Other comprehensive income	**–**	–
Total comprehensive income	**170 240**	47 554
Basic and diluted earnings per share (TZS)	**83.81**	28.31

1. Adjusted for reductions made to the mobile termination rate ('MTR') in January 2017 and January 2018.
2. During the year, Vodacom Tanzania and HTT deployed a joint project team to verify records of equipment located on each of HTT's sites. On the project's completion, the project team determined the actual space utilised by Vodacom on each of HTT's sites in order for an accurate charge to be determined in accordance with the service agreement made between HTT and Vodacom. In January 2018, Vodacom and HTT agreed a final retrospective fee adjustment and incremental charges (2018: TZS11.8 billion, of which approximately TZS8.4 billion are recurring incremental charges).
3. Credit notes related to both compensation and a retrospective reduction in fees from network service providers (2017: TZS12.7 billion).
4. As part of the underwriting agreement between PIC and Vodacom Tanzania, Vodacom Group Limited entered into a put option on the shares which PIC purchased. The put option provides the underwriter with limited downside protection subject to certain conditions and triggers. Given that Vodacom Tanzania was the ultimate beneficiary from the put option being written by Vodacom Group Limited, treatment of the charge under the International Financial Reporting Standards require the value to be shown as a capital contribution from an equity-settled share based payment with a corresponding charge made to our profit for the year, impacting retained earnings.

Revenue grew 5.0% and includes lower equipment revenue as a result of elevated sales made in the previous year from replacing unregistered devices on our network. Service revenue grew 5.9% (7.0%[1]) with strong fundamental growth seen throughout the year, however a 42.1% mobile termination rate ('MTR') reduction, made in the final quarter, dampened service revenue growth acceleration.

Total expenses increased 4.2%. In January 2018, a settlement was agreed upon the conclusion of a joint equipment verification project[2] with Helios Towers Tanzania ('HTT'), a local provider of passive infrastructure services. In addition, network operating costs in the prior year were partially offset by credit notes[3] issued by our trading partners. Excluding these items, total expenses increased by 0.6%. This is primarily as a result of savings realised through optimising staff expenses and digitalising our marketing platforms, lowering publicity expenses. This was coupled with lower interconnect costs, which were offset by greater network operating expenditure, primarily due to 4G expansion and inflationary increases applied to service contracts.

The depreciation and amortisation charge increased by 9.6%, primarily as a result of capital additions and a review of the useful lives of equipment held within Shared Networks Tanzania Limited ('SNT'), a subsidiary which we acquired in July 2016.

This cost relates to an underwriting arrangement between the Public Investment Corporation (SOC) Ltd in South Africa ('PIC'), Vodacom Tanzania and Vodacom Group Limited, as part of the initial public offering of 25% of Vodacom Tanzania's ordinary shares.

The cost comprises of two charges: TZS1.9 billion was an underwriting fee. This was cash-settled in accordance with a bilateral agreement between the underwriter and Vodacom Tanzania; TZS4.7 billion was not cash settled and represents the value, at inception, of the underwriter's put option[4] on the shares which they purchased as part of the IPO.

In October 2017, Vodacom Tanzania sold its 24.06% equity stake in HTT, a passive infrastructure service provider, to HTT's parent, HTA Holdings, LTD ('HTA') for US$58.5 million. As a result of losses recognised against Vodacom Tanzania's investment in HTT over previous years, the transfer of shares resulted in a pre-tax accounting gain of TZS120.3 billion (tax charges amounted to TZS14.7 billion).

Finance income decreased by 10.5% primarily due to the cessation of a loan extended to HTT. This is in spite of greater interest income from cash and government treasury bill investments which were impeded by reductions to the Bank of Tanzania's discount rate.

Finance costs reduced by 34.0% primarily as a result of loans – provided by Vodacom Group Limited – being fully repaid from internally generated cash-flows during the year. This reduced the net loss from the re-measurement of these loans, which were denominated in South African rand and United States dollar.

The tax expense is 93.8% higher than the prior year primarily due to the increase in taxable profits of Vodacom Tanzania Public Limited Company, which includes a TZS14.7 billion capital gains tax charge relating to the sale of its equity stake in HTT.

Summarised consolidated statement of financial position

as at 31 March 2018

TZS m	2018 Audited	Restated 2017 Audited
Assets		
Non-current assets	807 724	814 368
Goodwill	1 988	1 988
Property and equipment	644 772	656 241
Intangible assets	47 175	40 152
Operating lease prepayments	46 764	40 855
Tax receivables[1]	11 156	10 996
Trade and other receivables	252	328
Deferred loss	55 617	63 808
Non-current assets held for sale	2 257	18 768
Current assets	1 070 980	614 779
Operating lease prepayments	9 782	7 557
Inventory	1 985	13 653
Trade and other receivables	134 590	124 681
Income tax receivables[2]	10 666	13 621
Financial assets[3]	352 876	314 354
Short term investment[4]	121 192	–
Bank and cash balances	439 889	140 913
Total assets	1 880 961	1 447 915
Equity and liabilities		
Capital and reserves	1 210 454	593 593
Share capital	112 000	84 000
Share premium	442 435	–
Capital contribution	27 698	22 974
Retained earnings	628 321	486 619
Non-current liabilities	100 076	86 387
Finance lease liability	5 513	–
Government grants	4 695	–
Deferred tax liabilities	49 649	57 214
Trade and other payables	40 219	29 173
Current liabilities	570 431	767 935
Borrowings	285	201 494
Trade and other payables[5]	541 697	529 488
Interest due to customers	22 952	24 075
Government grants	1 772	9 469
Provisions	3 725	3 409
Total liabilities	670 507	854 322
Total equity and liabilities	1 880 961	1 447 915

In July 2016, Vodacom Tanzania acquired 100% of Shared Networks Tanzania's issued share capital, a multi-operator core network wholesaler which holds a license for usage of spectrum in the 900MHz band in rural Tanzania.

Non-current assets held for sale, which included our investments in HTT, reduced by TZS16.5 billion to TZS2.3 billion as a result of the sale of both our equity stake and debt holding in HTT. The residual amount represents the value of sites, which have been built by Vodacom Tanzania, held for sale to HTT.

A net cash position of TZS434.1 billion was achieved, following the repayment of loans provided by Vodacom Group Limited, receipt of net proceeds from the IPO, sale of our investments in HTT and payment of a dividend. The net cash position is invested across six local relationship banks. In addition to the net cash position, we had TZS121.2 billion invested in government treasury bills as at 31 March 2018.

On 15 August 2017, Vodacom Tanzania listed 560 000 100 ordinary shares on the Dar es Salaam Stock Exchange, under the main investment market segment for a price of TZS850 per share, each with a par value of TZS50. The TZS4.7 billion increase in capital contribution represents the value, at inception, of the underwriter's put option[6] on the shares which they purchased as part of the IPO.

Vodacom Tanzania leases office furniture and fittings under a finance lease arrangement with Paloma Park Limited following the move to the new head office building.

Net debt/(cash)

	Year ended 31 March		Movement
TZS m	2018	2017	17/18
Bank and cash balances	(439 889)	(140 913)	(298 976)
Bank overdrafts	–	–	–
Other borrowings and finance leases	5 798	201 494	(195 696)
Net debt/(cash)	(434 091)	60 581	(494 672)
Net debt/(cash) to EBITDA (times)	(1.6)	0.2	n/a

1. These are amounts deposited with the Tanzania Revenue Authority pursuant to our objection to various tax assessments, which we expect to resolve in over 12 months' time at which point the amount deposited will be returned.
2. These are amounts deposited with the Tanzania Revenue Authority pursuant to our objection to various tax assessments, which we expect to resolve within 12 months' time at which point the amount deposited will be returned.
3. Financial assets represent restricted cash balances from M-Pesa deposits.
4. Represents the amount invested in Tanzania government treasury bills as at 31 March 2018.
5. Trade and other payables include amounts owed to M-Pesa customers. As at 31 March 2018 this amount was TZS333 220 million (2017: TZS293 551 million).
6. Given that Vodacom Tanzania was the ultimate beneficiary from the put option being written by Vodacom Group Limited, treatment of the charge under the International Financial Reporting Standards require the value to be shown as a capital contribution from an equity-settled share based payment with a corresponding charge made to our profit for the year, impacting retained earnings.

Our financial performance continued

Summarised consolidated statement of cash flows

for the year ended 31 March 2018

TZS m	2018 Audited	Restated 2017 Audited
Cash flows from operating activities		
Cash generated from operations	**269 039**	322 147
Income taxes paid	**(50 865)**	(44 377)
Net cash generated from operating activities	**218 174**	277 770
Cash flows from investing activities		
Additions to property and equipment and intangible assets	**(149 859)**	(169 384)
Acquisition of subsidiary[1]	**(3 637)**	(20 609)
Proceeds from sale of property and equipment	**1 073**	1 252
Government grant received	**12 008**	1 393
Short term investment made[2]	**(121 192)**	–
Finance income received[3]	**22 044**	23 867
Proceeds from sale of HTT investment[4]	**130 582**	–
Cash held in restricted deposits	**(38 522)**	(59 368)
Repayment of loan receivable	**–**	50 053
Interest received from M-Pesa deposits	**26 196**	31 470
Net cash used in investing activities	**(121 307)**	(141 326)
Cash flows from financing activities		
Dividends paid	**(28 463)**	(16 514)
Proceeds from an initial public offering of shares	**476 000**	–
Payment of an initial public offering cost[5]	**(7 449)**	–
Interest paid on other borrowings	**(465)**	(1 565)
Repayment of bank borrowings	**–**	(3 869)
Principal repayment of shareholder loan	**(107 071)**	–
Repayment of interest on shareholder loan	**(104 574)**	(54 901)
Interest paid to M-Pesa customers	**(27 222)**	(49 008)
Net cash generated/(used) in financing activities	**200 756**	(125 857)
Net increase in cash and cash equivalents	**297 623**	10 587
Cash and cash equivalents at the beginning of the year	**140 913**	129 215
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies	**1 353**	1 111
Cash and cash equivalents at the end of the year	**439 889**	140 913

1. Final instalment payment for the acquisition of Shared Networks Tanzania Limited ('SNT').
2. Represents the amount invested in Tanzania government treasury bills during the year ended 31 March 2018.
3. Includes interest received under a loan made to Helios Towers Tanzania Limited ('HTT'). In October 2017, the Group sold the loan to HTT's parent company, HTA Holdings, LTD. During the year ended 31 March 2018, TZS6 785 million of interest was received of which TZS6 301 million was for last year and TZS484 million is interest accrued in this year (2017: TZS18 888 million).
4. Includes proceeds from the sale of Vodacom Tanzania's 24.06% equity stake in HTT to HTA Holdings, LTD for US$58.5 million.
5. Cost comprises: underwriting fee, authorised collecting agency fees, lead receiving bank fees, lead advisors and sponsoring broker fees, central securities depository fees, printing, and various other fees.

The 14.6% increase in tax paid primarily relates to greater provisional tax payments and capital gains tax instalments paid following the sale of shares in HTT, partially offset by a non-recurring TZS11.4 billion top-up payment, made in the prior year, as part of our 2016 tax return.

The 21.5% reduction in net cash generated from operating activities is primarily as a result of greater outflows from working capital, which included a pre-payment for indefeasible rights to use submarine cable, and the re-phased settlement of trading balances with some of our trading partners.

A complete repayment of TZS211.6 billion was made, settling all amounts outstanding under loans provided by Vodacom Group Limited. The payment was made from internally generated cash flows, prior to the receipt of IPO proceeds.

Our principal risks

Each year, the Vodacom Tanzania Board reviews the critical strategic risks facing the company and approves the Group's risk appetite.

The Board considers our principal risks when setting strategies, approving budgets and monitoring progress against set targets. Our executive team regularly reviews our risk management processes to better identify, assess and monitor our principal risks, ensuring that we are responsive to the ever-changing business environment.

Principal risk	Context	Mitigating actions
01 **Adverse regulatory decisions** Speed of impact: Very rapid	Stringent regulatory requirements, enforced by government authorities, could impact Vodacom Tanzania's services and its profitability. Recent regulatory developments include: the introduction of customer registration requirements; a new mobile termination rate glide path; and new requirements pertaining to the provision of mobile financial services.	• Proactive and regular engagement with the Tanzanian Communications Regulatory Authority ('TCRA') and the Bank of Tanzania, both directly as well as through national and international industry associations. • Proactively identify changes to legislation and achieve compliance within a reasonable timeframe. • We have a specialist legal, regulatory and government relations team in place who engage with external advisers where needed. • We adopt regulatory compliance policies and related assurance programmes to ensure that all risks are documented and assessed with key action plans agreed.
02 **Non-compliance with laws and regulations** Speed of impact: Very rapid	We operate in a complex, dynamic regulatory environment. Non-compliance with laws and regulations has the potential to expose Vodacom Tanzania to significant adverse financial and reputational impacts.	• Continuously monitor changes to applicable laws, regulations and licence requirements. • Ensure that our business units are proficient in changing their operations to achieve compliance. • Proactively seek opportunities to provide constructive feedback on proposed changes to (or the introduction of new) regulations and/or legislation. • All new products and services are reviewed for compliance with applicable laws and regulations before being approved for launch. • We have a zero tolerance anti-bribery policy which applies to employees or third parties operating on our behalf.
03 **Cyber-attack threats** Speed of impact: Very rapid	A cyber-attack, made externally, internally or through one of our suppliers being compromised may impact Vodacom Tanzania's ability to provide services, confidential data loss and/or loss. All of which could expose Vodacom Tanzania to significant adverse financial and reputational impacts.	• We implement controls that are based on world-class industry standards. • We ensure that we maintain superior security programmes to protect, monitor and react to malicious cyber-attacks. • We have a world class monitoring centre to timeously identify attempted cyber-attacks and conduct detailed scenario planning on an ongoing basis. • Our teams regularly perform vulnerability scanning test the integrity and resilience of our security systems. • We have an assurance programme which incorporates both internal and external reviews of third parties that hold data on our behalf.

Our principal risks continued

Principal risk	Context	Mitigating actions
04 **M-Pesa system failure, fraud and money laundering** Speed of impact: Rapid ●	It is vital that the social benefits of our mobile financial services are not compromised through system failure or criminal abuse. Any failure, abuse or non-compliance with regulatory requirements could expose Vodacom Tanzania to significant adverse financial and reputational impacts.	• Continued investment in robust systems and processes which monitor M-Pesa transactions to identify suspicious activity and allow for customer screening. • Ensure our employees and agents are proficient in all relevant law and regulations as well as in identifying potential fraud and money laundering activity. • Amounts owed to M-Pesa customers are invested in accordance with an investment mandate designed to minimise financial risks. • We have robust, proportional, risk based controls to prevent, detect and report on money laundering and terrorist financing.
05 **Access to spectrum** Speed of impact: Rapid ●	Expanding our network's capacity through spectrum acquisition is a core component of our long-term strategy. Insufficient spectrum holdings impede our ability to facilitate cost effective expansion of our radio access network ('RAN') for the purposes of introducing new technology (such as 5G) and/or to maintain sufficient network capacity.	• Our spectrum strategy is continually evaluated as various options to increase our holdings and/or engage in strategic partnerships are explored. • We adopt an engagement strategy which optimises our ability to raise awareness of issues relating to spectrum scarcity to both the TCRA and the Government.
06 **Technology failure** Speed of impact: Very rapid ●	We operate complex mobile networks that rely on third parties to provide power or transmission. Network and billing infrastructure may also be damaged by natural disasters or a deliberate malicious attack. Network outages may negatively impact customer usage, revenue and our reputation.	• We have comprehensive business continuity and disaster recovery plans in place as well as technology resilience controls which are aligned to Vodafone Group's technology resilience policy. • We continue to invest in maintaining and upgrading our networks as well as adopt appropriate preventative maintenance programmes. • We have comprehensive insurance policies in place.
07 **Customer data and privacy** Speed of impact: Very rapid ●	We place a strong emphasis on protecting customer privacy, and to mitigate the risk of data theft or loss. As our customers become increasingly connected, and as the ability to track and analyse consumer behaviour becomes more sophisticated, the need to ensure the full and effective protection of customer privacy and personal data has become more critical. Failure to protect our customers' privacy is likely to lead to severe reputational damage and potential fines.	• Our network has been built with security in mind, and controls have been implemented based on world class industry standards, such as ISO 27001. • We ensure that we maintain superior security programmes to protect, monitor and react to malicious cyber-attacks, and to ensure that our customers' information is protected. • We have a world class monitoring centre to timeously identify attempted cyber-attacks and conduct detailed scenario planning on an ongoing basis. • Our customers' rights are balanced against those of security and enforcement agencies that are legally entitled and required to request customer information, and to instruct us to suspend service in certain circumstances. We manage such requests in accordance with Vodafone's policies, procedures and guidelines, and with applicable laws and regulations. • As part of the Vodafone Group, we contribute to Vodafone's industry-leading law enforcement disclosure report, which provides a detailed insight regarding demands from law enforcement agencies in 28 countries.

Principal risk	Context	Mitigating actions
08 **Market disruption** Speed of impact: Rapid	We are facing increasing competition from traditional and non-traditional sources. Our ability to compete effectively depends on the capacity and coverage of our network, the quality of our customers' experience, and the pricing and nature of our services and devices. Ensuring that we proactively anticipate, and where necessary respond to, changing market conditions is essential to maintaining revenue growth.	• We ensure competitor differentiation through our leadership in the quality and speed of our network. • We deliver a differentiated customer experience by continuously reviewing the pricing and relevance of our products, services and devices, as well as the quality of customer services.
09 **Litigation** Speed of impact: Slow	The Group is currently involved in various legal proceedings where an adverse outcome could lead to financial loss, negative publicity and/or reputational damage.	• Close monitoring of the progress of cases in arbitration/court, managed by our external legal counsel. • Our supply chain and contract management programmes are compliant with all relevant legal requirements as well as Vodafone and Vodacom Group policies and standards.
10 **Tax** Speed of impact: Slow	The Group is currently involved in the resolution of significant tax demands arising from assessments by the Tanzania Revenue Authority ('TRA'), a substantial amount of which the Group disagrees with the TRA's interpretation of the tax laws and regulations. In addition, our industry can often be subject to unpredictable increases to direct and indirect taxes. Tanzanian tax law can be complex and subject to various interpretations. This has resulted in the Group having several tax matters pending in the tax courts.	• We have specialised tax management capabilities, and seek expert tax advice as needed. • We apply world class controls and reconciliation procedures to support and assure reconciliation completeness. • Proactive engagement with both the Ministry of Finance and tax authorities both directly as well as through national industry associations. Such engagements include but are not limited to dialogue with the Ministry of Finance's tax reform task force and preliminary budget discussions with the Parliamentary Budget Committee.
11 **Unstable economic conditions** Speed of impact: Slow	Although Tanzania has a stable macro-economic environment, there is some longer-term uncertainty regarding the impact of the government's new policies on the private sector. Failure to maintain robust cost optimisation programmes leaves earnings growth more susceptible to poor economic performance and/or short-term macroeconomic shocks.	• Minimise exposure by ensuring that new/existing trading relationship contracts are agreed in local currency where possible; match foreign currency cash-flows where possible; hedge exposures through maintaining reserves and/or entering FX derivatives when economical to do so. • Counterparty risk monitoring of financial institutions performed both locally and at Group-level. • Regular review and tracking of our cost-containment programme by both the Vodacom Tanzania Executive Committee and Vodacom Group.

Who governs us

We have a unitary Board with 12 directors, the majority of whom are non-executive directors. Our chairman is a non-executive director.

Board structure

Chairman

Ali A. Mufuruki (59)
Appointed August 2017
- Extensive leadership experience
- Corporate governance expertise
- Government relations

Executive directors

Ian Ferrao (35)*
Appointed in September 2015
- An astute business leader
- Diverse emerging market experience
- Strong execution of new innovative products and offerings

Jacques Marais (52)
Appointed in July 2016
- Sound financial expertise
- Extensive emerging market experience
- Extensive telecoms knowledge

* Mr. Ferrao resigned as both Managing Director and as a member of the Board, effective 31 August 2018.

Non-executive directors

Andries Daniel Jan Delport (54)
Appointed in April 2015
- Extensive telecoms technology knowledge and experience
- Strategic leadership expertise
- Operational and strategy execution expertise

Margaret Ikongo (61)
Appointed in November 2017
- Financial expertise
- Government relations
- Corporate governance expertise

A

Kenneth Kwame Gomado (40)
Appointed in March 2018
- Diverse emerging market financial experience
- Extensive telecoms and FMCG knowledge
- Audit advisory background

Diego Gutierrez (43)
Appointed in March 2018
- Commercial strategist
- Extensive telecoms technology knowledge and emerging market experience
- Strategic leadership expertise

RN

Matimba Mbungela (46)
Appointed in August 2017
- Extensive talent management knowledge and experience
- Expertise in human resources best practice
- International operational experience

RN

Winnie Ouko (48)
Appointed in November 2017
- Financial and strategic planning expertise
- Diverse international operational and strategy execution experience

RN A

Thembeka Semane (42)
Appointed in November 2017
- Corporate governance expertise
- Operational and strategy execution experience
- Financial expertise

A

Henry JC Surtees (48)
Appointed in May 2011
- Financial experience
- Corporate governance expertise
- Corporate leadership expertise

RN

Till Streichert (44)
Appointed in August 2017
- Diverse international financial experience
- Executive leadership background
- International ICT sector insights

A Audit, Risk and Compliance Committee

RN Remuneration and Nomination Committee

Who leads us

Executive Committee

Managing Director
Ian Ferrao (35)
Joined Vodacom in 2011

Finance
Jacques Marais (52)
Finance Director

Joined Vodacom in 2001

Consumer
Hisham Hendi (38)
Consumer Business Unit Director

Joined Vodacom in 2014, Vodafone in 2003

M-Commerce
Ashutosh Tiwary (43)
M-Commerce Director

Joined Vodacom in 2016

Enterprise
Arjun Dhillon (38)
Enterprise Business Unit Director

Joined Vodacom in 2017, Safaricom in 2015

Network
Alec Mulonga (43)
Network Director

Joined Vodacom in 2012

Legal and Regulatory
Nina Firyandiana Pendaeli (49)†
Legal & Regulatory Affairs Director

Joined Vodacom in 2013

Corporate Affairs
Rosalynn Gloria Mworia (38)
Corporate Affairs Director

Joined Vodacom in 2008

Customer operations
Harriet Atweza Lwakatare (40)
Customer Service Director

Joined Vodacom in 2012

† Mrs. Pendaeli resigned as Legal & Regulatory Affairs Director, effective 30 June 2018.

Human resources
Perece Kirigiti (47)
Human Resources Director

Joined Vodacom in 2015

IT & billing
Luis Fedriani (46)
IT & Billing Director

Joined Vodacom in 2012

Corporate governance report

Statement of compliance

Vodacom Tanzania Public Limited Company ('Vodacom Tanzania') is committed to the highest standards of business integrity, ethics and professionalism.

Corporate governance principles include discipline, independence, responsibility, fairness, social responsibility, transparency and the accountability of directors to all stakeholders. These principles are entrenched in Vodacom Tanzania's internal controls and policy procedures governing corporate conduct and are aligned with the Capital Markets and Securities Authority's guidelines on corporate governance practices by public listed companies in Tanzania.

Corporate governance structure

The following diagram shows Vodacom Tanzania's governance structure as at 31 March 2018:

BOARD
Board committees

- Audit, Risk and Compliance Committee
- Remuneration and Nomination Committee

MANAGING DIRECTOR
Executive Committee

- Finance
- Consumer Business Unit
- M-Commerce Business Unit
- Enterprise Business Unit
- Network
- Legal and regulatory
- Corporate Affairs
- Customer operations
- Human Resources
- IT & billing

Ethical leadership

The Board accepts collective responsibility for defining how ethics and ethical behaviour should be implemented in Vodacom Tanzania. This includes setting out the conduct of individual Board members, to ensure that they act with integrity, competence, responsibility, accountability, fairness and transparency. These characteristics set the tone from the top to support an ethical culture within Vodacom Tanzania.

Board leadership and committees

Board

As part of our listing on the Dar es Salaam stock exchange ('DSE'), the Board was reconstituted to reflect the new shareholding structure and regulatory framework, in accordance with the Capital Markets and Securities Act, Companies Act, DSE Rules and Vodacom Tanzania's memorandum and articles of association.

Vodacom Tanzania has a unitary Board of 12 directors, of whom four (including the Chairman) are independent non-executive directors, six are non-executive (but not independent as they represent major shareholders), and two are executive directors. The Board is satisfied that the balance of knowledge, skills, experience and diversity on the Board is sufficient.

The Board may meet for the dispatch of business, adjourn and otherwise regulate its meetings as it deems fit. Board meetings are held periodically to review Vodacom Tanzania's strategy, operational and financial performance, as well as to provide oversight. Special Board meetings may be held as and when required.

The Remuneration and Nomination committee regularly reviews Board and committee succession to ensure we have the right skills and experience for the future. The Managing Director is responsible for ensuring that key management personnel have the necessary skills, authority and resources to execute Vodacom Tanzania's strategy.

Accountability

The Board takes overall responsibility for Vodacom Tanzania's success. Its role is to exercise leadership and sound judgement in directing Vodacom Tanzania to achieve sustainable growth and act in the best interests of its shareholders.

In line with best practice, the roles of Chairman and Managing Director are separate. The Chairman is responsible for leading the Board, while the Managing Director is responsible for the operational management of Vodacom Tanzania.

The Board charter details the responsibilities of the Board, which include:

- Appointment of the Managing Director and Finance Director;
- Effective oversight of Vodacom Tanzania's strategic direction;
- Approving major capital projects, acquisitions or divestitures;
- Exercising objective judgment on Vodacom Tanzania's business affairs, independent from management;
- Ensuring that appropriate governance structures, policies and procedures are in place;
- Ensuring the effectiveness of Vodacom Tanzania's internal controls;
- Reviewing and evaluating Vodacom Tanzania's risks;
- Approving the annual budget and operating plan;
- Approving the consolidated annual and interim financial results as well as all communications to shareholders;
- Approving the senior management structure, responsibilities and succession plans; and
- Information and technology governance.

Directors

Vodacom Tanzania's articles of association specifies that all directors are subject to retirement by rotation and re-election by shareholders at least once every three years.

Chairman

The articles of association require the Board to re-elect the Chairman annually. The Board is comfortable that the Chairman is able to perform the duties of this office effectively. Mr Ali A Mufuruki was appointed as Chairman of the Vodacom Tanzania with effect from Tuesday 01 August 2017. His re-election as Chairman will be considered by the Board on the anniversary of his appointment.

Independent advice

The Board recognises that there may be occasions where directors consider it necessary to take independent professional advice. This is done at Vodacom Tanzania's expense, in accordance with an agreed procedure.

Corporate governance report continued

Board meetings

The Board holds a minimum of three meetings every year. Special Board meetings are convened when necessary. Five special Board meetings were convened during the year.

The table below records the attendance of directors at Board meetings for the year.

Name of director	11 May 2017 Special	31 May 2017	21 June 2017 Special	14 Sept 2017	7 Nov 2017 Special	23 Nov 2017	24 Jan 2018 Special	6 Feb 2018 Special	8 Mar 2018
Ali A Mufuruki (Chairman)[1]	–	–	–	✓	✓	✓	X	✓	✓
Till Streichert[2]	–	–	–	✓	✓	X	X	✓	✓
Matimba Mbungela[3]	–	–	–	✓	✓	✓	✓	X	✓
Mohamed SA Joosub[4]	–	–	–	✓	✓	X	✓	✓	–
Andries Delport	X	✓	✓	✓	✓	✓	✓	✓	✓
Henry Surtees	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ian Ferrao	✓	✓	✓	✓	✓	✓	✓	✓	✓
Jacques Marais	✓	✓	✓	✓	✓	✓	✓	✓	✓
Michael Joseph[5]	✓	X	✓	✓	X	X	–	–	–
Vivek Mathur[6]	X	✓	X	–	–	–	–	–	–
Rostam Aziz[7]	X	X	X	X	–	–	–	–	–
Sitholizwe Mdlalose[8]	✓	✓	✓	–	–	–	–	–	–
Nomakhosi Skosana[9]	✓	✓	✓	–	–	–	–	–	–
Margaret Ikongo[10]	–	–	–	–	✓	✓	✓	✓	✓
Thembeka Semane[11]	–	–	–	–	✓	✓	✓	–	X
Winifred Ouko[12]	–	–	–	–	X	✓	✓	✓	✓
Diego Gutierrez[13]	–	–	–	–	–	–	–	–	✓
Kenneth Gomado[14]	–	–	–	–	–	–	–	–	✓

Notes:
1. Ali Mufuruki appointed as both Chairman and member of the Board 1 August 2017.
2. Till Streichert appointed 1 August 2017.
3. Matimba Mbungela appointed 1 August 2017.
4. Mohamed SA Joosub appointed 1 August 2017 and resigned 8 March 2018.
5. Michael Joseph resigned 22 January 2018.
6. Vivek Mathur resigned as both Chairman and member of the Board 31 July 2017.
7. Rostam Aziz resigned 27 September 2017.
8. Sitholizwe Mdlalose resigned 31 July 2017.
9. Nomakhosi Skosana resigned 31 July 2017.
10. Margaret Ikongo appointed 1 Nov 2017.
11. Thembeka Semane appointed 1 Nov 2017.
12. Winifred Ouko appointed 1 Nov 2017.
13. Diego Gutierrez appointed 8 March 2018.
14. Kenneth Gomado appointed 8 March 2018.

Board Committees

The non-executive directors contribute their extensive experience and knowledge to the Board's committees.

The Board has a Remuneration and Nomination Committee and an Audit, Risk and Compliance Committee, both of which have specific delegated activities.

Board committees are:

- Responsible for the review and effective oversight of the activities within its defined terms of reference;
- Consist of no less than three members of the Board or of such other persons as the Board may deem fit – provided that any committee so formed shall, in the powers so delegated, conform to any regulations that may be imposed on it by the Board, and that the member shall be an ex-officio member of any committee established.

Audit, Risk and Compliance Committee ('ARC Committee')

Current members: Margaret Ikongo (Chairperson), Thembeka Semane and Winifred Ouko.

The committee is comprised of three independent non-executive directors. The Managing Director and Finance Director, as well as the external auditor, attend ARC Committee meetings by invitation.

The primary role of the ARC Committee is to ensure the integrity of financial reporting, the audit process and that a sound risk management and internal control system is maintained. In pursuing these objectives, the ARC Committee oversees relations with the external auditor and reviews the effectiveness of the internal audit function.

The internal and external auditors have unlimited access to the Chairperson of the ARC Committee. The internal audit department reports directly to the ARC Committee and is also responsible to the Finance Director on day-to-day administrative matters.

The ARC Committee is responsible for:

- Reviewing Vodacom Tanzania and its subsidiaries (together 'the Group')'s consolidated interim results, preliminary annual results, the annual report and annual financial statements;
- Monitoring compliance with applicable statute and the Dar es Salaam Stock Exchange Rules;
- Reporting to the Board on the quality and acceptability of the Group's accounting policies and practices, including, without limitation, critical accounting policies and practices;
- Providing effective oversight of the annual reporting process;
- Considering the appointment and/or termination of the external auditor, audit fees, independence and objectivity of the auditor and determining the nature and extent of any non-audit services required;
- Approving the internal audit plan for the year;
- Taking appropriate action following any complaints being received, from internal or external sources, which relate to accounting practices, internal audit work, the external audit of Vodacom Tanzania and its subsidiaries, the Group's separate and consolidated annual financial statements, the content and disclosures included in these financial statements, or any related matter;
- Reviewing and monitoring the management and reporting of tax-related matters;
- Monitoring the risk management function and processes and assessing the Group's most significant risks; and
- Monitoring the effectiveness of the processes to create awareness and develop an understanding of relevant legislation and regulation to ensure compliance by management.

A minimum of three ARC Committee meetings are scheduled each financial year. Additional committee meetings may be convened when necessary. Four special meetings were held during the year.

The table below records the attendance of directors at the ARC Committee meetings for the year.

Name of director	11 May 2017 Special	31 May 2017	14 Sep 2017	7 Nov 2017 Special	23 Nov 2017	24 Jan 2018 Special	6 Feb 2018 Special	8 Mar 2018
Margaret Ikongo[1]	–	–	–	✓	✓	✓	✓	✓
Thembeka Semane[2]	–	–	–	✓	✓	✓	X	✓
Winifred Ouko[3]	–	–	–	✓	✓	✓	✓	✓
Henry Surtees[4]	✓	✓	✓	–	–	–	–	–
Till Streichert[5]	–	–	✓	–	–	–	–	–
Andries Delport[6]	–	–	✓	–	–	–	–	–
Sitholizwe Mdlalose[7]	✓	✓	–	–	–	–	–	–
Nomakhosi Skosana[8]	✓	✓	–	–	–	–	–	–

Notes:
1. Margaret Ikongo appointed 1 Nov 2017.
2. Thembeka Semane appointed 1 Nov 2017.
3. Winifred Ouko appointed 1 Nov 2017.
4. Henry Surtees resigned 31 October 2017.
5. Till Streichert appointed as interim Chairman 1 August 2017 and resigned 31 October 2017.
6. Andries Delport appointed 1 August 2017 and resigned 31 October 2017.
7. Sitholizwe Mdlalose resigned 31 July 2017.
8. Nomakhosi Skosana resigned 31 July 2017.

Remuneration and Nomination Committee

Current members: Winifred Ouko (Chairperson), Diego Gutierrez, Henry Surtees and Matimba Mbungela.

The Remuneration and Nomination Committee serves to enable and assist the Board to discharge its responsibilities by:

- Determining and agreeing the remuneration and overall compensation packages of key management personnel, with the exception of seconded employees;
- Determining, agreeing and developing Vodacom Tanzania's overall remuneration policy and ensuring alignment with the remuneration policy of Vodacom Group Limited;
- Ensuring that fair, competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high performance staff at all levels in support of realising corporate objectives and to safeguard shareholder interest;
- Reviewing and recommending to the Board the relevant criteria necessary to measure the performance of key management personnel in discharging their functions and responsibilities;
- Developing and implementing a policy of remuneration philosophy;
- Considering other special benefits or arrangements of a substantive financial nature;
- Reviewing the promotions, transfers and termination policies for Vodacom Tanzania;
- Monitoring the size and composition of the Board;
- Recommending individuals for nomination as members of the Board and its committees;
- Reviewing the Board succession plans;
- Ensuring that the performance of Board members are reviewed;
- Determining the composition and effectiveness of the boards of Vodacom Tanzania's subsidiaries;
- Approving the nomination of individuals to the respective boards of Vodacom Tanzania's subsidiaries;
- Ensuring the eligibility of Board members;
- Reviewing the structure of the organisation to ensure that it is fit for purpose, delivering the strategy and long term objectives of the business; and
- Ensuring compliance with applicable laws and regulations.

Corporate governance report continued

The following table records the attendance of directors at the Remuneration and Nomination Committee meetings for the year.

Name of director	31 May 2017	21 June 2017 Special	14 Sep 2017	23 Nov 2017	8 Mar 2018
Winifred Ouko[1]	–	–	–	–	✓
Vivek Mathur[2]	✓	x	–	–	–
Sitholizwe Mdlalose[3]	✓	✓	–	–	–
Henry Surtees	✓	✓	✓	✓	✓
Matimba Mbungela[4]	✓	✓	✓	✓	✓
Till Streichert[5]	–	–	✓	x	–

Notes:
1. Winifred Ouko appointed a member and Chairperson 23 Nov 2017.
2. Vivek Mathur resigned a member and Chairman 31 July 2017.
3. Sitholizwe Mdlalose resigned 31 July 2017.
4. Matimba Mbungela appointed as interim Chairman 1 August 2017.
5. Till Streichert appointed 1 August 2017 and resigned 8 March 2018. Diego Gutierrez was appointed on 8 March 2018.

Other Committees

Executive Committee

The Executive Committee is not a Board committee. During the year, the Executive Committee included the Managing Director (as chairman of the Executive Committee), Finance Director, Human Resources Director, IT & Billing Director, Consumer Business Unit Director, M-Commerce Director, Customer Service Director, Networks Director, Corporate Affairs Director, Legal & Regulatory Affairs Director and Enterprise Business Unit Director.

The committee is responsible for managing Vodacom Tanzania's operations, developing strategy and policy proposals for the Board's consideration, and implementing the Board's directives. The committee's other responsibilities include:

- Leading management and employees;
- Developing the strategy of Vodacom Tanzania;
- Developing the annual budget and business plans for the Board's approval; and
- Developing, implementing and monitoring policies and procedures, internal controls, governance, risk management, ethics and authority levels.

Risk management

Management continuously develops and enhances its risk and control procedures to improve risk identification, assessment and monitoring. The Board considers business risks when setting strategies, approving budgets and monitoring progress against budgets.

A team reporting to the Finance Director assists in identifying, assessing and recording the risks facing Vodacom Tanzania and, where appropriate, monitors mitigating actions.

Internal control

Management implements appropriate internal controls to provide reasonable assurance on safeguarding assets, preventing and detecting errors, ensuring the accuracy and completeness of accounting records, and ensuring the reliability of financial statements. The Vodacom Group Limited internal audit team provides independent, objective assurance of the system of internal controls to the Board.

Internal audit

The Vodacom Group Limited internal audit team operates under a defined charter, as approved by the Vodacom Tanzania ARC Committee, which conforms to the international standards for the professional practice of internal auditing and the code of ethics as set out by the Institute of Internal Auditors.

Vodacom Tanzania's audit methodology and planning follows a risk-based approach. The internal audit plan is compiled annually and approved by the ARC Committee.

Directors' shareholding

The directors do not hold any shares in Vodacom Tanzania.

Share dealings

Vodacom Tanzania has a share dealing policy requiring all directors and key executive management to give notice to the Company Secretary prior to and after dealing in Vodacom Tanzania's shares.

Closed periods are implemented as per the Dar es Salaam stock exchange rules, during which time Vodacom Tanzania's directors, key executive management and employees are not allowed to trade Vodacom Tanzania's shares. Additional closed periods are enforced should Vodacom Tanzania be subject to any corporate activity or where a cautionary announcement could be required.

Company Secretary

All directors have access to the advice and services of the Company Secretary, Caroline Mduma, who is responsible to the Board for ensuring compliance with procedures, applicable laws and regulations. For the Board to function effectively, all directors have full and timely access to information that helps them perform their duties. This includes corporate announcements, investor communications and information about developments that may affect Vodacom Tanzania and its operations. Directors have full access to management as required.

The Company Secretary is responsible for director training. The Company Secretary and Managing Director induct new directors, which includes briefings on their fiduciary and statutory responsibilities, as well as on Vodacom Tanzania's operations as required.

Stakeholder relationships

Stakeholder engagement

The Board has delegated to management the responsibility to deal with stakeholder relationships in a proactive and constructive manner.

Investor relations

Vodacom Tanzania proactively communicates its strategy and activities to shareholders through a planned investor relations programme which includes:

- Formal presentations of annual and interim results;
- Briefing meetings with major institutional shareholders after the release of results; and
- Hosting investor and analyst sessions.

Remuneration report

This report summarises Vodacom Tanzania's remuneration philosophy and policy for executive and non-executive directors. It also provides a description as to how the policy has been implemented.

Letter from the Chairperson of the Nomination and Remuneration Committee:

Dear shareholders,

Part of our focus is to assist and advise the Board on matters relating to the remuneration of executive directors. We ensure that the remuneration philosophy and policy supports the Company's strategic targets to enable the recruitment, motivation and retention of executives, with the aim of maximising shareholder value and complying with legislation and guidelines issued by the Capital Markets and Securities Authority ('CMSA').

The committee has considered the disclosure requirements of the Capital Markets and Securities Act, 1994 and has produced the following report, which complies with the guidelines on corporate governance practices by public listed companies in Tanzania while being conscious of disclosing individual or market sensitive information.

I would like to thank my fellow committee members for their continued support, and look forward to working alongside them in the year ahead.

Winnie Ouko

Chairperson of the Nomination and Remuneration Committee

In accordance with the CMSA's guidelines on corporate governance practices by public listed companies in Tanzania, this report discloses Vodacom Tanzania's policies for remuneration for the executive directors and non-executive directors specifically the quantum and component of remuneration for directors including non-executive directors on a consolidated basis.

Our remuneration philosophy, policy and framework for the current year applicable to executive directors

Our aim is to attract, retain and motivate executives of the highest calibre, while at the same time aligning their remuneration with shareholders' interests and best practice. Our approach to reward is holistic, balanced across the following elements:

- Guaranteed package (GP);
- Variable short-term incentive (STIP);
- Variable long-term incentive (LTIP);
- Various recognition programmes;
- Individual learning and development opportunities;
- Stimulating work environment; and
- Well-designed and integrated employee wellness programme.

Executive directors adhere to a 'total cost to company' philosophy, which we refer to as the guaranteed package (GP). Contributions to medical aid, retirement funding and insured benefits are included in the GP.

The above elements are underpinned and reinforced by our performance development (PD) and talent management processes. Our policy is to reward our executives for their contributions to our strategic, financial and operating performance. To be a top employer in our industry we need to attract, develop and retain top talent and intellectual capital, both locally and internationally.

On an annual basis, we conduct remuneration benchmarking and award increases in the GP according to the market, individual performance and potential. Individual performance and potential assessment is determined through our talent management and performance development processes. The outcome of these processes also influences the awarding of short- and long-term incentives in the future.

Our short-term incentive, in the form of an annual cash bonus, is linked to achieving financial, strategic and operational objectives and the executive's performance against their objectives. The pool available for short-term incentives is determined by financial performance of the Company against previously set and agreed targets.

Executive directors who are seconded to work for Vodacom Tanzania are subject to the long-term incentive scheme of Vodacom Group Limited where an annual allocation of Vodacom Group Limited shares are made by their respective employer. This encourages ownership and loyalty, and supports the Vodacom objective to retain valued employees. The scheme is a full ownership scheme; as a result, participants receive dividends from the award date although the value of the shares can only be realised after a three-year vesting period, to the extent that the vesting conditions have been met.

Remuneration disclosure of executive and non-executive directors

Executive Directors Remuneration – Guaranteed Pay

The remuneration for executive directors was reviewed taking into consideration market benchmarking and risks associated with retention of key management personnel.

The disclosure of executive and non-executive directors' remuneration is shown in Note 36 (Related parties) of the consolidated annual financial statements on page 98 of this annual report.

Compliance with policy

The disclosure presented in this annual report are based on awards to qualifying employees where all remuneration decisions have been made in total compliance with the remuneration policy as approved previously by shareholders. There have been no known deviations from policy in the current financial year.

Consolidated annual financial statements

for the year ended 31 March 2018

Contents


AUTOMATIC
1.0

Report of the directors

For the year ended 31 March 2018

The directors presents the audited consolidated and separate annual financial statements of Vodacom Tanzania Public Limited Company ('the Company'), and its subsidiaries (together, 'the Group') for the year ended 31 March 2018.

Nature of business

The Group conducts the business of both a mobile network operator and mobile financial services provider in Tanzania. The Group also provides other communications services, including but not limited to those related with fixed line connectivity.

Operating and financial review

The results for the year are set out in the financial statements on page 58.

Revenue for the year grew by 5.0% to TZS977 994 million (2017: TZS931 515 million). Operating profit decreased by 3.5% to TZS88 901 million (2017: TZS92 088 million). Net profit for the year grew by 258.0% to TZS170 240 million (2017: TZS47 554 million).

Earnings before: interest; taxation; depreciation; amortisation; profit or loss on disposal of property, plant, equipment and intangible assets; share-based payments; ('EBITDA') increased by 5.5% to TZS266 370 million (2017: TZS252 591 million) with a margin of 27.2%, representing a 0.1 ppts increase year on year.

The active customer base increased to 12 899 thousand (2017: 12 653 thousand) representing an increase of 1.9% (2017:2.2%) during the year.

Dividends

At the Annual General Meeting held on Friday 27 October 2017, the shareholders approved a gross final dividend of TZS12.74 (2017: TZS9.83) per share, equivalent to TZS28 538 million (2017: TZS16 514), payable from income reserves, in respect of the financial year ended 31 March 2017.

The dividend amount was equivalent to 60% of net profit after tax.

A dividend of TZS28 463 was paid on Thursday 30 November 2017 to shareholders recorded in the register at the close of trading on Friday 13 October 2017.

The Company's board of directors (the 'Board') will recommend a dividend for approval by the shareholders at the annual general meeting in relation to the financial year ended 31 March 2018 in accordance with the following dividend policy:

The Company intends to pay as much of its after tax profits as will be available after retaining such sums and repaying such borrowings owing to third parties as shall be necessary to meet the requirements reflected in the budget and business plan, taking into account monies required for investment opportunities. There is no fixed date on which entitlement to dividends arises and the date of payment will be recommended by the Board of Directors ('the Board') and approved by the shareholders at the time of declaration, subject to the Dar es Salaam Stock Exchange ('DSE') listing requirements.

Considering the above, the dividend policy is to pay out at least 50% of earnings after tax.

Solvency and liquidity of the Group

The Board considers the Group to be solvent, within the meaning ascribed by the Companies Act, No 12 of 2002. The Group has net current assets of TZS500 549 million as at 31 March 2018 (2017: net current liabilities of TZS153 156 million) which includes cash and Tanzanian government treasury bill investments totalling TZS561 081 million.

Report of the directors continued

Capital structure and shareholding

The Group's issued share capital[1] is held in the percentages as outlined below:

	2018 %	2017 %
Vodacom Group Limited	48.75	65.00
Mirambo Limited	26.25	35.00
Other shareholders	25.00	–
	100.00	100.00

1. Refer to note 26.

Vodacom Group Limited is the beneficial owner of 61.6% of the issued and paid up shares of the Company, with 48.8% being held directly by Vodacom Group Limited and the remaining 12.9% of its interest in Vodacom Tanzania being held indirectly through its holding in Mirambo Limited. Vodacom Tanzania's shares are listed on the Dar es Salaam stock exchange.

As at 31 March 2018, the Group's authorised share capital was TZS200 000 million comprising of 4 000 million ordinary shares with a par value of TZS50.

Capital expenditure and commitments

During the year, the Group invested TZS159 705 million (2017: TZS150 173[2] million) in property, plant and equipment and intangible assets. This capital expenditure was funded by internally generated cash flows.

Further information on property, plant, equipment and intangible assets of the Group is presented in notes 16 and 17. Information about the commitments of the Group is presented in note 32 to the financial statements.

2. The Capital investment 2017: TZS150 173 million excludes TZS41 339 million spent on acquisition of SNT assets (PPE and Spectrum).

Business plans and future developments

The Group continues to focus investments across its key strategic drivers – data, M-Pesa and enterprise.

Subsidiaries

The consolidated financial statements include the Group's wholly owned entities, M-Pesa Limited which is limited by guarantee and having share capital as well as Shared Networks Tanzania Limited ('SNT'), having share capital.

The principal activity of M-Pesa Limited is to act as the bona fide trustee of amounts owed to M-Pesa customers, investing cash in accordance with an investment mandate, for the benefit of M-Pesa customers.

SNT is a multi-operator core network wholesaler which holds a licence for usage of spectrum in the 900MHz band in rural Tanzania.

Borrowings

Vodacom Group Limited

During the year ended 31 March 2018, amounts owed under South African Rand and United States dollar denominated loans provided by Vodacom Group Limited, the Group's parent, were fully repaid from internally generated cash-flows.

Mirambo Limited

As at 31 March 2018, a loan provided by Mirambo Limited had a total outstanding balance (including accrued interest) of US$126 229 (2017: US$240 870) and bears interest payable quarterly at one-month US$ LIBOR plus 5.0%.

Report of the directors continued

Directors and Company secretary

The directors of the Company who served during the year and as at 31 March 2018, are:

Title/name	In office as at 1 April 2017	Date of Appointment	Date of Resignation	In office at the reporting date
Non-executive				
Hon. Rostam Aziz	✓	N/A	27 Sep 2017	N/A
Henry Surtees^	✓	N/A	N/A	✓
Michael Joseph**	✓	N/A	22 Jan 2018	N/A
Sitholizwe Mdlalose^	✓	N/A	31 Jul 2017	N/A
Nomakhosi Skosana*	✓	N/A	31 Jul 2017	N/A
Vivek Mathur^^ (Chairperson)	✓	N/A	31 Jul 2017	N/A
Andries Delport*	✓	N/A	N/A	✓
Ali Mufuruki (Chairperson)	N/A	1 Aug 2017	N/A	✓
Till Streichert^^^^	N/A	1 Aug 2017	N/A	✓
Mohamed SA Joosub*	N/A	1 Aug 2017	8 Mar 2018	N/A
Margaret Ikongo	N/A	1 Nov 2017	N/A	✓
Thembeka Semane*	N/A	1 Nov 2017	N/A	✓
Winifred Ouko***	N/A	1 Nov 2017	N/A	✓
Matimba Mbungela*	N/A	1 Aug 2017	N/A	✓
Diego Gutierrez^^^	N/A	8 Mar 2018	N/A	✓
Kenneth Gomado****	N/A	8 Mar 2018	N/A	✓
Executive				
Jacques Marais*	✓	N/A	N/A	✓
Ian Ferrao^	✓	N/A	N/A	✓
Company Secretary				
Jacques Marais*	✓	N/A	10 Apr 2017	N/A
Caroline Mduma	N/A	10 Apr 2017	N/A	✓
Alternate				
Pierre Bezuidenhout*	✓	N/A	31 Jul 2017	N/A
Matimba Mbungela*	✓	N/A	31 Jul 2017	N/A

* South African ** American *** Kenyan **** Ghanaian ^ British ^^ Indian ^^^ Bolivian ^^^^ German

All the other directors are Tanzanian Nationals.

Directors' interests

The directors do not hold any direct interest in the issued share capital of the Group.

Parent and ultimate parent

The Group is controlled by Vodacom Group Limited, incorporated and domiciled in the Republic of South Africa which effectively owns 61.6% (2017: 82.2%) of the Group. The Group's ultimate parent is Vodafone Group Plc, incorporated and domiciled in the United Kingdom.

Related party transactions

Transactions with related parties were conducted in the normal course of business at arm's length. Details of transactions and balances with related parties are included in note 36 to the financial statements.

Country of incorporation and domicile

The Company and its subsidiaries are incorporated and domiciled in the United Republic of Tanzania.

Report of the directors continued

Corporate governance

The Group is committed to the highest standards of business integrity, ethics and professionalism. Corporate governance principles include discipline, independence, responsibility, fairness, social responsibility, transparency and accountability of directors to all stakeholders. These principles are entrenched in the Group's internal controls and policy procedures governing corporate conduct.

Board of Directors

The Board takes overall responsibility for the Group success. Its role is to exercise leadership and sound judgement in directing the Group to achieve sustainable growth and act in the best interests of the shareholders.

The non-executive directors contribute their extensive experience and knowledge to the Board's committees. All committees operate under Board-approved charters, which are updated from time to time to stay abreast of developments in corporate law and governance best practice. The Board has two committees with specified delegated activities as follows:

Remuneration and Nomination Committee

The Remuneration Committee serves to enable and assist the Board to discharge its responsibilities by: Determining and agreeing the remuneration and overall compensation packages of executives, with the exception of seconded employees; Determining, agreeing and developing the Group's overall remuneration policy and ensuring alignment with the remuneration policy of Vodacom Group Limited; Ensuring that fair, competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high performance staff at all levels in support of realising corporate objectives and to safeguard shareholder interest; Reviewing and recommending to the Board the relevant criteria necessary to measure the performance of executive management in discharging their functions and responsibilities; Developing and implementing a policy of remuneration philosophy; Considering other special benefits or arrangements of a substantive financial nature; Ensuring that the performance of Board members are reviewed; Reviewing the promotions, transfers and termination policies for the Group; Monitoring the size and composition of the Board; Recommending individuals for nomination as members of the Board and its committees; Reviewing the Board succession plans; Determining the composition and effectiveness of the boards of the Group's subsidiaries; Approving the nomination of individuals to the respective boards of the Group's subsidiaries; Ensuring eligibility of Board members; Reviewing the structure of the organisation to ensure that it is fit for purpose, delivering the strategy and long term objectives of the business; and Ensuring compliance with applicable laws and codes.

Audit, Risk and Compliance Committee (ARCC)

The ARC Committee is responsible for: Reviewing the Group's consolidated interim results, preliminary results, annual report and annual financial statements; Monitoring compliance with applicable statute and the DSE Rules; Reporting to the Board on the quality and acceptability of the Group's accounting policies and practices, including, without limitation, critical accounting policies and practices; Providing oversight of the annual reporting process; Considering the appointment and/or termination of the external auditors, including their audit fee, independence and objectivity and determining the nature and extent of any non-audit services; Approving the internal audit plan for the year; Receiving and dealing appropriately with any complaints, internally and externally, relating either to the accounting practices and internal audit or to the content or auditing of all entities within the Group's annual financial statements or related matters; Reviewing and monitoring the management and reporting of tax-related matters; Monitoring the risk management function and processes and assessing the Group's most significant risks; and Monitoring the effectiveness of the processes to create awareness and develop an understanding of relevant legislation and regulation to ensure compliance by management.

Political and charitable donations

The Group did not make any political donations during the year.

The Group made donations to the Vodacom Tanzania Foundation totalling TZS600 million during the year (2017: TZS600 million).

Corporate social responsibility

The Group established and registered Vodacom Tanzania Foundation ('the Foundation'), a company incorporated on 29 October 2007 under the Companies Act, No 12 of 2002 as a company limited by guarantee.

The Foundation is the corporate social responsibility arm of the Group. Its aim is to leverage its technology to create a better society.

The Foundation has partnered with the Government to pioneer projects that have significantly enhanced healthcare, education and financial inclusion efforts. To date the Foundation has invested approximately TZS15 800 million (2017:TZS15 000 million) in improving our society since its inception.

Report of the directors continued

Auditors

PricewaterhouseCoopers ('PwC'), has expressed their willingness to continue to be the Group's auditors in accordance with section 170(1) of the Companies Act, No 12 of 2002.

Contingent liabilities and other matters

Tax matters

The Group is regularly subject to an evaluation by tax authorities of its direct and indirect tax filings. The consequence of such reviews is that disputes can arise with tax authorities over the interpretation or application of certain tax rules applicable to the Group's businesses. These disputes may not necessarily be resolved in a manner that is favourable to the Group. Additionally, the resolution of the disputes could result in an obligation to the Group.

The Group is currently involved in the resolution of significant tax demands arising from assessments by the Tanzania Revenue Authority ('TRA'), a substantial amount of which the Group disagrees with the TRA's interpretation of the tax laws and regulations, and consequently for which no provisions have been recorded.

Having considered internal and external expert advice, the Directors believe that the Group has made sufficient provision for any losses arising from tax exposures that are more likely to occur than not. There has been no material increase in exposure during the year ended 31 March 2018.

Legal contingencies

The Group is currently involved in various legal proceedings and has, in consultation with its legal counsel, assessed the outcome of these proceedings. Following this assessment, the Group's management has determined, that adequate provision has been made in respect of these legal proceedings as at 31 March 2018.

Listing of Vodacom Tanzania

Under Section 26 of the Electronic and Postal Communications Act, 2010 ('EPOCA') (as amended by the Finance Act 2016), licensed telecommunications operators are required to issue 25% of their share capital through an initial public offering ('IPO') and thereafter list the said shares on the Dar es Salaam stock exchange ('DSE'). The Company listed its shares on the DSE, under the main investment market segment, on 15 August 2017 and became the first telecommunications operator to comply with the government's mandatory listing requirements.

Customer registration

During the year, the Group continued to invest in enhanced registration processes and took actions to improve its compliance with the Tanzania Communications Regulatory Authority ('TCRA')'s customer registration requirements.

In July 2017, the TCRA issued fines, associated with a compliance order received following a SIM card registration audit conducted in December 2016, from which the Group was fined and paid a total of TZS1.9 billion.

In December 2017, the TCRA issued a compliance order against the Group with 57 offences found during an audit conducted in September 2017. The Group filed its defence for all 57 offences and no ruling has been made by the TCRA on this compliance order to date.

Mobile termination rates

The TCRA published new mobile termination rates ('MTRs') on 29 December 2017. MTRs declined from TZS26.96 to TZS15.60 from January 2018, which had an impact on interconnect revenue and expenses in the final quarter of the year. The TCRA's 'glide path' reduces the MTR annually until it becomes TZS2.00 in January 2022. The Group filed an appeal against the TCRA's new mobile termination rates with the Fair Competition Commission primarily on the grounds that the 'glide path' sets MTRs below the costs incurred by operators.

Government electronic payment gateway

On 01 April 2018, the Ministry of Finance and Planning introduced a government electronic payment gateway ('GePG') where all mobile money payments to state-owned companies are to be routed for an incremental service fee borne by the customer. Furthermore, commercial arrangements governing payments between the Group and Tanzania Electric Supply Company Limited ('TANESCO'), where the Group received a payment facilitation fee, were terminated.

Report of the directors continued

Electronic revenue collection system ('ERC system')

During the year, the Tanzanian Revenue Authority ('TRA') implemented an electronic revenue collection system ('ERC system') designed to calculate and collect taxes, including value added tax and excise duty. All mobile network operators and financial institutions were mandated to provide information requested by the ERC system in compliance with the Tax Administration (Electronic Revenue Collection System) Regulations, 2017. Information provided under the ERC system includes mobile phone numbers, traffic and revenue. The Group fully complied with the ERC system requirements.

Shared Networks Tanzania Limited ('SNT')

In July 2016, the Group acquired SNT, a company which holds a licence for usage of spectrum in the 900MHz band in rural Tanzania. Both the TCRA and Fair Competition Commission approved the Group's acquisition of 100% of SNT's issued share capital for US$11 million, following which the transfer of shares was completed. In July 2017, the TCRA advised that the spectrum licence held by SNT was not transferrable.

Tower equipment verification

During the year, the Group and HTT deployed a joint project team to verify records of equipment located on each of HTT's sites. On the project's completion, the project team determined the actual space utilised by the Group on each of HTT's sites in order for an accurate charge to be determined in accordance with the service agreement made between HTT and Vodacom Tanzania Public Limited Company. In January 2018, the Group and HTT agreed a final retrospective fee adjustment and incremental charges of TZS11 813 million, of which approximately TZS8 400 million are recurring incremental charges.

Sale of stake in Helios Towers Tanzania Limited ('HTT')

In October 2017, the Group sold both its 24.06% equity stake and debt holding in HTT, a passive infrastructure service provider, to HTT's parent, HTA Holdings, LTD ('HTA') for US$58.5 million and US$2.7 million respectively.

As a result of losses recognised against the Company's investment in HTT over previous years, the transfer of shares resulted in a pre-tax accounting gain of TZS120.3 billion (tax charges amounted to TZS14.7 billion).

Events after reporting period

The Board is not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the annual financial statements, which significantly affected the financial position of the Group as at 31 March 2018 and the results of its operations.

Consolidated financial statements

The Group's and the Company's financial statements for the year ended 31 March 2018 were approved and authorised for issue by the Board on 30 May 2018.

By order of the Board

Ali Mufuruki
Chairperson

31 May 2018

Ian Ferrao
Managing Director

31 May 2018

Statement of directors' responsibility

For the year ended 31 March 2018

The Companies Act, No. 12 of 2002 requires directors to prepare consolidated and Company financial statements for each financial year that give a true and fair view of the Group and of the Company. A further requirement is that the directors ensure that the Group and the Company keep proper accounting records that disclose, with reasonable accuracy, the financial position of the Group and of the Company. The directors are also responsible for safeguarding the assets of the Group and of the Company and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The directors accept responsibility for the consolidated and Company financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the International Financial Reporting Standards ('IFRS') and the requirements of the Companies Act, No. 12 of 2002. The directors are of the opinion that the consolidated financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company and of the Group's and Company's profit in accordance with the International Financial Reporting Standards ('IFRS'). The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

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 twelve months from the date of this statement.

Signed on behalf of the Board by:

Ali Mufuruki
Chairperson

31 May 2018

Ian Ferrao
Managing Director

31 May 2018

Declaration of the head of finance

For the year ended 31 March 2018

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements.

Full legal responsibility for the preparation of financial statements rests with the Board of Directors as under Statement of Directors Responsibility on page 54.

I, Godwin Josiah Mlay, being the Head of Finance (Record to Report) of Vodacom Tanzania Public Limited Company hereby acknowledge my responsibility of ensuring that financial statements for the year ended March 2018 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements give a true and fair view position of Vodacom Tanzania Public Limited Company as on that date and that they have been prepared based on properly maintained financial records.

Godwin Josiah Mlay

NBAA Membership No: ACPA 1415
Head of Finance – Record to Report

31 May 2018

Independent auditor's report

For the year ended 31 March 2018

To the members of Vodacom Tanzania Public Limited Company

Report on the audit of the Group and Company financial statements

Our opinion

In our opinion, the Group and Company financial statements give a true and fair view of the Group and Company financial position of Vodacom Tanzania Public Limited Company (the Company) and its subsidiaries (together the Group) as at 31 March 2018, and of its Group and Company financial performance and its Group and Company cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002.

What we have audited

Vodacom Tanzania Public Limited Company's Group and Company financial statements set out on pages 58 to 113 comprise:

- the Group and Company statements of financial position as at 31 March 2018;
- the Group and Company statements of profit or loss and other comprehensive income for the year then ended;
- the Group and Company statements of changes in equity for the year then ended;
- the Group and Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

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 Group and Company financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the National Board of Accountants and Auditors (NBAA) that are relevant to our audit of the financial statements in Tanzania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the NBAA.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group and Company financial statements of the current period. These matters were addressed in the context of our audit of the Group and Company 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	
The Group derives revenue from multiple streams with different tariff structures and with changing pricing models. The Group relies on complex information technology (IT) systems and applications for capturing and recording revenue with manual intervention between the billing systems and the general ledger. Our audit focused on responding to the risk that automated application controls and the related IT dependent controls for manually recording revenue in the general ledger are not designed and operating effectively. Information about revenue is disclosed in notes 3(d), 5(c) and 6 of the financial statements.	We tested the design and operating effectiveness of the controls over the continued integrity of the information systems that are relevant to financial accounting and reporting. We tested the revenue billing systems and their interfaces with the financial reporting system through testing the relevant information technology general controls, application controls and manual controls, and substantively reviewing the reconciliation between the billing systems and the general ledger. We performed independent reviews of the work done by the Revenue Assurance function regarding the completeness and accuracy of revenue.

Independent auditor's report continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Contingent liabilities relating to unresolved tax disputes	
The Group has unresolved disputes with Tanzania Revenue Authority relating to additional tax assessments. The Group has objected to the tax assessments based on advice from its external tax and legal advisors. The directors have applied judgement, using the best available information at 31 March 2018 in concluding that adequate provisions are recorded for the exposures. However, the eventual outcome or settlement of these disputes could be materially different from the directors' estimates. Information about taxes and unresolved tax disputed is disclosed in notes 3 (n), 3 (r), 5 (e), 5 (i) and 34 (a).	We tested management's process for identification and evaluation of exposures from revenue authority assessments. We performed audit procedures on the reasonableness of the basis for objection of the revenue authority assessments filed by the Group. Where relevant, we obtained confirmations from the Group's external tax and legal advisors regarding the pending revenue authority assessments. We performed audit procedures on the provisions for tax exposures recorded based on management's own assessment and the advice provided by the Group's tax and legal advisors.

Other information

The directors are responsible for the other information. The other information comprises corporate information, report of the directors, statement of directors' responsibilities and the declaration of the head of finance which we obtained prior to the date of this auditor's report, and other information that will be included in the Annual Report which is expected to be made available to us after the date of this auditor's report. Other information does not include the Group and Company financial statements and our auditor's report thereon.

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

In connection with our audit of the Group and Company 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 Group and Company 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 that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information that will be included in the Annual Report which is expected to be made available to us after the date of this auditor's report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and request them to take appropriate corrective measures.

Responsibilities of the directors for the Group and Company financial statements

The directors are responsible for the preparation and fair presentation of the Group and Company financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002, and for such internal control as the directors determine is necessary to enable the preparation of Group and Company financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the Group and Company financial statements

Our objectives are to obtain reasonable assurance about whether the Group and Company 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 Group and Company 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 Group and Company 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 and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Group and Company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group and Company financial statements, including the disclosures, and whether the Group and Company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group and Company 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 legal and regulatory requirements

This report, including the opinion, has been prepared for, and only for, the Company's members as a body in accordance with the Companies Act, No. 12 of 2002 and for no other purposes.

As required by the Companies Act, No. 12 of 2002, we are also required to report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if the financial statements are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed. In respect of the foregoing requirements, we have no matter to report.

Patrick Kiambi, TACPA
For and on behalf of PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam

25 June 2018

Statements of profit or loss and other comprehensive income

For the year ended 31 March 2018

TZS m	Note	GROUP 2018	GROUP 2017 Restated[3]	COMPANY 2018	COMPANY 2017 Restated[3]
Revenue	6	**977 994**	931 515	**977 958**	932 474
Direct expenses	7	**(302 712)**	(310 114)	**(303 056)**	(311 853)
Staff expenses	8	**(55 328)**	(58 668)	**(55 121)**	(58 048)
Publicity expenses		**(30 649)**	(40 057)	**(30 649)**	(40 057)
Other operating expenses	9	**(329 202)**	(280 406)	**(324 185)**	(275 757)
Depreciation and amortisation	16, 17	**(164 594)**	(150 182)	**(156 858)**	(146 306)
Share-based payment charges		**(6 608)**	–	**(6 608)**	–
Operating profit		**88 901**	92 088	**101 481**	100 453
Gain on sale of equity stock investment	10	**120 251**	–	**120 251**	–
Finance income	11	**44 768**	50 045	**20 172**	17 697
Finance costs	12	**(34 485)**	(52 233)	**(8 386)**	(20 806)
Net loss on re-measurement of financial instruments	13	**(3 099)**	(18 560)	**(3 036)**	(18 560)
Profit before tax		**216 336**	71 340	**230 482**	78 784
Income tax expense	18	**(46 096)**	(23 786)	**(46 517)**	(24 067)
Net profit		**170 240**	47 554	**183 965**	54 717
Other comprehensive income		**–**	–	**–**	–
Total comprehensive income		**170 240**	47 554	**183 965**	54 717
Basic and diluted earnings per share (TZS)	41	**83.81**	28.31	**90.56**	32.57

3. Refer note 46.

Statements of financial position

As at 31 March 2018

TZS m	Note	GROUP 2018	GROUP 2017 Restated[4]	COMPANY 2018	COMPANY 2017 Restated[4]
Assets					
Non-current assets		807 724	814 368	800 251	799 162
Goodwill	15	1 988	1 988	–	–
Property and equipment	16	644 772	656 241	636 802	641 943
Intangible assets	17	47 175	40 152	25 414	16 986
Operating lease prepayments	19	46 764	40 855	46 764	40 855
Investment in subsidiary[5]		–	–	24 246	24 246
Tax receivables[6]		11 156	10 996	11 156	10 996
Trade and other receivables		252	328	252	328
Deferred loss	21	55 617	63 808	55 617	63 808
Non-current assets held for sale	22	2 257	18 768	2 257	18 768
Current assets		1 070 980	614 779	734 421	304 971
Operating lease prepayments	19	9 782	7 557	9 782	7 557
Inventory	23	1 985	13 653	1 985	13 653
Trade and other receivables	20	134 590	124 681	167 416	135 198
Income tax receivables[7]	18	10 666	13 621	7 137	10 093
Financial assets[8]		352 876	314 354	–	–
Short term investment	24	121 192	–	121 192	–
Bank and cash balances	25	439 889	140 913	426 909	138 470
Total assets		1 880 961	1 447 915	1 536 929	1 122 901

TZS m	Note	GROUP 2018	GROUP 2017 Restated[9]	COMPANY 2018	COMPANY 2017 Restated[9]
Equity and liabilities					
Capital and reserves		1 210 454	593 593	1 231 342	600 756
Share capital	26	112 000	84 000	112 000	84 000
Share premium	26	442 435	–	442 435	–
Capital contribution	14	27 698	22 974	27 698	22 974
Retained earnings		628 321	486 619	649 209	493 782
Non-current liabilities		100 076	86 387	93 654	79 543
Finance lease liability	30	5 513	–	5 513	–
Government grants	29	4 695	–	4 695	–
Deferred tax liabilities	18	49 649	57 214	43 227	50 370
Trade and other payables	28	40 219	29 173	40 219	29 173
Current liabilities		570 431	767 935	211 933	442 602
Borrowings	27	285	201 494	285	201 494
Trade and other payables[10]	28	541 697	529 488	206 542	228 230
Interest due to customers	28	22 952	24 075	–	–
Government grants	29	1 772	9 469	1 772	9 469
Provisions	33	3 725	3 409	3 334	3 409
Total liabilities		670 507	854 322	305 587	522 145
Total equity and liabilities		1 880 961	1 447 915	1 536 929	1 122 901

4. Refer note 46.
5. Purchase consideration for Shared Networks Tanzania Limited.
6. These are deposits with TRA in respect of objected assessments for corporate tax, withholding tax and indirect taxes.
7. Includes the deposits with TRA in respect of objected assessments for corporate tax.
8. Financial assets represent restricted cash balances from M-Pesa deposits.
9. Refer note 46.
10. Trade and other payables include amounts owed to M-Pesa customers. As at 31 March 2018 this amount was TZS333 220 million (2017: TZS293 551 million).

The financial statements on pages 58 to 61 were approved and authorised for issue by the Board of Directors on 30 May 2018 and were signed on its behalf by:

Ali Mufuruki
Chairperson

31 May 2018

Ian Ferrao
Managing Director

31 May 2018

Statements of changes in equity

For the year ended 31 March 2018

GROUP

TZS m	Note	Share capital	Share premium	Capital contribution	Retained earnings	Total
1 April 2017		84 000	–	22 974	486 619	593 593
Shares issued	26	28 000	442 435	–	–	470 435
Total comprehensive income		–	–	–	170 240	170 240
Share-based payment charge[11]		–	–	4 724	–	4 724
Dividend declared		–	–	–	(28 538)	(28 538)
31 March 2018		112 000	442 435	27 698	628 321	1 210 454
1 April 2016		84 000	–	22 974	455 579	562 553
Total comprehensive income		–	–	–	47 554	47 554
Dividend declared		–	–	–	(16 514)	(16 514)
31 March 2017		84 000	–	22 974	486 619	593 593

COMPANY

TZS m	Note	Share capital	Share premium	Capital contribution	Retained earnings	Total
31 March 2017		84 000	–	22 974	493 782	600 756
Shares issued	26	28 000	442 435	–	–	470 435
Total comprehensive income		–	–	–	183 965	183 965
Share-based payment charge		–	–	4 724	–	4 724
Dividend declared		–	–	–	(28 538)	(28 538)
31 March 2018		112 000	442 435	27 698	649 209	1 231 342
31 March 2016		84 000		22 974	455 579	562 553
Total comprehensive income		–	–	–	54 717	54 717
Dividend declared		–	–	–	(16 514)	(16 514)
31 March 2017		84 000	–	22 974	493 782	600 756

11. The equity-settled share-based payment charge was incurred as a result of Vodacom Group Limited writing an option on the Company's shares as part of an underwriting arrangement with the Public Investment Corporation Limited (SOC). Under IFRS 2 this was treated as a capital contribution from the Group's parent, Vodacom Group Limited (refer to note 14).

Statements of cash flows

For the year ended 31 March 2018

		GROUP		COMPANY	
TZS m	Note	2018	2017 Restated[12]	2018	2017 Restated[12]
Cash flows from operating activities					
Cash generated from operations	40	**269 039**	322 147	**217 755**	279 253
Income taxes paid	18	**(50 865)**	(44 377)	**(50 865)**	(44 377)
Net cash generated from operating activities		**218 174**	277 770	**166 890**	234 876
Cash flows from investing activities					
Additions to property and equipment and intangible assets		**(149 859)**	(169 384)	**(150 250)**	(169 384)
Acquisition of subsidiary[13]		**(3 637)**	(20 609)	**(3 637)**	(20 609)
Proceeds from sale of property and equipment		**1 073**	1 252	**1 076**	1 252
Government grant received	29	**12 008**	1 393	**12 008**	1 393
Short term investment made	24	**(121 192)**	–	**(121 192)**	–
Finance income received[14]		**22 044**	23 867	**23 644**	23 867
Proceeds from sale of HTT investment	10	**130 582**	–	**130 582**	–
Cash held in restricted deposits		**(38 522)**	(59 368)	**–**	–
Repayment of loan receivable	22	**–**	50 053	**–**	50 053
Interest received from M-Pesa deposits	11	**26 196**	31 470	**–**	–
Net cash used in investing activities		**(121 307)**	(141 326)	**(107 769)**	(113 428)
Cash flows from financing activities	44				
Dividends paid		**(28 463)**	(16 514)	**(28 463)**	(16 514)
Proceeds from an initial public offering of shares		**476 000**	–	**476 000**	–
Payment of an initial public offering cost		**(7 449)**	–	**(7 449)**	–
Interest paid on other borrowings	27	**(465)**	(1 565)	**(465)**	(1 503)
Repayment of bank borrowings	27	**–**	(3 869)	**–**	(3 869)
Principal repayment of shareholder loan	27	**(107 071)**	–	**(107 071)**	–
Repayment of interest on shareholder loan	27	**(104 574)**	(54 901)	**(104 574)**	(54 901)
Interest paid to M-Pesa customers		**(27 222)**	(49 008)	**–**	–
Net cash generated/(used) in financing activities		**200 756**	(125 857)	**227 978**	(76 787)
Net increase in cash and cash equivalents		**297 623**	10 587	**287 099**	44 661
Cash and cash equivalents at the beginning of the year		**140 913**	129 215	**138 470**	92 698
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies	13	**1 353**	1 111	**1 340**	1 111
Cash and cash equivalents at the end of the year	25	**439 889**	140 913	**426 909**	138 470

12. Refer note 46.
13. Final instalment payment for the acquisition of Shared Networks Tanzania Limited (SNT) (2017: TZS20 609 million).
14. Includes interest received under a loan made to Helios Towers Tanzania Limited ('HTT'). In October 2017, the Group sold the loan to HTT's parent company, HTA Holdings, LTD. During the year ended 31 March 2018, TZS6 785 million of interest was received of which TZS6 301 million was for last year and TZS484 million is interest accrued in this year (2017: TZS18 888 million).

Notes to the consolidated annual financial statements

For the year ended 31 March 2018

1. General information

Vodacom Tanzania Public Limited Company is incorporated in Tanzania as a limited liability company and is domiciled in Tanzania. The principal activities of the Group are disclosed in the Directors Report. The address of its registered office is included under Corporate Information shown on page 114.

2. Basis of preparation

The consolidated annual financial statements of Vodacom Tanzania Public Limited Company ('the Company') and its subsidiaries (together 'the Group') are prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRS Interpretations Committee ('IFRIC') interpretations as issued by the International Accounting Standards Board ('IASB') and those parts of the Tanzania Companies Act, No. 12 of 2002 applicable to companies reporting under IFRS. The financial statements are prepared on a going concern basis.

For purposes of the Companies Act, No. 12 of 2002, the statement of financial position is equivalent to the balance sheet while the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of financial statements and the reported amounts of revenue and expenses during the reporting period. For a discussion on the Group's critical accounting judgments and estimates, see 'Critical accounting judgments and estimates' in note 5. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Amounts in the financial statements are stated in Tanzanian Shillings (TZS), rounded to the nearest million (TZS m), except when otherwise indicated. The significant accounting policies are consistent in all material respects with those applied in the previous period.

3. Significant accounting policies

a) Accounting convention

The consolidated annual financial statements are prepared on a historical cost basis, except for certain financial instruments which are measured at fair value or at amortised cost.

b) Consolidation

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree, if any, over the net fair value of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

Where applicable, the consideration transferred includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Changes in fair value that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Changes in fair value that do not qualify as measurement period adjustments are adjusted prospectively, with the corresponding gain or loss being recognised in profit or loss.

Components of non-controlling interests that are current ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at the acquisition date at either:

- Fair value; or
- The non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The choice of measurement basis is made on an acquisition-by-acquisition basis.

3. Significant accounting policies continued

b) Consolidation continued

Business combinations continued

All other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRS. The difference between the proceeds and the carrying amount of the net assets and liabilities disposed of, adjusted for any related carrying amount of goodwill, is recognised as the profit or loss on disposal of subsidiaries. The same principle applies to a joint arrangement.

Accounting for subsidiaries

A subsidiary is an entity controlled by the Group. Control is achieved where the Group has existing rights that give it the current ability to direct the activities that affect the Company's returns and exposure or rights to variable returns from the entity. The results of subsidiaries are included in the statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The consolidated financial statements include the Group's fully owned entities, M-Pesa Limited and Shared Networks Tanzania Limited, companies limited by guarantee and having share capital.

c) Operating segments

The Group determines its operating segments according to the major business activities that the Group undertakes, the entity components regularly reviewed by the Group Executive Committee and whether discrete financial information is available.

Segment information has been reconciled to the consolidated annual financial statements. The measure reported by the Group is in accordance with the significant accounting policies adopted for preparing and presenting the consolidated financial statements.

The segment assets and liabilities comprise all assets and liabilities of the different segments that are employed by the segment and that either are directly attributable to the segment, or can be allocated to the segment on a reasonable basis.

Capital expenditure in property, plant and equipment and intangible assets has been allocated to the segments to which it relates.

Based on management's analysis, there are no separate business segments for which discrete financial information, as required, is available. In addition, the Group operates within the same geographical area, the United Republic of Tanzania, therefore no separate geographical segments exist. Entity wide segment information is the same as that presented in the consolidated financial statements. There are no revenues from transactions with a single external customer that amount to 10% or more of the Group's revenues.

Refer to note 42 for more details about operating segments.

d) Revenue recognition

Revenue is recognised to the extent the Group has delivered goods or rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is measured at the fair value of the consideration received or receivable, exclusive of sales taxes and discounts.

The Group principally obtains revenue from providing the following telecommunication services: access charges, airtime usage, messaging, interconnect fees, data services and information provision, mobile financial services, connection fees and the sale of equipment. Products and services may be sold separately or in bundled packages.

Revenue for access charges, airtime usage and messaging by contract customers is recognised as services are performed with unbilled revenue resulting from services already provided accrued at the end of each period and unearned revenue from services to be provided in future periods deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime or the credit expires.

Revenue from interconnect fees is recognised at the time the services are performed.

Revenue from data services and information provision is recognised when the Group has performed the related service.

Notes to the consolidated annual financial statements continued

3. Significant accounting policies continued

d) Revenue recognition continued

Revenue from mobile financial services is recognised as the services are provided to the customers.

Customer connection revenue is recognised together with the related equipment revenue to the extent that the aggregate equipment and connection revenue does not exceed the fair value of the equipment delivered to the customer. Any customer connection revenue not recognised together with any related excess equipment revenue is deferred and recognised over the period in which services are expected to be provided to the customer.

Revenue from the sale of equipment is recognised when the equipment is delivered to the end-customer and the sale is considered complete. For equipment sales made to intermediaries, revenue is recognised if the significant risks and rewards associated with the device are transferred to the intermediary and the intermediary has no general right of return. If the significant risks and rewards are not transferred, revenue recognition is deferred until sale of the device to an end-customer by the intermediary or the expiry of the right of return.

In revenue arrangements including more than one deliverable, the arrangements are divided into separate units of accounting. Deliverables are considered separate units of accounting if the following two conditions are met: (i) The deliverable has value to the customer on a stand-alone basis; and (ii) There is evidence of the fair value of the undelivered item. The arrangement consideration is allocated to each separate unit of accounting based on its relative fair value on a stand-alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to deliverables is restricted to the amount that is receivable without the delivery of additional goods or services. This restriction typically applies to revenue recognised for devices provided to customers, including handsets.

Other income

Dividends from investments are recognised when the Group's right to receive payment has been established.

Interest is recognised on a time proportion basis with reference to the principal amount receivable and the effective interest rate applicable.

Revenue presentation: Gross versus Net

Where the Group's role in a transaction is that of principal, revenue is recognised on a gross basis. This requires revenue to comprise the gross value of the transaction billed to the customer, after trade discounts, with any related administrative fees charged as an operating cost. Where the Group's role in a transaction is that of an agent, revenue is recognised on a net basis, with revenue representing the margin earned.

e) Commissions

Intermediaries are given cash incentives by the Group to connect new customers and upgrade existing customers.

For intermediaries who do not purchase products and services from the Group, such cash incentives are accounted for as an expense. Cash incentives to other intermediaries are also accounted for as an expense if:

- The Group receives an identifiable benefit in exchange for the cash incentive that is separable from sales transactions to that intermediary; and
- The Group can reliably estimate the fair value of that benefit.

Cash incentives that do not meet these criteria are recognised as a reduction of the related revenue.

Distribution incentives paid to service providers and dealers for exclusivity are deferred and expensed over the contractual relationship period.

f) Intangible assets

The following are the main categories of intangible assets

Intangible assets with an indefinite useful life

Goodwill is initially recognised at cost and subsequently stated at cost less accumulated impairment losses, if any. Goodwill is not amortised, but is tested for impairment on an annual basis. Goodwill is denominated in the currency of the acquired entity.

3. Significant accounting policies continued

f) Intangible assets continued

Intangible assets with a finite useful life

Intangible assets with finite lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful life and commences when the intangible asset is available for use and ceases at the earlier of the date the asset is classified as held for sale or the date it is derecognised. Useful lives and amortisation methods are reviewed on an annual basis with the effect of any changes in estimate accounted for on a prospective basis.

The Group's intangible assets with finite useful lives are as follows:

Licences

Licences which are acquired to yield an enduring benefit are amortised from the date of commencement of usage rights over the shorter of the economic life or the duration of the licence agreement.

Computer software

Expenditure incurred to develop, maintain and renew internally generated trademarks and patents is recognised as an expense in the period it is incurred. Computer software that is not considered to form an integral part of any hardware equipment is recorded as an intangible asset. Software integral to a related item of hardware equipment is accounted for as property and equipment. An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset measured between the net disposal proceeds and the carrying amounts of the asset are recognised in the statement of profit or loss and other comprehensive income when the asset is derecognised.

g) Impairment of tangible and intangible assets

An impairment loss is recognised immediately in the statement of profit or loss and other comprehensive income if the recoverable amount of an asset is less than its carrying amount. Recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows from continuing use and ultimate disposal of the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Assets that do not generate cash inflows largely independent of those from other assets are grouped at the lowest levels for which there are separately identifiable cash flows; known as cash-generating units. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in the prior period. A reversal of an impairment loss is recognised immediately in the statement of profit or loss. Goodwill impairment losses are not reversed.

Property, plant and equipment and intangible assets with a finite useful life.

The Group annually reviews the carrying amounts of its property and equipment and intangible assets with finite useful lives in order to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amounts of the assets are estimated in order to determine the extent, if any, of the impairment loss. Assets with an indefinite useful life and intangible assets not yet available for use, and Goodwill both are tested annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

h) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated and is stated at cost less accumulated impairment losses, if any. Land and buildings in which the Group occupies more than 25% of the floor space or for which the primary purpose is the service and connection of customers are classified as property, plant and equipment.

Assets in the course of construction are carried at cost less any impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Notes to the consolidated annual financial statements continued

3. Significant accounting policies continued

h) Property and equipment continued

The cost of property and equipment includes directly attributable incremental costs incurred in the acquisition and installation of such assets, as well as the present value of the estimated cost of dismantling, removal or site restoration costs if applicable, so as to bring the assets to the location and condition necessary for them to be capable of operating in the manner intended by management.

The cost of small parts as well as repairs and maintenance costs are recognised in the statement of profit or loss and other comprehensive income as incurred.

Depreciation is recognised in the statement of profit or loss on a straight-line basis over the shorter of the lease term if applicable or the estimated useful life and ceases at the earlier of the date the asset is classified as held for sale or the date it is derecognised. Depreciation is not ceased when assets are idle.

Useful lives, residual values and depreciation methods are reviewed on an annual basis with the effect of any changes in estimate accounted for on a prospective basis.

Property and equipment acquired in exchange for non-monetary assets is measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

i) Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out method and comprises direct materials and where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition.

j) Leases

Lease classification

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Group as lessee

Finance leases

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of profit or loss.

In sale and leaseback transactions that result in finance leases any profit or loss is deferred and amortised over the lease term.

Operating leases

Operating lease payments, including benefits received and receivable as an incentive to enter into the lease, are expensed on a straight-line basis over the lease term. Early termination penalties are expensed in the period in which the termination occurs. In sale and leaseback transactions that result in operating leases where the transaction is priced at fair value, any profit or loss is recognised on the effective date of the sale. If the sale price is below fair value, profit or loss is recognised on the effective date of the sale except that, if a loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

3. Significant accounting policies continued

j) Leases continued

Group as lessor

Finance leases

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

k) Foreign currencies and translation of foreign currencies

The consolidated financial statements are presented in Tanzanian Shillings (TZS), which is the Group's functional and presentation currency. Subsidiary entities functional currency is also Tanzanian Shillings (TZS), and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded at the foreign exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency of the Group at the rates prevailing at the reporting date. Exchange differences on the settlement or translation of monetary assets and liabilities identified as being part of operating activities are included in operating profit, while exchange differences on the settlement or translation of monetary assets and liabilities which are not considered as being part of operating activities are included in gains or losses on re-measurement and disposal of financial instruments in profit or loss in the period in which they arise.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated. When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, any exchange component of that gain or loss is recognised directly in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

l) Expenses

Expenses are recognised as they are incurred. Prepaid expenses are deferred and recognised in periods to which they relate.

m) Employee benefits

Post-employment benefits

The Group contributes to defined contribution funds for the benefit of employees. Contributions to the funds are recognised as an expense as they fall due. The Group is not liable for contributions to the medical aid of the retired employees.

Short-term and long-term benefits

The cost of all short-term employee benefits, such as salaries, employee entitlements to leave pay, bonuses, medical aid and other contributions, are recognised in profit or loss in the period in which the employee renders the related service.

The Group provides for long-term employee benefits payable to eligible employees during the period in which the employee renders the related service and is accounted for in the year in which they arise.

Share-based payments

The Group has share-based payment compensation plans for certain eligible employees.

Equity-settled share-based payments

Equity-settled shared-based payments are measured at the grant date fair value of the equity instruments granted, and are expensed on a straight-line basis over the vesting period, with a corresponding increase in equity. The annual expense is based on the Group's estimate of the shares that will eventually vest, adjusted for the effect of non-market vesting conditions.

Cash-settled share-based payments

Cash-settled share-based payment liabilities are initially measured at fair value and subsequently remeasured to fair value at each reporting date as well as at the date of settlement, with any changes in fair value recognised in profit or loss. The expense is recognised on a straight-line basis over the vesting period, with a corresponding increase in the liability.

Notes to the consolidated annual financial statements continued

3. Significant accounting policies continued

n) Income tax

The income tax expense represents the sum of the current tax and deferred tax. Current and deferred tax are recognised in profit or loss, except when they relate to items recognised in other comprehensive income or directly to equity, in which case, current and deferred tax is also recognised directly in other comprehensive income or in equity.

Tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they either relate to income taxes levied by the same tax authority on either the same taxable entity or on different taxable entities which intend to settle the current tax assets and liabilities on a net basis.

Current taxation

Current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because some items of income or expense are taxable or deductible in different years or may never be taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the end of the reporting date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition, other than in a business combination, of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are not recognised to the extent they arise from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset for the carry forward of unused tax losses and tax credits is only recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and tax credits can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting date and adjusted to reflect changes in the probability that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the reporting date. The applicable statutory rate at the reporting date is disclosed in note 18.

o) Financial instruments

Financial assets and financial liabilities, in respect of financial instruments, are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

All financial assets and financial liabilities are initially measured at fair value, including transaction costs except for those classified as at fair value through the statement of comprehensive income which are initially measured at fair value, excluding transaction costs.

The fair value of a financial instrument on initial recognition is normally the transaction price unless the fair value is evident from observable market data.

Financial assets, excluding derivative financial instruments

Financial assets are recognised and derecognised on trade-date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned.

3. Significant accounting policies continued

o) Financial instruments continued

Subsequent to initial recognition, these instruments are measured as follows:

- Financial assets at fair value through profit or loss and available-for-sale are subsequently stated at fair value. Where securities are held for trading, gains and losses arising from changes in fair value are included in profit or loss. For available-for-sale financial assets, gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the security is disposed of, it is determined to be impaired or the equity interest is increased, resulting in the asset no longer being accounted for as an available-for-sale financial asset, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. The net gain or loss recognised in profit or loss incorporates any gains or losses on re-measurement transferred from other comprehensive income to profit or loss, dividends and finance income on the financial asset.
- Loans and receivables are subsequently stated at amortised cost using the effective interest rate method, less any impairment losses. The terms of loans granted are renegotiated on a case-by-case basis if circumstances required renegotiation.
- Trade receivables (excluding assets created by statutory requirements, prepayments, deferred cost and operating lease receivables) do not carry any interest and are subsequently stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
- Other receivables are subsequently stated at their nominal values.
- Finance lease receivables are subsequently stated at amortised cost using the effective interest rate method, less any impairment losses.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at end of each reporting date.

Certain categories of financial assets, such as trade receivables, that are assessed not to be impaired individually, are subsequently assessed for impairment on a collective basis.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, with the exception of trade and other receivables, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For trade and other receivables, the amount of the impairment loss is the irrecoverable amount estimated by management.

The carrying amount is reduced directly by the impairment loss with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed, either directly or by adjusting the allowance account, through profit or loss. The carrying amount of the financial asset at the date the impairment loss is reversed will not exceed what the amortised cost would have been had the impairment loss not been recognised.

Financial liabilities (excluding derivative financial instruments) and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the applicable definitions. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and includes no obligation to deliver cash or other financial asset. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issuance costs.

Subsequent to initial recognition, these instruments are measured as follows:

- Borrowings are subsequently stated at amortised cost, using the effective interest rate method. Any difference between the proceeds net of transaction costs and the settlement or redemption of borrowings is recognised over the term of the borrowings.
- Trade and other payables (excluding liabilities created by statutory requirements, revenue charged in advance, deferred revenue and reduced subscriptions) as well as dividends payable are not interest bearing and are subsequently stated at their nominal values.

Notes to the consolidated annual financial statements continued

3. Significant accounting policies continued

p) Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank overdrafts, demand deposits and short term highly liquid instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, all of which are available for use by the Group unless otherwise stated. Cash on hand is initially recognised at fair value and subsequently stated at its face value.

r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and the amount of obligation can be reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect of the time value of money is material.

s) Borrowing costs

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

t) Non-current assets held-for sale

Non-current assets are classified as held-for-sale if their carrying amount will be recoverable principally through a sale transaction, not through continuing use. The condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Upon initial classification as held-for-sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair values less cost of disposal. An impairment loss is recognised for any initial or subsequent write-down of the asset. Any gain for the subsequent increase in fair value less cost of disposal of the asset is only recognised to the extent that it does not exceed the cumulative impairment loss that has been recognised.

u) Government grants

The Group may be entitled to receive grants from national or regional government which are primarily for the purpose of purchasing property and equipment ('capital grants'). Government grants are recognised when there is reasonable assurance that the Group will comply with any condition on which payment or retention of the grant is dependent and the grant will be paid.

It is the Group's policy to deduct capital grants from the cost of the assets acquired which will result in the depreciation expense for the related assets being reduced during the useful life of the related assets. In the event that a capital grant becomes repayable, the cost of the related assets are increased by the amount of the repayment and cumulative depreciation that would have been recognised in profit or loss had the repaid amount not originally been recorded will be recognised immediately in the profit or loss.

Government grants related to income are recognised in profit or loss on a systematic basis over the periods in which the Group recognises the related costs as expenses, for which the grant is intended to compensate.

Notes to the consolidated annual financial statements continued

4. New accounting pronoucements

Accounting pronouncements adopted

On 1 April 2017, the Group adopted the following new accounting policies to comply with amendments to IFRS. The accounting pronouncements, none of which were considered by the Group as significant on adoption, are:

- Amendments to IAS 12: Income Taxes, recognition of deferred tax assets for unrealised losses, effective for annual periods beginning on or after 1 January 2017;
- Amendments to IAS 7: Statement of Cash Flows, disclosure initiative, effective for annual periods beginning on or after 1 January 2017; and
- Amendments to IFRS 12: Disclosure of Interests in other entities (part of Improvements to IFRS 2014 to 2016 Cycle).

These changes have no material impact on the results, financial position or cash flows of the Group.

New accounting pronouncements to be adopted on or after 1 April 2018

The Group has not yet adopted the following pronouncements, which have been issued by the IASB:

- Amendments to IFRS 2: Share-based Payment, classification and measurement of Share-based Payment transactions effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 4: Insurance Contracts, applying IFRS 9: Financial Instruments with IFRS 4: Insurance Contracts effective for annual periods beginning on or after 1 January 2018;
- Amendment to IAS 28: Investments in Associates and Joint Ventures (part of Improvements to IFRS 2014 to 2016 Cycle), effective for annual periods beginning on or after 1 January 2018;
- IFRIC 22: Foreign Currency Transactions and Advance Consideration, effective for annual periods beginning on or after 1 January 2018;

The Group does not currently believe the adoption of the pronouncements above will have a material impact on its results, financial position or cash flows.

In addition, on 1 April 2018 the Group will adopt the following standards, which have been issued by the IASB; these standards will have the following impact on the Group's financial reporting:

IFRS 15: Revenue from Contracts with Customers

IFRS 15: Revenue from Contracts with Customers, which is effective for annual periods beginning on or after 1 January 2018. IFRS 15 will have no material impact on the Group's reporting of revenue and costs as follows:

IFRS 15, as amended, is effective for accounting periods beginning on or after 1 January 2018. IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements.

IFRS 15 will require the Group to identify deliverables in contracts with customers that qualify as separate 'performance obligations'. The performance obligations identified will depend on the nature of individual customer contracts, but might typically be identified for mobile handsets, other equipment provided to customers and for services provided to customers such as mobile and fixed line communications services. The transaction price receivable from customers must be allocated between the Group's performance obligations under the contracts on a relative stand-alone selling price basis. Revenue will then be recognised either at a point in time or over time when the respective performance obligations in a contract are delivered to the customer.

Currently, revenue allocated to deliverables is restricted to the amount that is receivable without the delivery of additional goods or services; this restriction will no longer be applied under IFRS 15.

The primary impact on revenue reporting will be that when the Group sells subsidised devices together with airtime service agreements to customers, revenue allocated to equipment and recognised at contract inception, when control of the device typically passes to the customer, will increase and revenue subsequently recognised as services are delivered during the contract period will reduce. Where additional up-front unbilled revenue is recorded for the sale of devices, this will be reflected in the consolidated statement of financial position as a contract asset. Expected credit losses will be recorded in respect of amounts due from customers. The recognition of contract assets under IFRS 15 will result in an increase in credit loss charges recorded in future periods.

4. New accounting pronoucements continued

IFRS 15: Revenue from Contracts with Customers continued

Under IFRS 15, certain incremental costs incurred in acquiring a contract with a customer will be deferred on the consolidated statement of financial position and amortised as revenue is recognised under the related contract; this will generally lead to the later recognition of charges for some commissions payable to third party dealers and employees. In addition, certain types of contract acquisition costs will be deducted from revenue as they are considered to relate to the funding of customer discounts.

Certain costs incurred in fulfilling customer contracts will be deferred on the consolidated statement of financial position under IFRS 15 and recognised as related revenue is recognised under the contract. Such deferred costs are likely to relate to the provision of deliverables to customers that do not qualify as performance obligations and for which revenue is not recognised; currently such costs are generally expensed as incurred.

The combined impact of the changes above is expected to increase the gross profit, or reduce the gross loss, recorded at inception on many customer contracts; in such cases, this will typically reduce the gross profit reported during the remainder of the contract; however, these timing differences will not impact the total gross profit reported for a customer contract over the contract term.

In applying IFRS 15, and in determining the accounting impacts described above, the Group will be required to make material judgements. The most significant judgements are expected to be:

- Determining standalone selling price for allocating revenue between performance obligations where contracts contain multiple performance obligations. Judgement will be required to determine whether a standalone selling price exists and if no standalone price exists estimation will be required to determine the appropriate revenue allocation.
- Judgements relating to the reporting of revenue and costs on a gross or net basis, which are consistent with those required under IAS 18.
- Cumulative retained earnings at 1 April 2018 will increase between TZS1 350 million and TZS1 450 million, inclusive of the impact of deferred tax movements and including the impact of adopting IFRS 9. The primary movements contributing to the increase in retained earnings are the recognition of contract assets of between TZS1 750 million and TZS1 950 million and the deferral of previously expensed contract acquisition costs of between TZS130 million and TZS150 million.

The Group's current estimates of the primary financial impacts of these changes on the consolidated income statement are:

- Revenue for the year to 31 March 2018 would have reduced by between TZS190 million and TZS220 million due to the impact of deducting certain contract acquisition costs from revenue where they are deemed to relate to the funding of customer discounts under IFRS 15.
- Based on the results for the year to 31 March 2018, the share of overall revenue recorded as service revenue would have reduced by 0.2 percentage points primarily as a result of an increased allocation of customer receipts to up-front equipment revenue.

No material impact is expected from implementation of IFRS 15 on the Consolidated Statement of Financial Position or on the Consolidated Statement of Cash flow.

IFRS 9: Financial Instruments

IFRS 9: Financial Instruments was issued in July 2014 to replace IAS 39: Financial Instruments: Recognition and Measurement. The standard is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group on 1 April 2018.

IFRS 9 will impact the classification and measurement of the Group's financial instruments. The primary changes resulting from IFRS 9 on the Group's accounting for financial instruments are as follows:

- The Group has elected, under IFRS 9, to recognise the full amount of credit losses that would be expected to be incurred over the full recovery period of trade receivables and contract assets recorded under IFRS 15 at the date of initial recognition of those assets; currently credit losses are not recognised on such assets until there is an indicator of impairment, such as a payment default.

The Group will adopt IFRS 9 with the cumulative retrospective impact on the classification and measurement of financial instruments reflected as an adjustment to equity on the date of adoption.

Notes to the consolidated annual financial statements continued

4. New accounting pronoucements continued

IFRS 9: Financial Instruments continued

In order to comply with the transition requirements of IFRS 15 the Group will report financial information both under IFRS 15 and also under the pre-existing revenue standard (IAS 18, Revenue) for the year commencing 1 April 2018. The Group's current estimates of the primary financial impacts of adoption of IFRS 9 on an IAS 18 accounting basis on the consolidated statement of financial position on adoption is as follows:

- Cumulative retained earnings at 1 April 2018 will reduce between TZS63.09 million and TZS69.73 million, inclusive of the impact of deferred tax movements.

No material impact is expected from implementing IFRS 9 on an IAS 18 basis on the consolidated income statement or on the consolidated statement of cash flows.

New accounting pronouncements to be adopted on or after 1 April 2019

IFRS 16: Leases

IFRS 16: Leases was issued in January 2016 to replace IAS 17: Leases. The standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 April 2019.

IFRS 16 will primarily change lease accounting for lessees; lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right to use asset and interest on the lease liability. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but will be substantively different to existing accounting for operating leases where rental charges are currently recognised on a straight-line basis and no lease asset or related lease creditor is recognised.

Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting and is not expected to have a material impact for the Group.

The following changes to lessee accounting will have a material impact on the Group's financial reporting as follows:

- Right-of-use assets will be recorded for assets that are leased by the Group; currently no lease assets are included on the Group's consolidated statement of financial position for operating leases.
- Liabilities will be recorded for future lease payments in the Group's consolidated statement of financial position for the 'reasonably certain' period of the lease, which may include future lease periods for which the Group has extension options. Currently liabilities are generally not recorded for future operating lease payments, which are disclosed as commitments. The amount of lease liabilities will not equal the lease commitments reported on 31 March 2019, as they will be discounted to present value and the treatment of termination and extension options may differ, but may not be dissimilar.
- Lease expenses will be recognised for depreciation of right-of-use assets and interest on lease liabilities; interest will typically be higher in the early stages of a lease and reduce over the term. Currently operating lease rentals are expensed on a straight-line basis over the lease term within operating expenses.
- Operating lease cash flows are currently included within operating cash flows in the consolidated statement of cash flows; under IFRS 16 these will be recorded as cash flows from financing activities reflecting the repayment of lease liabilities (borrowings) and related interest.

A high volume of transactions will be impacted by IFRS 16 and material judgements will be required in identifying and accounting for leases. The most significant judgement is expected to be determination of the lease term; under IFRS 16 the lease term includes lease extension periods where it is reasonably certain that a lease extension option with be exercised or that a lease termination option will not be exercised. Significant judgement will be required when determining the lease term of leases with extension or termination options.

The Group is continuing to assess the impact of the accounting changes that will arise under IFRS 16 and cannot yet reasonably quantify the impact; however, the changes highlighted above will have a material impact on the consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows after the Group's adoption on 1 April 2019.

Notes to the consolidated annual financial statements continued

4. New accounting pronoucements continued

New accounting pronouncements to be adopted on or after 1 April 2019 continued

IFRS 16: Leases continued

The Group intends to adopt IFRS 16 with the cumulative retrospective impact as an adjustment to equity on the date of adoption. The Group currently expects to apply the following practical expedients allowed under IFRS 16:

- The right-of-use assets will, generally, be measured at an amount equal to the lease liability at adoption and initial direct costs incurred when obtaining leases will be excluded from this measurement;
- The Group will rely on its onerous lease assessments under IAS 37 to impair right-of-use assets recognised on adoption instead of performing a new impairment assessment for those assets on adoption; and Hindsight will be used in determining the lease term.

5. Critical accounting judgements and estimates

The Group prepares its financial statements in accordance with IFRS as issued by the IASB, the application of which often requires management to make judgements when formulating the Group's financial position and results. Judgements, including those involving estimations, made in the process of applying the Group's accounting policies are discussed below. Management considers these judgements to have a material effect on the financial statements.

The determination of estimates requires the exercise of judgements based on various assumptions and other factors such as historical experience, current and expected economic conditions. Although estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from these estimates. Accounting estimates and the underlying assumptions are reviewed on an ongoing basis. The discussion below should also be read in conjunction with the Group's disclosure of significant accounting policies which is provided in note 3.

Management has discussed its critical accounting estimates and associated disclosures with the Group's Audit Committee.

a) Investments in subsidiaries

Judgment is required in the assessment of whether the Group has control or significant influence in terms of the variability of returns from the Group's involvement in the investee, the ability to use power to affect those returns and the significance of the Group's investment in the investee. The Group classified its investments considering this assessment of control or significant influence.

b) Impairment reviews

Management undertakes an annual impairment test for intangible assets not yet available for use. For assets with finite useful lives, impairment testing is performed if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving management judgments, requiring assessment as to whether the carrying amounts of assets can be supported by the higher of their fair value less cost of disposal and value in use. The Group uses parties with the relevant expertise to determine its assets fair value and costs of disposal.

Value in use is calculated as the net present value of future cash flows derived from assets using cash flow projections which have been discounted at appropriate discount rates.

In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- Growth in EBITDA, calculated as earnings before interest, taxation, depreciation, amortisation, impairment losses, profit/loss on disposal of property and equipment, intangible assets and investments;
- Timing and quantum of future capital expenditure;
- Long-term growth rates; and
- The selection of appropriate discount rates to reflect the risks involved.

The Group prepares and annually approves formal five-year management plans, which are used in the value in use calculations.

Notes to the consolidated annual financial statements continued

5. Critical accounting judgements and estimates continued

b) Impairment reviews continued

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and consequently its results.

The Group's review includes a sensitivity analysis of the key assumptions related to the cash flow projections. Refer to note 45 for more information on the impairment assessment for the investment in Shared Networks Tanzania Limited.

c) Revenue recognition and presentation

Presentation: gross versus net

Determining whether the Group is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances. When deciding the most appropriate basis for presenting the revenue or related costs, both the legal form and substance of the agreement between the Group and its business partners are reviewed to determine each party's respective role in the transaction. Such judgments impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flow.

d) Recognition of deferred tax assets

The recognition of deferred tax assets, particularly in respect of tax losses and tax credits, is based upon whether it is probable that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group to utilise the assets in the future.

Management therefore exercises judgement in assessing the future financial performance of the particular entity or tax group in which the deferred tax asset is to be recognised.

e) Direct and indirect tax liabilities

The calculation of the Group's direct and indirect tax liabilities necessarily involves judgments, including those involving estimations, in respect of certain matters where the tax impact is uncertain until a conclusion has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material profits, losses and/or cash flows. The Group uses in house tax experts when assessing uncertain tax positions and seeks the advice of external professional advisers where appropriate. Provisions are recognised for uncertain tax positions when the Group has a present obligation as a result of a past event and it is probable that there will be a future outflow of economic benefits from the Group. Provisions are measured using the most likely outcome.

The resolution of issues is not always within the Group's control and it is often dependent on the efficiency of the legal processes in the relevant tax jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result, there can be substantial differences between the taxation charge in the statement of profit or loss and other comprehensive income and tax payments.

f) Intangible assets with a finite useful life

Intangible assets with finite useful lives comprise licences and computer software. These assets arise from purchases and from acquisitions as part of business combinations. The relative size of the Group's intangible assets with finite useful lives makes the judgments surrounding the estimated useful lives critical to the Group's financial position and performance. The useful lives used to amortise intangible assets relate to the future performance of the assets acquired and management's judgment of the period over which economic benefits will be derived from the assets. The residual values of intangible assets are assumed to be zero. At 31 March 2018, intangible assets with finite useful lives amounted to TZS47 175 million (2017: TZS40 152 million) and represented 2.5% (2017: 2.8%) of the Group's total assets.

Estimation of useful lives

The basis for determining the useful lives for the various categories of intangible assets is as follows:

Licences

The estimated useful life is, generally, the term of the licence, unless there is a presumption of renewal at a negligible cost. The licence term reflects the period over which the Group will receive economic benefits. For technology-specific licences with a presumption of renewal at a negligible cost, the estimated useful life reflects the Group's expectation of the period over which the Group will continue to receive economic benefits from the licence.

5. Critical accounting judgements and estimates continued

f) Intangible assets with a finite useful life continued

Estimation of useful lives continued

Computer software

For computer software licences, the useful life represents management's view of the expected period over which the Group will receive benefits from the software, but not exceeding the licence term. For unique software products controlled by the Group, the life is based on historical experience with similar products as well as anticipation of future events, which may impact the life, such as changes in technology.

The estimated useful lives of intangible assets with finite useful lives are as follows:

Years	2018	2017
Licences	**3 – 25**	3 – 25
Computer software	**3 – 6**	3– 6

g) Property and equipment

Property and equipment also represent a significant proportion of the Group's total asset base. Therefore, the estimates and assumptions made to determine their carrying amounts and related depreciation are critical to the Group's financial position and performance.

Estimation of useful life and residual value

The charge in respect of periodic depreciation is derived after estimating an asset's expected useful life and the expected residual value. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the statement of profit or loss and other comprehensive income.

The Group assesses the residual value of every item of property and equipment annually. In determining residual values, the Group uses management's best estimate for residual values and third-party confirmation. Management has determined that there is no active market for the following assets within the network infrastructure and equipment category: radio, transmission, switching, SIM centers and community services, and therefore these assets have no residual value. At the end of the useful life, the value of the asset is expected to be nil or insignificant in respect of the above mentioned assets.

The estimation of useful lives is based on certain indicators such as historical experience with similar assets as well as anticipation of future events, which may impact the lives, such as changes in technology. The useful lives will also depend on the future performance of the assets as well as management's judgment of the period over which economic benefits will be derived from the assets.

Network infrastructure is only depreciated over a period that extends beyond the expiry of the associated licence under which the operator provides telecommunications services if there is a reasonable expectation of renewal or an alternative future use for the asset.

The estimated useful lives of depreciable property and equipment are as follows:

Years	2018	2017
Buildings, included in Land and buildings	**25 – 50**	25
Leasehold improvements	**0 – 5**	0 – 5
Network infrastructure and equipment	**3 – 20**	3 – 20
Other assets	**2 – 5**	2 – 5

h) Non-current assets held for sale

The Group exercises judgement in estimating the amount of time that a sale transaction of a non-current asset or disposal group ('the asset') will take to be completed, when determining whether the asset qualifies to be classified as held for sale under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. Refer to note 22 for further details on the non-current assets held for sale.

Notes to the consolidated annual financial statements continued

5. Critical accounting judgements and estimates continued

i) Provisions and contingent liabilities

The Group exercises judgments in measuring the exposure to contingent liabilities relating to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities (Note 34). Judgments, including those involving estimations, are necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement.

j) Business combinations

The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the consideration transferred to the fair value of the identifiable assets acquired and the liabilities assumed. The Group uses external parties with the requisite expertise to determine the acquisition-date fair values of certain identifiable assets acquired. The fair value of assets is determined by discounting estimated future net cash flows generated by the assets, where no active market for the assets exists. The use of different discount rates as well as assumptions for the expectation of future cash flows would change the valuation of the asset.

Allocation of the consideration transferred affects the Group's results as property, plant and equipment as well as intangible assets with finite useful lives are respectively depreciated and amortised, whereas land and goodwill are not. This could result in differing depreciation and amortisation charges based on the allocation.

k) Financial instruments

The fair value of financial instruments, excluding derivative instruments, not traded in active, liquid and organised financial markets is determined using a variety of valuation methods and assumptions that are based on market conditions and risks existing at the reporting date, including independent appraisals and discounted cash flow methods. The determination of the fair value of assets and liabilities often requires complex estimations and is based, to a considerable extent, on management's judgment.

l) Equipment swap

The management applied judgment in accounting and reporting of the radio access network swap transaction with Nokia Networks Solution.

The transaction allowed Shared Networks Tanzania Limited to have access to the new equipment and therefore reduce the expected future capital and operations expenditure of the entity. The transaction should ideally have a commercial substance and therefore, the new equipment recorded at fair value.

However, the management believe that neither the fair value of the old equipment nor of the new equipment could be reliably obtained due to the following:

- lack of active market for used equipment, and
- new equipment can be acquired with many different price points.

In absence of reliable fair value, the management decided to record the equipment acquired at the book value of the old equipment exchanged.

6. Revenue

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
Service revenue	**966 275**	912 715	**966 266**	913 674
Non-service revenue	**11 719**	18 800	**11 692**	18 800
	977 994	931 515	**977 958**	932 474

Notes to the consolidated annual financial statements continued

7. Direct expenses

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Interconnect costs	**(53 396)**	(61 651)	**(53 396)**	(61 651)
Business managed services costs	**(137)**	(1 050)	**(1 668)**	(3 741)
Bad debt provision charge (Note 20)	**(2 207)**	(5 727)	**(2 207)**	(5 727)
Mobile prepaid airtime commission costs	**(172 425)**	(170 130)	**(172 425)**	(170 130)
Regulatory fees	**(41 550)**	(33 593)	**(40 543)**	(32 951)
Mobile other costs	**(6 004)**	(2 647)	**(5 824)**	(2 337)
Inventory provisions (charge) (Note 23)	**–**	(1 421)	**–**	(1 421)
Acquisition costs	**(26 498)**	(27 906)	**(26 498)**	(27 906)
Retention costs	**(2 222)**	(2 706)	**(2 222)**	(2 706)
Stock obsolescence reversal/(charge) (Note 23)	**1 727**	(3 283)	**1 727**	(3 283)
	(302 712)	(310 114)	**(303 056)**	(311 853)

8. Staff expenses

TZS m	GROUP 2018	GROUP 2017 Restated[15]	COMPANY 2018	COMPANY 2017 Restated[15]
Wages and salaries, including other termination benefits	**(46 423)**	(46 079)	**(46 253)**	(45 917)
Share-based compensation (Note 8.1)	**(151)**	(839)	**(151)**	(839)
Pension costs – defined contribution plans	**(3 024)**	(3 026)	**(2 987)**	(2 973)
Restructuring costs	**–**	(3 150)	**–**	(2 746)
Skills and Development Levy	**(1 358)**	(1 363)	**(1 358)**	(1 363)
Bonus expense	**(4 372)**	(4 211)	**(4 372)**	(4 210)
	(55 328)	(58 668)	**(55 121)**	(58 048)

15. Refer note 46.

8.1 Share-based compensation

Vodacom Group Limited Forfeitable Share Plan (FSP)

This share-based payment arrangement is accounted for as an equity-settled share-based payment transaction by Vodacom International Limited (VIL), an employer company for the Vodacom Tanzania Limited staff who are part of the scheme since the Group has no obligation to settle the share-based payment transaction.

Under the FSP, awards of Vodacom Group Limited shares are granted to executive directors and selected employees of the Vodacom Group Limited. The vesting of these shares is subject to continued employment, and is conditional upon achievement of performance targets, measured over a three-year period, for directors, senior management and other selected employees. The fair value of the share awards on grant date were measured using the quoted market price of a Vodacom Group Limited share without adjusting for expected dividends and non-market performance conditions.

Vodacom Tanzania Public Limited Company (VTPLC) reimburses the cost incurred by Vodacom Investment Limited through monthly invoices in form of cost recovery with no future obligation and this is accounted for as cash settled scheme by recording the amount paid directly to the income statement. There is no future obligation for VTPLC.

Notes to the consolidated annual financial statements continued

9. Other operating expenses

TZS m	GROUP 2018	GROUP 2017 Restated[16]	COMPANY 2018	COMPANY 2017 Restated[16]
Network operating expenses	**(237 070)**	(183 609)	**(231 777)**	(179 893)
Amortisation of Government grant (Note 29)	**2 396**	–	**2 396**	–
Office administration expenses	**(46 430)**	(56 562)	**(46 757)**	(55 653)
Other recoveries and expenses	**(10 579)**	(7 227)	**(10 578)**	(7 227)
Amortisation of operating lease prepayments (Note 19)	**(11 474)**	(7 790)	**(11 474)**	(7 790)
Auditors' remuneration	**(534)**	(678)	**(489)**	(654)
Audit fees	**(408)**	(538)	**(363)**	(514)
Other charges	**(126)**	(140)	**(126)**	(140)
Gain on disposal of property, plant and equipment	**223**	189	**223**	189
Operating lease rentals	**(16 476)**	(22 952)	**(16 471)**	(22 952)
Forex (losses)/gains	**(2 168)**	6 183	**(2 168)**	6 183
Amortisation of deferred loss (Note 21)	**(6 490)**	(7 360)	**(6 490)**	(7 360)
Donation to Vodacom Tanzania Foundation	**(600)**	(600)	**(600)**	(600)
	(329 202)	(280 406)	**(324 185)**	(275 757)

16. Refer note 46.

10. Sale of investment in associate

The Group sold its 24.06% equity stake in Helios Towers Tanzania Limited ('HTT') to HTA Holdings, LTD ('HTA') in October 2017 for US$58.5 million equivalent to TZS130 582 million. This investment was included in non-current assets held for sale as at 31 March 2017. The sale of the equity stake generated a gain of TZS120 251 million before tax (tax charges amounted to TZS14 705 million). The remaining balance relating to interest on loans receivable from HTT of TZS 6 785 million was also sold to HTA.

11. Finance income

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Interest income from cash and government treasury bill investments	**18 089**	6 062	**19 689**	6 062
Other finance income	**483**	11 635	**483**	11 635
SNT accrued interest released by HTT	**–**	878	**–**	–
	18 572	18 575	**20 172**	17 697
Interest income from M-Pesa cash balances	**26 196**	31 470	**–**	–
	44 768	50 045	**20 172**	17 697

Notes to the consolidated annual financial statements continued

12. Finance costs

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
Interest on long term loans	**(6 343)**	(20 132)	**(6 343)**	(20 132)
Other	**(1 889)**	–	**(1 889)**	–
Interest on bank overdrafts	**(59)**	(54)	**(59)**	(54)
Interest payable – taxation (Note 18 [d])	**–**	(682)	**–**	(620)
Finance charges on finance lease liability	**(95)**	–	**(95)**	–
	(8 386)	(20 868)	**(8 386)**	(20 806)
Interest payable – M-Pesa customers	**(26 099)**	(31 365)	**–**	–
	(34 485)	(52 233)	**(8 386)**	(20 806)

13. Net loss on remeasurement of financial instruments

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
Unrealised foreign exchange (loss)/gain:				
Mirambo Limited loan	**(56)**	(16)	**(56)**	(16)
Vodacom Group Limited loan	**(4 348)**	(19 655)	**(4 348)**	(19 655)
SNT Loan receivable	**–**	–	**28**	–
Exchange losses write-off – SNI management expenses	**(48)**	–	**–**	–
Cash and cash equivalents	**1 353**	1 111	**1 340**	1 111
	(3 099)	(18 560)	**(3 036)**	(18 560)

14. Capital contribution

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
At start of the year	**22 974**	22 974	**22 974**	22 974
Share-based payment – equity	**4 724**	–	**4 724**	–
At the end of the year	**27 698**	22 974	**27 698**	22 974

Capital contribution for March 2017 represents the fair value adjustment on interest-free loans advanced by shareholders in April 2002 totalling US$52 million being US$34 million from Vodacom Group Limited and US$18 million from Mirambo Limited. The fair value adjustment represents the deemed interest accrued prior to the conversion of the loans to interest-bearing loans in March 2008.

Following the IPO process during the year, the equity-settled share-based payment charge of TZS4 724million was incurred as a result of Vodacom Group Limited writing an option on the Group's shares as part of an underwriting arrangement with the Public Investment Corporation (SOC) Ltd. This cost was treated as a capital contribution from the Group's parent, Vodacom Group Limited in line with IFRS 2.

The capital contribution entitles the shareholders to additional returns on their investment in the form of future dividends. It will be realised by the shareholders once their equity investment in the Group is disposed.

15. Goodwill

On 19 July 2016, the Company acquired 100% of Shared Networks Tanzania Limited ('SNT'). A cash payment of TZS20 609 million (85%) was made in August 2016. The remaining balance of TZS 3 637 equivalent to 15% of the total consideration was paid in March 2018. The goodwill was generated on acquisition date as show below:

	GROUP
TZS m	**2018**
Consideration transferred	
Cash consideration	24 246
Net consideration	24 246
Assets acquired and liabilities assumed at the date of acquisition	
Fair value of net asset acquired	22 258
Property, plant and equipment	17 238
Intangible assets	24 101
Trade and other receivables	1 725
Cash and cash equivalents	35
Trade and other payables	(13 716)
Deferred tax asset	(7 125)
Goodwill arising on acquisition	
Cash consideration	24 246
Less fair value of identifiable assets acquired	(22 258)
Goodwill arising on acquisition	1 988

The management has assessed that Goodwill will not be impaired given the growth projections of the Shared Networks Tanzania Limited. See further details in note 45.

Notes to the consolidated annual financial statements continued

16. Property plant and equipment

GROUP

TZS m	Leasehold land & buildings	Network infra-structure & equipment	Other assets	Total
Net book value as at 31 March 2016	16 571	623 086	6 557	646 214
Cost	21 993	1 074 329	10 680	1 107 002
Accumulated depreciation	(5 422)	(451 243)	(4 123)	(460 788)
Additions	287	133 638	2 758	136 683
Business combination (Note 15)	–	17 238	–	17 238
Disposals costs	(653)	(7 419)	(50)	(8 122)
Accumulated depreciation on disposed assets	2	7 010	50	7 062
Depreciation	(767)	(143 640)	(637)	(145 044)
Other adjustments	2 210	–	–	2 210
Net book value as at 31 March 2017	**17 650**	**629 913**	**8 678**	**656 241**
Cost	**23 837**	**1 217 786**	**13 388**	**1 255 011**
Accumulated depreciation	**(6 187)**	**(587 873)**	**(4 710)**	**(598 770)**
Additions	**327**	**141 411**	**3 402**	**145 140**
Business combination assets disposals costs	**–**	**(2 904)**	**–**	**(2 904)**
Business combination accumulated depreciation disposals	**–**	**2 904**	**–**	**2 904**
Depreciation – business combination	**–**	**(6 331)**	**–**	**(6 331)**
Disposals costs	**–**	**(42 215)**	**(2 302)**	**(44 517)**
Accumulated depreciation on disposed assets	**–**	**41 650**	**2 017**	**43 667**
Depreciation	**(475)**	**(149 440)**	**(920)**	**(150 835)**
Reclassification between assets categories	**(1 541)**	**6 787**	**(5 246)**	**–**
Costs reclassification from non-current assets held for sale	**–**	**2 538**	**–**	**2 538**
Depreciation reclassification from non-current assets held for sale	**–**	**(1 245)**	**–**	**(1 245)**
Reclassification costs from intangible assets	**–**	**222**	**–**	**222**
Reclassification amortisation from intangible assets	**–**	**(108)**	**–**	**(108)**
Net book value as at 31 March 2018	**15 961**	**623 182**	**5 629**	**644 772**
Cost	**22 623**	**1 323 625**	**9 242**	**1 355 490**
Accumulated depreciation	**(6 662)**	**(700 443)**	**(3 613)**	**(710 718)**

Included in the net book value balance of network infrastructure is the cost of asset under construction of TZS10 762 million (2017: TZS7 743million). The cost of these assets were not depreciated for the reporting period (2017: nil).

Notes to the consolidated annual financial statements continued

16. Property plant and equipment continued

COMPANY

TZS m	Leasehold land & buildings	Network infra-structure & equipment	Other assets	Total
Net book value as at 31 March 2016	16 571	623 086	6 557	646 214
Cost	21 993	1 074 329	10 680	1 107 002
Accumulated depreciation	(5 422)	(451 243)	(4 123)	(460 788)
Additions	287	133 654	2 742	136 683
Disposals costs	(653)	(7 419)	(50)	(8 122)
Accumulated depreciation on disposed assets	2	7 010	50	7 062
Depreciation	(767)	(140 714)	(623)	(142 104)
Other adjustments (Note 17)	2 210	–	–	2 210
Net book value as at 31 March 2017	**17 650**	**615 617**	**8 676**	**641 943**
Cost	**23 837**	**1 200 564**	**13 372**	**1 237 773**
Accumulated depreciation	**(6 187)**	**(584 947)**	**(4 696)**	**(595 830)**
Additions	**327**	**141 411**	**3 402**	**145 140**
Disposals costs	**–**	**(42 216)**	**(2 302)**	**(44 518)**
Accumulated depreciation on disposed assets	**–**	**41 661**	**2 003**	**43 664**
Depreciation	**(475)**	**(149 439)**	**(920)**	**(150 834)**
Reclassification between assets categories	**(1 541)**	**6 771**	**(5 230)**	**–**
Costs reclassification from non-current assets held for sale	**–**	**2 538**	**–**	**2 538**
Depreciation reclassification from non-current assets held for sale	**–**	**(1 245)**	**–**	**(1 245)**
Reclassification costs from intangible assets	**–**	**222**	**–**	**222**
Reclassification amortisation from intangible assets	**–**	**(108)**	**–**	**(108)**
Net book value as at 31 March 2018	**15 961**	**615 212**	**5 629**	**636 802**
Cost	**22 623**	**1 309 290**	**9 242**	**1 341 155**
Accumulated depreciation	**(6 662)**	**(694 078)**	**(3 613)**	**(704 353)**

Included in the net book value balance of network infrastructure is the cost of asset under construction of TZS10 762 million (2017: TZS7 743million). The cost of these assets were not depreciated for the reporting period.

No property and equipment are pledged against borrowings during the year ended 31 March 2018 (2017: nil).

Notes to the consolidated annual financial statements continued

16. Property plant and equipment continued

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Leasehold land and buildings – Cost				
Plot 49-53, Block M, Mbezi Juu, Dar es Salaam, Tanzania, Certificate of Title No. 49468 (acquired in May 2007)	**12 051**	13 557	**12 051**	13 557
43 Kwale Road, Dar es Salaam, Tanzania, Certificate of Title No. 186031/10 (acquired in May 2001)	**4 059**	3 900	**4 059**	3 900
Plot 1 & 2, Block B, NCC Link Area, Dodoma Municipality (acquired in July 2005)	**2 660**	2 650	**2 660**	2 650
Plot no. 1999, Block M, Forest Area, Mbeya Municipality (acquired in April 2000)	**1 305**	1 272	**1 305**	1 272
Nyegezi Hill, Mwanza (acquired in October 2009)	**1 464**	1 360	**1 464**	1 360
Moshono Hill, Arusha (acquired in July 2009)	**1 084**	1 098	**1 084**	1 098
	22 623	23 837	**22 623**	23 837

A register with details of the cost price, cost of improvements and date of acquisition of all land and buildings is available for inspection at the Group's registered office. The remaining lease term of all leasehold improvements vary between 16 and 72 years.

17. Intangible assets

GROUP

TZS m	Licences	Computer software	Total
1 April 2016	175	9 805	9 980
Cost	1 817	26 432	28 249
Accumulated amortisation	(1 642)	(16 627)	(18 269)
Additions	1 157	12 333	13 490
Business combination (Note 15)	24 101	–	24 101
Disposals costs	(127)	(4 654)	(4 781)
Disposals amortisation	127	4 654	4 781
Amortisation	(1 012)	(4 126)	(5 138)
Other adjustments	(255)	(2 026)	(2 281)
31 March 2017	24 166	15 986	40 152
Cost	26 693	32 085	58 778
Accumulated amortisation	(2 527)	(16 099)	(18 626)
Additions	–	14 565	14 565
Disposals costs	–	(2 654)	(2 654)
Accumulated amortisation on disposed assets	–	2 654	2 654
Amortisation – Business combination	(1 404)	–	(1 404)
Amortisation	(78)	(5 946)	(6 024)
Reclassification between assets categories – costs	(680)	680	–
Reclassification between assets categories – amortisation	683	(683)	–
Reclassification costs to property and equipment	–	(222)	(222)
Reclassification amortisation to property and equipment	–	108	108
31 March 2018	**22 687**	**24 488**	**47 175**
Cost	**26 013**	**44 454**	**70 467**
Accumulated amortisation	**(3 326)**	**(19 966)**	**(23 292)**

17. Intangible assets continued

COMPANY

TZS m	Licences	Computer software	Total
1 April 2016	175	9 805	9 980
Cost	1 817	26 432	28 249
Accumulated amortisation	(1 642)	(16 627)	(18 269)
Additions	222	13 197	13 419
Amortisation charge	(76)	(4 126)	(4 202)
Disposals costs	(127)	(4 655)	(4 782)
Disposals amortisation	127	4 654	4 781
Other adjustments (Note 16)	680	(2 890)	(2 210)
31 March 2017	**1 001**	**15 985**	**16 986**
Cost	**2 592**	**32 084**	**34 676**
Accumulated amortisation	**(1 591)**	**(16 099)**	**(17 690)**
Additions	**–**	**14 565**	**14 565**
Amortisation charge	**(78)**	**(5 946)**	**(6 024)**
Disposals costs	**–**	**(2 653)**	**(2 653)**
Disposals amortisation	**–**	**2 654**	**2 654**
Reclassification between assets categories – costs	**(680)**	**680**	**–**
Reclassification between assets categories – amortisation	**683**	**(683)**	**–**
Reclassification costs to property and equipment	**–**	**(222)**	**(222)**
Reclassification amortisation to property and equipment	**–**	**108**	**108**
31 March 2018	**926**	**24 488**	**25 414**
Cost	**1 912**	**44 454**	**46 366**
Accumulated amortisation	**(986)**	**(19 966)**	**(20 952)**

Notes to the consolidated annual financial statements continued

18. Income tax

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
a) Income tax expense				
Current tax expense:	**53 661**	28 146	**53 661**	28 146
– In respect of the current year	**48 600**	28 146	**48 600**	28 146
– In respect of prior years	**5 061**	–	**5 061**	–
Deferred tax credit on origination and reversal of temporary differences	**(7 565)**	(4 360)	**(7 144)**	(4 079)
– In respect of the current year	**(2 855)**	(4 360)	**(2 434)**	(4 079)
– In respect of the prior year	**(4 710)**	–	**(4 710)**	–
Total income tax expense	**46 096**	23 786	**46 517**	24 067
b) Components of deferred tax charged to profit or loss				
Capital allowances	**(4 319)**	(1 419)	**(3 898)**	(1 138)
Foreign exchange	**6**	(4 223)	**6**	(4 223)
Provisions and deferred income	**(3 252)**	1 282	**(3 252)**	1 282
	(7 565)	(4 360)	**(7 144)**	(4 079)
c) Factors affecting the tax expense for the year				
Expected income tax expense on profit before tax at the Tanzania statutory tax rate	**64 901**	21 402	**69 145**	23 635
Adjusted for:				
– Non-deductible expenditure	**2 142**	735	**1 151**	735
– Non-taxable gaming income	**(2 739)**	(895)	**(2 739)**	(835)
– Non-taxable gain on disposal of investment in HTT	**(21 391)**	–	**(21 391)**	–
– Non-deductible finance costs	**16**	–	**–**	–
– Unrecognised tax assets	**2 816**	–	**–**	–
– Unutilised assessed losses	**–**	1 957	**–**	–
– Other adjustments	**351**	587	**351**	532
	46 096	23 786	**46 517**	24 067

The Tanzania statutory tax rate is 30% (2017: 30%). The Group's effective tax rate is 21.3% (2017: 33.3%). The Company's effective tax rate is 20.2% (2017: 30.5%).

The current year effective tax rate is lower than the statutory tax rate due to the non-taxable accounting profit in respect of the sale of the equity investment in HTT.

Notes to the consolidated annual financial statements continued

18. Income tax continued

c) Factors affecting the tax expense for the year continued

The non-deductible expenditure including, staff benefits, and donations to Vodacom Tanzania Foundation as well as the losses of SNT generated during the year for which no deferred tax asset is recognised slightly offsets this benefit in the current year and is the reason for the effective tax rate being higher than the statutory tax rate in the prior year.

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
d) Income tax receivable				
Opening balance	24 617	5 228	21 089	1 700
Current tax expense	(53 661)	(28 146)	(53 661)	(28 146)
Interest payable	–	(682)	–	(620)
Withholding tax deducted at source	1 749	447	1 749	385
Tax deposits	160	3 393	160	3 393
Tax paid	48 956	44 377	48 956	44 377
Closing balance	21 822	24 617	18 293	21 089
Timing				
Current	10 666	13 621	7 137	10 093
Current tax receivable	5 520	8 175	2 246	5 212
Pending tax matters (Note 34)	5 146	5 446	4 891	4 881
Non-current	11 156	10 996	11 156	10 996
	21 822	24 617	18 293	21 089
e) Components of deferred tax liabilities				
Analysed in the statement of financial position after offset as follows:				
Deferred tax liabilities	77 216	81 529	70 794	74 686
Capital allowances	75 671	79 990	69 249	73 147
Unrealised foreign exchange gains	1 545	1 539	1 545	1 539
Deferred tax assets	(27 567)	(24 315)	(27 567)	(24 315)
General provisions and deferred income	(27 567)	(24 315)	(27 567)	(24 315)
Net deferred tax liabilities	49 649	57 214	43 227	50 371
f) Reconciliation of net deferred tax balance				
At the beginning of the year	57 214	54 450	50 371	54 450
Acquisition of Shared Networks Limited	–	7 124	–	–
Credit to statement of profit or loss and other comprehensive income	(7 565)	(4 360)	(7 144)	(4 079)
At the end of the year	49 649	57 214	43 227	50 371

Notes to the consolidated annual financial statements continued

19. Operating lease prepayments

The Group entered into long term (10 year) leases with the Tanzania Telecommunication Company Limited ('TTCL') in the financial year ended 31 March 2014 for the provision of 1 Synchronous Transport Module ('STM') level-16 fibre optic capacity between various points of presence on the National Information and Communication Technology Backbone ('NICTBB'). The capacity increased to 2xSTM level-16 and 3xSTM level-4 in 2015.

VTPLC has operating lease prepayments balances on NICTBB, Seacom, Zantel and Vodacom Group fiber company (PanSA) that relates to the leased line contracts for the provision of undersea fiber capacity. These were converted from short to long term whereby the Group made an upfront payment for services over a 10 year period.

The movements in operating leases prepayments are shown below:

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
Non-current				
At 1 April	**40 855**	35 361	**40 855**	35 361
Addition	**14 968**	13 791	**14 968**	13 791
Amortisation of operating lease prepayments	**(7 380)**	(5 303)	**(7 380)**	(5 303)
Transfer to operating leases: current	**(1 679)**	(2 994)	**(1 679)**	(2 994)
As at 31 March	**46 764**	40 855	**46 764**	40 855
Current				
At 1 April	**7 557**	2 847	**7 557**	2 847
Addition	**4 640**	4 203	**4 640**	4 203
Transfer from operating leases: non-current	**1 679**	2 994	**1 679**	2 994
Amortisation of operating lease prepayments	**(4 094)**	(2 487)	**(4 094)**	(2 487)
As at 31 March	**9 782**	7 557	**9 782**	7 557

20. Trade and other receivables

	GROUP		COMPANY	
TZS m	**2018**	**2017 Restated[17]**	**2018**	**2017 Restated[17]**
Current				
Trade receivables	**67 374**	107 133	**67 041**	95 432
Prepayments	**42 634**	9 428	**42 395**	9 358
Interest accrued – Treasury bills	**2 830**	–	**2 830**	–
Intergroup receivables (Note 36)	**14 561**	2 825	**49 508**	15 627
Other receivables	**7 191**	5 295	**5 642**	14 781
	134 590	124 681	**167 416**	135 198

17. Refer note 46.

The Group's trade receivables are stated net of allowances based on the management's assessment of a counterparty's creditworthiness. All receivables are individually tested for impairment. None of the above assets are either past due or impaired except for the following amounts presented in the provision for bad debts below:

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
At 1 April	**(49 596)**	(54 204)	**(49 596)**	(54 204)
Bad debt written off	**2 946**	10 335	**2 946**	10 335
Charge to profit or loss (Note 7)	**(2 207)**	(5 727)	**(2 207)**	(5 727)
At 31 March	**(48 857)**	(49 596)	**(48 857)**	(49 596)

Trade receivables are stated at cost which normally approximates fair value due to short term maturity. Generally, no interest is charged on trade receivables.

Notes to the consolidated annual financial statements continued

21. Deferred loss

The Group continued to sell and leaseback passive equipment to Helios Towers Tanzania Limited ('HTT') during the year ended 31 March 2018. Proceeds from these sales were significantly lower than the estimated fair value of the disposed assets. The Group's management concluded that the losses from the disposals of these assets are compensated under the terms of the leaseback agreements, where lease payments which are below market-value have been agreed. Therefore these losses are amortised over the minimum 12-year term of the leaseback agreement.

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
At 1 April	**63 808**	65 599	**63 808**	65 599
Reclassification to non-current assets held for sale (Note 22)	**(1 701)**	–	**(1 701)**	–
Loss on assets sold during the year	**–**	1 958	**–**	1 958
Fair value adjustment for assets not yet sold (Note 22)	**–**	3 611	**–**	3 611
Amortisation charged to profit or loss	**(6 490)**	(7 360)	**(6 490)**	(7 360)
31 March (Note 9)	**55 617**	63 808	**55 617**	63 808

22. Non-current assets held for sale

In September 2013, the Company decided to sell and lease back passive equipment to HTT. The sale was done in phases (closings) with the first to eleventh closings happening before March 2017. The twelfth closing of 12 sites took place in the current financial year bringing the total of 1 583 towers and the related equipment such as generators and shelters sold and transferred to HTT as at the end of the reporting period. The remaining towers and related equipment held for sale are expected to be transferred during the year ending 31 March 2019.

During the year the Group sold to HTA the investment and the shareholder's loan which were classified as non-current asset held for sale in March 2017.

The movement in the non-current assets held for sale are shown below:

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
At 1 April	**18 768**	87 522	**18 768**	87 522
Assets sold and leased back	**(2 226)**	(3 601)	**(2 226)**	(3 601)
Fair value adjustment for assets not yet sold (Note 21)	**–**	(3 611)	**–**	(3 611)
Reclassification from/(to) other receivables	**1 940**	(7 392)	**1 940**	(7 392)
Investment in Associates sale to HTT	**(10 331)**	–	**(10 331)**	–
Reclassification from deferred loss (Note 21)	**1 701**	–	**1 701**	–
Interest income from HTT	**–**	11 635	**–**	11 635
Sites reallocated back to property and equipment	**(1 293)**	–	**(1 293)**	–
HTT equity received for assets sold and leased back	**–**	1 321	**–**	1 321
Repayment of loan principle	**–**	(50 053)	**–**	(50 053)
Interest accrued during the year on HTT receivable[17]	**483**	–	**483**	–
Repayment of loan interest[18]	**(6 785)**	(17 053)	**(6 785)**	(17 053)
At 31 March	**2 257**	18 768	**2 257**	18 768

18. Relates to interest received under a loan made to Helios Towers Tanzania Limited ('HTT'). In October 2017, the Group sold the loan to HTT's parent company, HTA Holdings, LTD. During the year ended 31 March 2018, TZS6 785 million of interest was received of which TZS6 301 million was for last year and TZS484 million is interest accrued in this year (2017: TZS18 888 million).

Notes to the consolidated annual financial statements continued

23. Inventory

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Goods held for resale	1 985	13 653	1 985	13 653
	1 985	13 653	1 985	13 653
Inventory valuation allowance included above				
At beginning of year	(4 979)	(275)	(4 979)	(275)
Stock obsolescence (Note 7)	1 727	(3 283)	1 727	(3 283)
Inventory provision charges (Note 7)	–	(1 421)	–	(1 421)
At the end of the year	(3 252)	(4 979)	(3 252)	(4 979)

The cost of inventories recognised as an expense during the year ended 31 March 2018 was TZS20 456 million (2017: TZS30 259 million).

24. Short-term investments

During the year the Group invested in Treasury bills with maturities of 182 days. Treasury bills worth TZS121 192 million have been included in the statement of financial position.

25. Cash and cash equivalents

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Cash at bank and on hand	384 521	64 846	371 541	62 403
M-Pesa balances	6 855	9 055	6 855	9 055
Short-term deposits	48 513	67 012	48 513	67 012
Bank and cash balances presented in the statement of financial position	439 889	140 913	426 909	138 470
Cash and cash equivalents presented in the cash flow statement	439 889	140 913	426 909	138 470

The fair value of cash and cash equivalents normally approximates it carrying amount due to the short-term maturity.

Notes to the consolidated annual financial statements continued

26. Share capital and premium

In compliance with the Electronic and Postal Communications Act, 2010 (as amended by the Finance Act 2016), the Group launched an initial public offering ('IPO') of 560 000 100 of its ordinary shares (25% of total shares) at a price of TZS850 per share (TZS50 par value and TZS800 share premium). The IPO was conducted from 9 March 2017 to 28 July 2017 and the Group shares were listed on the Dar es Salaam Stock Exchange ('DSE') on 15 August 2017 under the ticker 'VODA'.

Following the IPO, the Group continues to be controlled by its parent Vodacom Group Limited, which, as at 31 March 2018, owns 48.75% of the Group's shares directly and 12.86% indirectly, through Mirambo Limited which owns 26.25%, with the remaining 25% held by the public.

	GROUP		COMPANY	
	2018	2017	2018	2017
Authorised ordinary shares	4 000 000 000	4 000 000 000	4 000 000 000	4 000 000 000
Par Value (TZS)	50	50	50	50
Authorised capital (TZS m)	200 000	200 000	200 000	200 000
Issued shares	2 240 000 300	1 680 000 200	2 240 000 300	1 680 000 200
Share capital (TZS m)	112 000	84 000	112 000	84 000
Share premium (25% share capital issued through IPO):				
Share premium per share (TZS)	800	–	800	–
Share premium proceeds (TZS m)	448 000	–	448 000	–
IPO cost (TZS m)[19]	(5 565)	–	(5 565)	–
Share premium (TZS m)	442 435	–	442 435	–

19. Costs which are deductible from the equity raised through an IPO, these include: authorised collecting agency fees, lead receiving bank fees, lead advisors and sponsoring broker fees, central securities depository fees, printing, and various other fees.

27. Borrowings

During the year ended 31 March 2018 the Group repaid a loan provided by its parent, Vodacom Group Limited.

	GROUP		COMPANY	
TZS m	2018	2017	2018	2017
Current				
Opening balance	201 494	221 290	201 494	221 290
Accrued interest	6 497	20 868	6 497	20 806
Re-measurement of borrowings	4 404	19 671	4 404	19 671
Repayment of bank overdraft	–	(3 869)	–	(3 869)
Principal repayment (Shareholder loan)	(107 071)	–	(107 071)	–
Interest repayment (Shareholder loan)	(104 574)	(54 901)	(104 574)	(54 901)
Interest paid on other borrowings	(465)	(1 565)	(465)	(1 503)
Closing balance	285	201 494	285	201 494

Mirambo Limited

The loan balance as at 31 March 2018 was US$126 229 (2017: US$240 870) bears interest, payable quarterly, at one month LIBOR plus 5.0%. This loan is unsecured.

Bank overdrafts

The Group has an unsecured bank overdraft facility with Citibank Tanzania Limited of US$15.5 million (2017: US$20 million) which attracts interest at six months US$ LIBOR + 3.75%. During the year the Group utilised US$7 251 956 for a period of 31 days at the effective rate of 5.2% (2017: US$ nil was utilised).

Notes to the consolidated annual financial statements continued

28. Trade and other payables

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
Non-current				
Deferred income	**252**	327	**252**	327
Operating lease liability	**39 967**	28 846	**39 967**	28 846
	40 219	29 173	**40 219**	29 173

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
Current				
Trade payables	**20 348**	37 210	**20 122**	30 924
Capital expenditure creditors	**14 851**	10 879	**14 851**	10 879
Pending tax matters (Note 34)	**2 489**	8 780	**2 489**	8 780
Value-added tax	**9 518**	17 786	**9 518**	18 873
Excise duty	**10 697**	10 074	**10 697**	10 074
Accruals	**76 955**	84 095	**74 119**	83 284
Deposits due to M-pesa agents and customers	**333 220**	293 551	**–**	–
Deferred revenue	**22 278**	20 907	**22 277**	20 907
Other payables	**28 137**	14 313	**28 137**	12 029
Related company payables (Note 36)	**23 204**	31 893	**24 332**	32 480
	541 697	529 488	**206 542**	228 230
Interest due to customers	**22 952**	24 075	**–**	–
	564 649	553 563	**206 542**	228 230

Current trade and related payables are stated at cost which normally approximates fair value due to short-term maturity.

29. Government grants

The Group accounts for the grant received from the government as cash flow from investing activities since the cash flows are compensating and reimbursing the Group for making the investment in the sites. During the reporting period the below was recorded.

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
At the beginning of the year	**9 469**	8 076	**9 469**	8 076
Received during the year	**12 008**	1 393	**12 008**	1 393
Amortised during the year (Note 9)	**(2 396)**	–	**(2 396)**	–
Payment to Capital creditors	**(12 614)**	–	**(12 614)**	–
At the end of the year	**6 467**	9 469	**6 467**	9 469
Current	**1 772**	9 469	**1 772**	9 469
Non-current	**4 695**	–	**4 695**	–

During the year, an advance grant of TZS12 008 million (2017: TZS1 393 million) was received from the Universal Communications Service Access Fund ('UCSAF') for the provision of communication services in 97 rural coverage areas. As at 31 March 2018 all sites are operational.

Notes to the consolidated annual financial statements continued

30. Finance lease liability

The Group leases office furniture and fittings under finance lease arrangement with Paloma Park Limited following the move to the new head office building. The lease bears interest at a fixed rate of 2.62% pa over the lease term of 8 years. The lease payment will be made monthly from August 2020.

Maturity of the finance lease liabilities:

TZS m	0–1 year	2 – 5 years	5+ years	Total
2018				
Future minimum lease payment payable	–	(829)	(5 848)	(6 677)
Future finance costs	159	611	394	1 164
Present value of minimum lease payments payable	159	(218)	(5 454)	(5 513)

31. Interest in other entities – Company

The Group has interests in the following entities:

M-Pesa Limited

M-Pesa Limited was established and registered on 9 April 2008 under the Companies Act, No. 12 of 2002 as a company limited by guarantee having share capital. The guarantee is limited to TZS1 000 per guarantor. M-Pesa Limited has two guarantors, of which one is the Company.

M-Pesa Limited's principal activity is to act as bona fide trustees in order to protect and safeguard all and any monies gained from and/or to M-Pesa Limited's cellular phone money transfer service for the benefit of the users of the said service. M-Pesa Limited is consolidated.

Below is an extract taken from the separate financial statements of M-Pesa limited:

TZS m	2018	2017
Statement of financial position		
Total assets	369 178	320 127
Net assets	10	10
Total expenses	(97)	(105)

Vodacom Tanzania Limited (incorporated in Zanzibar)

Vodacom Tanzania Limited was incorporated established and registered in Zanzibar on 20 July 2000 under the Zanzibar Companies Decree, CAP 153. Vodacom Tanzania Limited (incorporated in Zanzibar) has an authorised share capital of 1 000 000 ordinary shares with a par value of TZS100 per share. Vodacom Tanzania Limited (incorporated in Zanzibar) has unpaid share capital of 100 shares. 99 shares have been issued to the Company. Vodacom Tanzania Limited (incorporated in Zanzibar) has remained dormant since its incorporation.

Notes to the consolidated annual financial statements continued

31. Interest in other entities – Company continued

Vodacom Tanzania Foundation ('the Foundation')

The Foundation was established and registered on 29 October 2007 under The Companies Act, No. 12 of 2002 as a company limited by guarantee and without share capital. The guarantee is limited to TZS1 000 per guarantor. The Foundation has four guarantors, of which one is the Company.

The Foundation's principal activities are charitable in nature.

Below is an extract taken from the financial statements of the Foundation:

TZS m	2018	2017
Statement of financial position		
Total assets	**1 062**	838
Net liabilities	**(215)**	(57)
Statement of profit or loss and other comprehensive income		
Donation income	**956**	941
Total expenses	**(778)**	(551)

The Foundation is required to use donations in the year it receives them. However due to the nature of the charitable activities performed by the Foundation, there are often timing differences between receiving and using donations.

Shared Networks Tanzania Limited ('SNT')

On 19 July 2016, the Company acquired 100% of SNT's issued share capital. SNT holds a licence to use spectrum in the 900MHz band in rural Tanzania. SNT financial year was changed from January to December to reflect Vodacom Tanzania financial year which is April to March. Therefore, the extract below represents 12 months period from 1 April 2017 to 31 March 2018. (No comparative figures available for disclosure).

TZS m	2018
Statement of financial position	
Total assets	**11 752**
Net liabilities	**(13 652)**
Statement of profit or loss and other comprehensive income	
Revenue	**1 655**
Total expenses	**6 402**

Notes to the consolidated annual financial statements continued

32. Commitments

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Operating leases (Note 32.1)	641 137	624 679	641 137	624 679
Capital expenditure contracted for but not yet incurred	33 602	24 877	33 602	24 877
Other (including sports and marketing commitments)	100 478	130 088	100 478	130 088
	775 217	779 644	775 217	779 644

32.1 Operating leases

Future minimum lease payments under irrevocable operating leases:

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Within one year	77 587	65 441	77 587	65 441
Between one and five years	305 655	269 794	305 655	269 794
More than five years	257 895	289 444	257 895	289 444
	641 137	624 679	641 137	624 679

Operating leases include leases of offices and other accommodation, motor vehicles, sites and others. The remaining lease terms vary between six months and fifteen years and the lease rent escalates annually on the anniversary date using fixed or consumer price index rates with an option to renew on the same terms and conditions.

32.2 Capital commitments

Capital commitments for property and equipment will be financed through internally generated funds and extended supplier credit.

33. Provisions

The Group is currently involved in various legal proceedings and has, in consultation with its legal counsel, assessed the outcome of these proceedings to have a total probable exposure of TZS3 334 million (2017: TZS3 185 million).

Similarly, the Group ascertained and accounted for the provision for the site decommissioning cost of TZS391 million. In 2017, TZS224 million was recorded as a provision for the restructuring costs.

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Opening balance	3 409	1 200	3 409	1 200
Additional provision – legal proceedings	149	1 985	149	1 985
Restructuring costs provision release	(224)	224	(224)	224
Additional provision – site decommissioning costs	391	–	–	–
Closing balance	3 725	3 409	3 334	3 409

Notes to the consolidated annual financial statements continued

34. Contingent liabilities and other matters

a) Contingent liabilities

Tax matters

The Group is regularly subject to an evaluation by tax authorities of its direct and indirect tax filings. The consequence of such reviews is that disputes can arise with tax authorities over the interpretation or application of certain tax rules applicable to the Group's businesses. These disputes may not necessarily be resolved in a manner that is favourable to the Group. Additionally, the resolution of the disputes could result in an obligation to the Group.

The Group is currently involved in the resolution of significant tax demands arising from assessments by the Tanzania Revenue Authority ('TRA'), a substantial amount of which the Group disagrees with the TRA's interpretation of the tax laws and regulations, and consequently for which no provisions have been recorded.

Having considered internal and external expert advice, the Directors believe that the Group has made sufficient provision for any losses arising from tax exposures that are more likely to occur than not. There has been no material increase in exposure during the year ended 31 March 2018.

Legal contingencies

The Group is currently involved in various legal proceedings and has, in consultation with its legal counsel, assessed the outcome of these proceedings. Following this assessment, the Group's management has determined, that adequate provision has been made in respect of these legal proceedings as at 31 March 2018.

b) Other matters

Customer registration

In April 2017, the Tanzania Communications Regulatory Authority ('TCRA') issued a compliance order to operators which were subject to a SIM card registration audit conducted in December 2016. The audit found 209 offences where Vodacom Tanzania had not fully registered customers in accordance with the applicable regulations. During July 2017, the TCRA issued fines, associated with the compliance order, from which Vodacom Tanzania was fined and paid a total of TZS1.9 billion.

In December 2017, the TCRA issued a compliance order against Vodacom Tanzania with 57 offences found during an audit conducted during September 2017. Vodacom Tanzania filed its defence for all 57 offences and no ruling has been made by the TCRA on this compliance order to date. During the year, we continued to invest in enhanced registration processes and take actions to improve our compliance with the TCRA's customer registration requirements.

New mobile termination rates

The TCRA published new mobile termination rates ('MTRs') on 29 December 2017. MTRs declined from TZS26.96 to TZS15.60 from January 2018, which had an impact on interconnect revenue and expenses in the final quarter of the year. The TCRA's 'glide path' reduces the MTR annually until it becomes TZS2.00 in January 2022. The Group filed an appeal against the TCRA's new mobile termination rates with the Fair Competition Commission primarily on the grounds that the 'glide path' sets MTRs below the costs incurred by operators.

Government electronic payment gateway ('GePG')

On 01 April 2018, the state introduced a government electronic payment gateway ('GePG') where all mobile money payments to state-owned companies are to be routed for an incremental service fee borne by the customer. Furthermore, commercial arrangements governing payments between Vodacom M-Pesa and Tanzania Electric Supply Company Limited ('TANESCO'), where Vodacom received a payment facilitation fee, were terminated.

Tower equipment verification

During the year, the Group and HTT deployed a joint project team to verify records of equipment located on each of HTT's sites. On the project's completion, the project team determined the actual space utilised by the Group on each of HTT's sites in order for an accurate charge to be determined in accordance with the service agreement made between HTT and Vodacom Tanzania Public Limited Company. In January 2018, the Group and HTT agreed a final retrospective fee adjustment and incremental charges of TZS11 813 million, of which approximately TZS8 400 million are recurring incremental charges.

Notes to the consolidated annual financial statements continued

35. Post-employment benefits

Subject to eligibility all employees of the Group are members of the National Social Security Fund of Tanzania ('NSSF'), Parastatal Pensions Fund ('PPF') and Local Authority Provident Fund ('LAPF') defined contribution pensions schemes for which both the Group and each employee contribute 10% of gross remuneration per month.

The Group has no legal or constructive obligation to pay contributions to funds which do not hold sufficient assets to pay any employee the benefits relating to his or her employment in the current and prior periods.

36. Related parties

The Group's related parties are its ultimate parent, its parent, its non-controlling shareholder, all its other related companies and key management including directors.

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
Balances with related parties				
Trade and other receivables				
Vodafone Group Plc (Ultimate parent)	**8 460**	806	**8 460**	806
Vodacom Group Limited (Parent)	**6 101**	2 019	**6 101**	2 019
Shared Network Tanzania Limited	**–**	–	**22 182**	10 519
M-Pesa Limited	**–**	–	**12 765**	2 283
	14 561	2 825	**49 508**	15 627
Trade payables				
Vodafone Group Plc (Ultimate parent)	**(16 265)**	(14 249)	**(16 265)**	(14 249)
Vodacom Group Limited (Parent)	**(4 798)**	(15 854)	**(4 798)**	(15 854)
Shared Network Tanzania Limited	**–**	–	**(1 128)**	(587)
Safaricom Limited	**(2 141)**	(1 790)	**(2 141)**	(1 790)
	(23 204)	(31 893)	**(24 332)**	(32 480)
Trade payables				
HTT operating lease liability	**(39 967)**	(28 845)	**(39 967)**	(28 845)
Borrowings				
Vodacom Group Limited (Parent)	**–**	(200 956)	**–**	(200 956)
Mirambo Limited (Shareholder)	**(285)**	(538)	**(285)**	(538)
	(285)	(201 494)	**(285)**	(201 494)
Transaction with related parties				
Vodafone Group Plc and its subsidiaries				
Revenue	**320**	2 242	**320**	2 242
Direct costs	**(1 175)**	(481)	**(1 175)**	(481)
Other operating expenses	**(21 138)**	(20 586)	**(21 138)**	(20 586)
Donation to Vodacom Tanzania Foundation	**(600)**	(600)	**(600)**	(600)
	(22 593)	(19 425)	**(22 593)**	(19 425)
Vodacom Group Limited subsidiaries – Mozambique, DRC and Lesotho				
Revenue	**487**	417	**487**	417
Direct costs	**(22)**	(635)	**(22)**	(635)
Other operating expenses	**(774)**	(6 624)	**(774)**	(6 624)
	(309)	(6 842)	**(309)**	(6 842)

Notes to the consolidated annual financial statements continued

36. Related parties continued

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Transaction with related parties continued				
Vodacom Group Limited – South Africa				
Revenue	**7 138**	1 670	**7 138**	1 670
Direct costs	**(3 623)**	(419)	**(3 623)**	(419)
Finance costs	**(6 341)**	(20 081)	**(6 341)**	(20 081)
Secondee expenses and other operating expenses	**(12 337)**	(11 731)	**(12 337)**	(11 731)
	15 163	(30 561)	**15 163**	(30 561)
Mirambo Limited				
Finance costs	**(29)**	(49)	**(29)**	(49)
Shared Networks Tanzania Limited				
Revenue	**–**	–	**280**	717
Direct costs	**–**	–	**(1 340)**	(2 578)
	–	–	**(1 060)**	(1 861)
Helios Towers Tanzania Limited				
Operating expenses	**(161 990)**	(120 846)	**(161 990)**	(120 846)
Key management compensation				
Short-term employee benefits	**(7 557)**	(10 671)	**(7 557)**	(4 601)
Post-employment benefits	**(5)**	(18)	**(5)**	(18)
Long-term employee benefits	**(701)**	(485)	**(701)**	(485)
	(8 263)	(11 174)	**(8 263)**	(5 104)
Non-executive directors				
Non-executive directors' fees	**(380)**	(548)	**(380)**	(548)
Executive directors				
Short-term employee benefits	**(3 603)**	(3 266)	**(3 603)**	(1 919)
Long-term employee benefits	**(634)**	(377)	**(634)**	(377)
	(4 237)	(3 643)	**(4 237)**	(2 296)

Notes to the consolidated annual financial statements continued

37. Risk management policies and objectives

37.1 Net loss on re-measurement of financial instruments

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Vodacom Group Limited				
Loans and receivables	**1 353**	1 111	**1 340**	1 111
Financial liabilities measured at amortised cost	**(4 452)**	(19 671)	**(4 376)**	(19 671)
Net loss	**(3 099)**	(18 560)	**(3 036)**	(18 560)

37.2 Financial instruments carrying amounts

The Group holds the following financial instruments at amortised cost:

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Financial assets				
Trade receivables	**67 374**	107 133	**67 041**	95 432
Other receivables	**7 191**	5 295	**5 642**	14 781
Cash and bank balances (Note 25)	**384 521**	64 846	**371 541**	62 403
Interest accrued – Treasury bills	**2 830**	–	**2 830**	–
M-Pesa balances (Note 25)	**6 855**	9 055	**6 855**	9 055
Financial assets	**352 876**	314 354	–	–
Short term investment	**121 192**	–	**121 192**	–
Short term deposits (Note 25)	**48 513**	67 012	**48 513**	67 012
Loan receivable (included in non-current assets held for sale)	–	7 053	–	7 053
Intergroup receivables	**14 561**	2 825	**49 508**	15 627
	1 005 913	577 573	**673 122**	271 363
Financial liabilities				
Trade payables	**(20 348)**	(37 210)	**(20 122)**	(30 924)
Accruals	**(76 955)**	(84 095)	**(74 119)**	(83 284)
Finance lease liability	**(5 513)**	–	**(5 513)**	–
Intergroup payables	**(23 204)**	(31 893)	**(24 332)**	(32 480)
Capital expenditure creditors	**(14 851)**	(10 879)	**(14 851)**	(10 879)
Intergroup borrowings	**(285)**	(201 494)	**(285)**	(201 494)
Other payables	**(28 137)**	(14 313)	**(28 137)**	(12 029)
Deposits due to M-pesa agents and customers	**(333 220)**	(293 551)	–	–
Interest due to customers	**(22 952)**	(24 075)	–	–
	(525 465)	(697 510)	**(167 359)**	(371 090)

The Group did not have financial instruments measured at fair value.

Notes to the consolidated annual financial statements continued

37. Risk management policies and objectives continued

37.3 Interest rate profile

At the reporting date, the interest rate profile of the Group's interest bearing financial assets and liabilities was as follows:

TZS m	Fixed rate	Variable rate	No interest	Total
GROUP				
2018				
Financial assets				
Trade receivables	–	–	67 374	67 374
Other receivables	–	–	7 191	7 191
Cash and bank balances (Note 25)	–	–	384 521	384 521
M-Pesa balance (Note 25)	–	–	6 855	6 855
Short-term investments	121 192	–	–	121 192
Interest accrued – Treasury bills	–	–	2 830	2 830
Short-term deposits (Note 25)	48 513	–	–	48 513
Financial assets	352 876	–	–	352 876
Intergroup receivables	–	–	14 561	14 561
	522 581	–	483 332	1 005 913
Financial liabilities				
Trade payables	–	–	(20 348)	(20 348)
Finance lease liability	(5 513)	–	–	(5 513)
Other payables	–	–	(28 137)	(28 137)
Accruals	–	–	(76 995)	(76 995)
Capital expenditure creditors	–	–	(14 851)	(14 851)
Intergroup borrowings	–	(285)	–	(285)
Intergroup payables	–	–	(23 204)	(23 204)
Deposits due to agents	(333 220)	–	–	(333 220)
Interest due to customers	(22 952)	–	–	(22 952)
	(361 685)	(285)	(163 535)	(525 505)
2017				
Financial assets				
Trade receivables	–	–	107 133	107 133
Other receivables	–	–	5 295	5 295
Cash and bank balances (Note 25)	–	–	64 846	64 846
M-Pesa balances (Note 25)	–	–	9 055	9 055
Short-term deposits (Note 25)	67 012	–	–	67 012
Financial assets	314 354	–	–	314 354
Loans receivables (included in non-current assets held for sale)	7 053	–	–	7 053
Intergroup receivables	–	–	2 825	2 825
	388 419	–	189 154	577 573

Notes to the consolidated annual financial statements continued

37. Risk management policies and objectives continued

37.3 Interest rate profile continued

TZS m	Fixed rate	Variable rate	No interest	Total
Financial liabilities				
Trade payables	–	–	(37 210)	(37 210)
Other payables	–	–	(14 313)	(14 313)
Accruals	–	–	(84 095)	(84 095)
Capital expenditure creditors	–	–	(10 879)	(10 879)
Intergroup borrowings	–	(201 494)	–	(201 494)
Deposits due to agents	(293 551)	–	–	(293 551)
Intergroup payables	–	–	(31 893)	(31 893)
Interest due to customers	(24 075)	–	–	(24 075)
	(317 626)	(201 494)	(178 390)	(697 510)

TZS m	Fixed rate	Variable rate	No interest	Total
COMPANY				
2018				
Financial assets				
Trade receivables	–	–	67 041	67 041
Other receivables	–	–	5 642	5 642
Cash and bank balances (Note 25)	–	–	371 541	371 541
M-Pesa balance (Note 25)	–	–	6 855	6 855
Interest accrued – Treasury bills	–	–	2 830	2 830
Short-term investments	121 192	–	–	121 192
Short-term deposits (Note 25)	48 513	–	–	48 513
Intergroup receivables	–	–	49 508	49 508
	169 705	–	503 417	673 122
Financial liabilities				
Trade payables	–	–	(20 122)	(20 122)
Other payables	–	–	(28 137)	(28 137)
Finance lease liability	(5 513)	–	–	(5 513)
Accruals	–	–	(74 119)	(74 119)
Capital expenditure creditors	–	–	(14 851)	(14 851)
Intergroup borrowings	–	(285)	–	(285)
Intergroup payables	–	–	(24 332)	(24 332)
	(5 513)	(285)	(161 561)	(167 359)

Notes to the consolidated annual financial statements continued

37. Risk management policies and objectives continued

37.3 Interest rate profile continued

TZS m	Fixed rate	Variable rate	No interest	Total
COMPANY				
2017				
Financial assets				
Trade receivables	–	–	95 432	95 432
Other receivables	–	–	14 781	14 781
Cash and bank balances (Note 25)	–	–	62 403	62 403
M-Pesa balances (Note 25)	–	–	9 055	9 055
Short-term deposits (Note 25)	67 012	–	–	67 012
Loan receivable (included in non-current assets held for sale)	7 053	–	–	7 053
Intergroup receivables	–	–	15 627	15 627
	74 065	–	197 298	271 363
Financial liabilities				
Trade payables	–	–	(30 924)	(30 924)
Other payables	–	–	(12 029)	(12 029)
Accruals	–	–	(83 284)	(83 284)
Capital expenditure creditors	–	–	(10 879)	(10 879)
Intergroup borrowings	–	(201 494)	–	(201 494)
Intergroup payables	–	–	(32 480)	(32 480)
	–	(201 494)	(169 596)	(371 090)

37.4 Financial risk management

Market risk

The Group's normal operations, its sources of finance and changing market conditions expose it to various financial risks which highlight the importance of financial risk management. Principal financial risks faced by the Group are foreign currency, interest rate, credit and liquidity risks.

A treasury division of Vodacom Group Limited provides the Group with support to access both domestic and international financial markets and manage foreign currency, interest rate and liquidity risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by the Vodacom Group Limited's board. There has been no significant change during the reporting period, or since the end of the reporting period, to the types of financial risks faced by the Group, the measures used to gauge these risks or the objectives, policies and processes for managing them.

The Group's activities expose it to the risks of fluctuations in foreign currency exchange rates and interest rates. Market risk exposures are measured using sensitivity analyses which show how profit for the year would have been affected by a little adverse change in the relevant risk variable that were reasonably possible at the reporting date. Sensitivity analyses are for illustrative purposes only as, in practice, market rates rarely change in isolation.

There were no changes in the methods and assumptions used in preparing sensitivity analysis as at 31 March 2018.

Notes to the consolidated annual financial statements continued

37. Risk management policies and objectives continued

37.4 Financial risk management continued

Foreign currency risk

Various monetary items exist in currencies other than the Group's functional currency. The table below discloses the net currency exposure (net carrying amount of foreign-denominated monetary assets/ (liabilities) of the Group. The Group is mainly exposed to the United States dollar ('US$') and to a lesser extent to the Euro ('€'), Great British pound ('£') and South African rand ('R').

GROUP

	31 March 2018			
TZS m	**US$**	**€**	**£**	**R**
Assets				
Trade and other receivables	25 427	437	–	–
Cash and cash equivalents	148 259	22 064	–	227
	173 686	22 501	–	227
Liabilities				
Trade and other payables	(9 530)	(16 236)	(48)	(2 395)
Borrowings	(285)	–	–	–
	(9 815)	(16 236)	(48)	(2 395)
Net gap	163 871	6 265	(48)	(2 168)

	31 March 2017			
TZS m	**US$**	**€**	**£**	**R**
Assets				
Trade and other receivables	23 399	882	–	–
Cash and cash equivalents	80 623	1 166	–	145
	104 022	2 048	–	145
Liabilities				
Trade and other payables	(37 159)	(12 910)	–	(2 299)
Borrowings	(47 609)	–	–	(153 885)
	(84 768)	(12 910)	–	(156 184)
Net gap	19 254	(10 862)	–	(156 039)

Notes to the consolidated annual financial statements continued

37. Risk management policies and objectives continued

37.4 Financial risk management continued

Foreign currency risk continued

COMPANY

	31 March 2018			
TZS m	**US$**	**€**	**£**	**R**
Assets				
Trade and other receivables	**25 427**	**437**	**–**	**–**
Cash and cash equivalents	**148 259**	**22 064**	**–**	**227**
	173 686	**22 501**	**–**	**227**
Liabilities				
Trade and other payables	**(9 530)**	**(16 236)**	**(48)**	**(2 395)**
Borrowings	**(285)**	**–**	**–**	**–**
	(9 815)	**(16 236)**	**(48)**	**(2 395)**
Net gap	**163 871**	**(6 265)**	**(48)**	**(2 168)**

	31 March 2017			
TZS m	**US$**	**€**	**£**	**R**
Assets				
Trade and other receivables	23 399	882	–	–
Cash and cash equivalents	80 623	1 166	–	145
	104 022	2 048	–	145
Liabilities				
Trade and other payables	(37 159)	(12 910)	–	(2 299)
Borrowings	(47 609)	–	–	(153 885)
	(84 768)	(12 910)	–	(156 184)
Net gap	19 254	(10 862)	–	(156 039)

Notes to the consolidated annual financial statements continued

37. Risk management policies and objectives continued

37.4 Financial risk management continued

Foreign currency risk continued

The analysis below discloses the Group's sensitivity to the specified percentage change in its functional currency, TZS against the foreign currencies which it is exposed to. The management's assessment of a reasonable possible change in foreign currency exchange rates is based on estimated interest rate differentials. This analysis includes outstanding foreign-denominated monetary items only and adjusts their translations at the reporting date with the specified percentage change.

GROUP

	F	US$	£	R
2018				
% change	3.0	6.4	1.5	15.1
Profit/(loss) after tax – (TZS m)	132	(7 341)	(1)	229
2017				
% change	8.5	6.5	6.3	6.4
Profit/(loss) after tax – (TZS m)	644	(846)	–	7 569

COMPANY

	F	US$	£	R
2018				
% change	3.0	6.4	1.5	15.1
Profit/(loss) after tax – (TZS m)	132	(7 341)	1	229
2017				
% change	8.5	6.5	6.3	6.4
Profit/(loss) after tax – (TZS m)	644	(846)	–	7 569

Interest rate risk

The Group's interest rate profile consists of floating rate borrowings, short term investments, finance lease liability, deposits due to M-pesa customers and agents, loans receivables and short-term deposits, which exposes the Group to interest rate risk and may be summarised as follows:

	GROUP		COMPANY	
TZS m	**2018**	**2017**	**2018**	**2017**
Financial assets	352 876	314 354	–	–
Short term investments	121 192	–	121 192	
Short term deposits	48 513	67 012	48 513	67 012
Loans receivables (included in non-current assets held for sale)	–	7 053	–	7 053
	522 581	388 419	169 705	74 065
Deposits due to M-pesa agents and customers	(333 220)	(293 551)	–	–
Interest due to customers	(22 952	(24 075)	–	–
Finance lease liability	(5 513)	–	(5 513)	–
	(361 685)	(317 626)	(5 513)	–
Shareholders loan				
Shareholders' loans linked to USD LIBOR	285	47 608	285	47 608
Shareholders' loans linked to JIBAR	–	153 886	–	153 886
	285	201 494	285	201 494

The floating rates which the Group is exposed to are the Tanzanian government 364-days T-bill, one-month JIBAR (Johannesburg interbank average rate) and one-month and six-month USD LIBOR (London interbank offered rate) rates.

Notes to the consolidated annual financial statements continued

37. Risk management policies and objectives continued

37.4 Financial risk management continued

Interest rate sensitivity analysis

The analysis below shows the Group's sensitivity to change in a market rate it is exposed to. Management's assessment of a reasonable possible change in market rates are based on economic forecasts from various sources.

	GROUP		COMPANY	
TZS m	2018	2017	2018	2017
One-month JIBAR rates				
Basis point increase	50	25	50	25
Profit/(loss) post tax	(1)	(291)	(1)	(291)
One-month USD LIBOR				
Basis point increase	50	5	50	50
Profit/(loss) post tax	–	(16)	–	(16)

Credit risk

The carrying amounts of financial assets, are shown net of any impairment losses, and represent the Group's maximum exposure to credit risk. The Group's policy is to deal with credit worthy counterparties only and to obtain sufficient collateral, where appropriate, to mitigate the risk of financial loss from defaults. The Group uses publicly available financial information, the financial standing of counterparties and the Group's own trading records in order to determine the credit quality of a counterpart. Contractual arrangements are entered into with other mobile network operators in line with any regulatory requirements and industry normal business practice. Credit exposure is further controlled by defining credit limits per counterparty which are periodically reviewed and approved by the credit risk department. The Group's exposure and credit ratings are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. In determining the recoverability of trade receivables, the Group considers changes in credit quality.

The Group's largest customer represents 27.3% (2017: 27.9%) of the total trade receivable balance. With the exception of the aforementioned, the credit risk for trade and other receivables is generally limited due to the customer base being large and unrelated in conjunction with stringent credit approval processes. The average credit period on trade receivables is 30 days (2017: 30 days). The Group has not renegotiated the terms of any of its financial assets which resulted in them not being past due or impaired.

The credit risk associated with cash and cash equivalents and financial assets are limited as they are placed with high credit quality financial institutions.

The below is the aging analysis of trade and other receivables (excluding prepayments, deposits and deferred costs) that are past due but not impaired for this financial year.

TZS m	30 – 60 days	60 – 90 days	90 – 120 days	Over 120 days	Total
GROUP					
2018					
Total	25 561	1 123	1 806	27 054	55 544
2017					
Total	6 638	2 086	27 956	4 465	41 145

TZS m	30 – 60 days	6 0 – 90 days	90 – 120 days	Over 120 days	Total
COMPANY					
2018					
Total	24 169	2 251	1 806	54 965	83 191
2017					
Total	6 638	2 086	27 956	17 627	54 307

Notes to the consolidated annual financial statements continued

37. Risk management policies and objectives continued

37.4 Financial risk management continued

Liquidity management

The tables below disclose the maturity profile of the Group's non-derivative financial liabilities and those financial assets used for managing liquidity risk. The tables have been drawn up based on the earliest date on which the Group can be required to settle or can require settlement and include both estimated interest and principal cash flows.

TZS m	0 – 1 Year	2 – 5 Years	5+ years	Total
GROUP				
2018				
Financial liabilities				
Intergroup borrowings	(285)	–	–	(285)
Finance lease liability[20]	159	(218)	(5 454)	(5 513)
Accruals	(76 955)	–	–	(76 955)
Intergroup payables	(23 204)	–	–	(23 204)
Capital expenditure creditors	(14 851)	–	–	(14 851)
Deposits due to M-pesa agents and customers	(333 220)	–	–	(333 220)
Interest due to customers	(22 952)	–	–	(22 952)
Trade and other payables	(48 485)	–	–	(48 485)
	(519 793)	(218)	(5 454)	(525 565)
Financial assets				
Trade and other receivables	74 565	–	–	74 565
Intergroup receivables	14 561	–	–	14 561
Cash and cash equivalents	384 521	–	–	384 521
Financial assets	352 876	–	–	352 876
Interest accrued – Treasury bills	2 830	–	–	2 830
Short term investments	121 192	–	–	121 192
M-pesa balances	6 855	–	–	6 855
Short term deposits	48 513	–	–	48 513
	1 005 913	–	–	1 005 913
2017				
Financial liabilities				
Intergroup borrowings	(201 494)	–	–	(201 494)
Accruals	(84 095)	–	–	(84 095)
Intergroup payables	(31 893)	–	–	(31 893)
Capital expenditure creditors	(10 879)	–	–	(10 879)
Deposits due to M-pesa agents and customers	(293 551)	–	–	(293 551)
Interest due to customers	(24 075)	–	–	(24 075)
Trade and other payables	(51 523)	–	–	(51 523)
	(697 510)	–	–	(697 510)
Financial assets				
Trade and other receivables	112 428	–	–	112 428
Intergroup receivables	2 825	–	–	2 825
M-pesa balances	9 055	–	–	9 055
Financial assets	314 354	–	–	314 354
Short term deposits	67 012	–	–	67 012
Loan receivable	7 053	–	–	7 053
Cash and cash equivalents	64 846	–	–	64 846
	577 573	–	–	577 573

20. The positive means the finance costs elements are paid earlier than the future minimum payments.

Notes to the consolidated annual financial statements continued

37. Risk management policies and objectives continued

37.4 Financial risk management continued

Liquidity management continued

TZS m	0 – 1 Year	2 – 5 Years	5+ years	Total
COMPANY				
2018				
Financial liabilities				
Intergroup borrowings	**(285)**	**–**	**–**	**(285)**
Finance lease liability[21]	**159**	**(218)**	**(5 454)**	**(5 513)**
Accruals	**(74 119)**	**–**	**–**	**(74 119)**
Intergroup payables	**(24 332)**	**–**	**–**	**(24 332)**
Capital expenditure creditors	**(14 851)**	**–**	**–**	**(14 851)**
Trade and other payables	**(48 259)**	**–**	**–**	**(48 259)**
	(161 687)	**(218)**	**(5 454)**	**(167 359)**
Financial assets				
Trade and other receivables	**72 683**	**–**	**–**	**72 683**
Intergroup receivables	**49 508**	**–**	**–**	**49 508**
Cash and cash equivalents	**371 541**	**–**	**–**	**371 541**
Interest accrued – Treasury bills	**2 830**	**–**	**–**	**2 830**
M-pesa balances	**6 855**	**–**	**–**	**6 855**
Short term investments	**121 192**	**–**	**–**	**121 192**
Short term deposits	**48 513**	**–**	**–**	**48 513**
	722 630	**–**	**–**	**722 630**
2017				
Financial liabilities				
Intergroup borrowings	(201 494)	–	–	(201 494)
Accruals	(83 284)	–	–	(83 284)
Intergroup payables	(32 480)	–	–	(32 480)
Capital expenditure creditors	(10 879)	–	–	(10 879)
Trade and other payables	(42 953)	–	–	(42 953)
	(371 090)	–	–	(371 090)
Financial assets				
Trade and other receivables	110 213	–	–	110 213
Intergroup receivables	15 627	–	–	15 627
Loan receivable	7 053	–	–	7 053
M-pesa balances	9 055	–	–	9 055
Short term deposits	67 012	–	–	67 012
Cash and cash equivalents	62 403	–	–	62 403
	271 363	–	–	271 363

21. The positive means the finance costs elements are paid earlier than the future minimum payments.

The Group ensures that adequate funds are available to meet its expected and unexpected financial commitments through undrawn borrowing facilities. At the end of the reporting date, the Group had US$20.0 million (2017: US$20.0 million) undrawn foreign-denominated borrowing facilities to manage its liquidity. The Group uses bank facilities under the normal operating cycle to manage short-term liquidity. The Group raises funds in bank markets and ensures a reasonable balance is maintained between the period over which the assets generate funds and the period over which the respective assets are funded to manage long-term liquidity. Liquidity on long-term borrowings is managed by maintaining a varied maturity profile thereby minimising refinancing risk.

Notes to the consolidated annual financial statements continued

38. Capital management

The Group finances its operations through a mixture of internally generated cash-flows as well as shareholder and other external loans. The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising return to shareholders. Capital is monitored on the basis of net debt to equity.

Adjusted equity comprises of share capital, retained earnings and other reserves.

The Group's strategy is to maintain an optimal net debt to adjusted equity ratio. This internal ratio establishes levels of debt that the Group should not exceed other than for relatively short periods of time and it is reviewed on a semi-annual basis to ensure it is being met. The Group is not subject to externally imposed capital requirements.

The following table summarises the capital of the Group:

	GROUP		COMPANY	
TZS m	2018	2017	2018	2017
Borrowings (Note 27)	285	201 494	285	201 494
Cash and bank balances – (Note 25)	(439 889)	(140 913)	(426 909)	(138 470)
Net debt	–	60 581	–	63 024
Equity	1 210 454	593 593	1 231 342	600 756
Net debt to adjusted equity ratio	–	10.2%	–	10.5%

39. Parent and ultimate parent

The Group is controlled by its parent Vodacom Group Limited, which is incorporated and domiciled in the South Africa, owns, as at 31 March 2018, 61.61% (2017: 65%) of the Group's shares directly and 12.86% (2017: 17.20%) indirectly. The ultimate parent is Vodafone Group Plc., which is incorporated and domiciled in the United Kingdom.

40. Cash generated from operations

	GROUP		COMPANY	
TZS m	2018	2017	2018	2017
Profit before tax	216 336	71 340	230 482	78 784
Adjusted for:				
Finance income	(44 768)	(50 045)	(20 172)	(17 697)
Finance cost	34 485	52 233	8 386	20 806
Net loss on translation of financial instruments	3 099	18 560	3 036	18 560
Operating profit	209 152	92 088	221 732	100 453
Adjusted for:				
Depreciation and amortisation	164 594	150 182	156 858	146 306
Share-based payment charges	6 608	–	6 608	–
Amortisation of Government grant	(2 396)	–	(2 396)	–
Gain on disposal of HTT investment	(120 251)	–	(120 251)	–
Amortisation of deferred loss	6 490	7 360	6 490	7 360
Gain on disposal of property, plant and equipment	(223)	(189)	(223)	(189)
Cash-flow from operations before working capital changes	263 974	249 441	268 818	253 930
Decrease/(increase) in Inventory	11 668	(7 633)	11 668	(7 633)
(Increase)/decrease in trade and other receivables	(10 975)	10 673	(37 160)	(29 800)
(Decrease)/increase in trade and other payables and provisions	4 372	69 666	(25 571)	62 756
Cash generated from operations	269 039	322 147	217 755	279 253

Notes to the consolidated annual financial statements continued

40. Cash generated from operations continued

Increase)/decrease in trade and other receivables:

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
(Increase) in operating lease prepayments	**(8 134)**	(10 204)	**(8 134)**	(10 204)
(Increase) in trade and other receivables	**(3 128)**	(47 877)	**(29 313)**	(88 350)
Decrease in non-current assets held for sale	**287**	68 754	**287**	68 754
	(10 975)	10 673	**(37 160)**	(29 800)

(Decrease)/increase in trade and other payables and provisions:

TZS m	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Increase/(decrease) in trade and other payables	**4 056**	67 457	**(25 496)**	60 547
Increase/(decrease) in provisions	**316**	2 209	**(75)**	2 209
	4 372	69 666	**(25 571)**	62 756

41. Earnings per share

Earnings per share calculations are based on earnings and the weighted average number of ordinary shares outstanding as set out below:

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Basic earnings per share (TZS)	**83.81**	28.31	**90.56**	32.57
Earnings attributable to equity shareholders (TZS m)	**170 240**	47 554	**183 965**	54 717
Weighted average number of ordinary shares outstanding (million)[22]	**2 031**	1 680	**2 031**	1 680
Dividends per share (TZS)	**12.74**	9.83	**12.74**	9.83

22. A weighted average which incorporates the number of shares outstanding as at 01 April 2017, 1 680 000 200, plus additional shares that were issued as part of the Company's initial public offering and subsequent listing on the Dar es Salaam stock exchange on 15 August 2017, 560 000 100. No shares were bought back during the year ended 31 March 2018.

No dilutive instruments exist at the reporting date.

42. Operating segments

In order to identify operating segments, management identifies components:

- that engage in business activities from which it may earn revenues and incur expenses;
- whose operating results are regularly reviewed by the Group Executive Committee; and
- for which discrete financial information is available.

Based on management's analysis, there are no separate business segments for which discrete financial information, as required, is available. In addition, the Group operates within the same geographical area, the United Republic of Tanzania, therefore no separate geographical segments exist. Entity wide segment information is the same as that presented in the consolidated financial statements. There are no revenues from transactions with a single external customer that amount to 10% or more of the Group's revenues.

Notes to the consolidated annual financial statements continued

43. Current net asset position

The Group had net current asset of TZS500 549 million as at 31 March 2018 (2017: net current liability TZS153 156 million). The net current asset is largely attributed by cash received from the IPO proceeds which is now invested across six relationship banks and investment in government Treasury bills.

The Group will adopt to market conditions in order to maintain an optimal capital structure, commensurate with the level of risk which one would expect from an emerging market telecom.

44. Reconciliation of cash flows arising from financing activities relating to financial liabilities

TZS m	Loans	Other borrowing	Total
31 March 2017	200 956	538	201 494
Cash flow movements	(211 645)	(465)	(212 110)
Repayment of borrowings	(107 071)	–	(107 071)
Interest paid on borrowings	(104 574)	(465)	(105 039)
Non cash flow movements	10 689	212	10 901
Interest accruals	6 341	156	6 497
Foreign exchange	4 348	56	4 404
31 March 2018	–	**285**	**285**

45. Investment and loan receivable impairment testing – Company

The carrying amount of the investment in Shared Networks Tanzania Limited (SNT) and loan were as follows:

TZS m	2018	2017
Investment in SNT	**24 246**	24 246
Loan	**21 968**	10 207

The recoverable amounts of the investment and loan are based on value in use calculations.

Key assumptions used in value in use calculations

The key assumptions, applied by the management to validate the sustainability of the SNT investment and recoverability of loan using its cash flow projections for the five period (the horizon period) are:

a) Revenue, direct costs and other operating expenses growth

The revenue growth of SNT is aligned to the long range revenue growth projections of Vodacom Tanzania Public Limited Company (VTPLC). The Group long-range plan has been used since most of the revenue for SNT will be generated from VTPLC under the wholesale national roaming arrangement. The year on year growth rates for each of the years are:

	31 March 2019	31 March 2020	31 March 2021	31 March 2022	31 March 2023
Revenue	516%	12.1%	11.34%	10.02%	9.34%
Direct costs	(6.87%)	3.22%	2.44%	2.13%	2.14%
Other operating expenses	(37.03%)	5.06%	3.67%	4.49%	4.51%

SNT did not carry out significant business activities during the year ended 31 March 2018 following the acquisition during the year ended 31 March 2017. The focus was on resolving the transfer of spectrum to VTPLC with the Tanzania Communications Regulatory Authority (TCRA).

45. Investment and loan receivable impairment testing continued

b) No new capital investments

There will be no future additional capital investment requirements to sustain the projected operation levels.

c) Conversion of loan to equity

The Group intends to convert the outstanding loan balance into equity. This change would ensure no further charge and payment of interest on loan.

d) Future Cash flow will equate to EBITDA less tax

In line with the above two assumptions; without additional Capital investment and borrowing cost, future cash-flow is expected to be the same as EBITDA less tax payment.

e) Future operating cost to remain in the current levels

Future costs are not expected to change significantly since the material service agreements in place are fixed for the long term.

f) Discount rates used

The discount rate of 18.26% applied to the cash flows is based on the capital asset pricing model, which includes the risk-free rate computed based on 10-year yield bond issued by the government adjusted for a risk premium to reflect the risk associated with investing in equities, and the beta, applied to reflect the risk of the specific Group operating company relative to the market as a whole.

g) Long-term growth rate

The long-term growth rate into perpetuity has been determined as the lower of the long-term real GDP rate, and the five-year compound annual growth rate in EBITDA estimated by management as 5.9%.

h) Evaluation period

Business case based on the technology horizon of five years.

Sensitivity considerations

Management believes that no reasonable possible change in any of the above assumptions that would cause the carrying amount of investment in the entity and the receivable Group loan balance to exceed the expected Shared Networks Tanzania's enterprise value. The sum of the carrying value of the investment in SNT and the loan would equal the value in use if individually (i.e. all other factors held constant), the discount rate increased by 2.2%, revenue growth rate reduced by 7% and the long-term revenue growth rate reduced by 10%.

Notes to the consolidated annual financial statements continued

46. Reclassifications and comparative figures

Certain amounts in relation to the financial year ended 31 March 2017 were reclassified for consistency with the presentation of the financial year ended 31 March 2018. Reclassifications did not impact net profit and/or total comprehensive income. The items which were reclassified are shown below:

TZS m	Before Reclassification	Movement	After Reclassification
GROUP			
Statement of profit or loss and other comprehensive income			
Staff expenses	66 205	(7 537)	58 668
Other operating expenses	272 869	7 537	280 406
Statement of financial position			
Income tax receivable	–	10 996	10 996
Trade and other receivables	11 324	(10 996)	328

TZS m	Before Reclassification	Movement	After Reclassification
COMPANY			
Statement of profit or loss and other comprehensive income			
Staff expenses	65 585	(7 537)	58 048
Other operating expenses	268 220	7 537	275 757
Statement of financial position			
Income tax receivable	–	10 996	10 996
Trade and other receivables	11 324	(10 996)	328

47. Events after reporting date

The Board is not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the annual financial statements, which may significantly affect the financial position or the results of the operations of both the Group and the Company as at 31 March 2018.

Share information

Total shareholding	March 2018 # of shares	% holding
Vodacom Group Limited	1 092 000 130	48.8%
Mirambo Limited	588 000 070	26.3%
Government Employees Pension Fund (Public Investment Corporation SOC Limited, the Republic of South Africa)	164 503 540	7.3%
Institutional investors (East Africa)	244 835 925	10.9%
Institutional investors (Rest of world)	45 830 302	2.0%
Retail investors	95 833 853	4.3%
Other[1]	8 996 480	0.4%
	2 240 000 300	100.0%

Note:

1. Balance of remaining holdings, including shares below analysis threshold. May include additional institutional/retail shareholdings.

Decomposition of institutional holdings

	March 2018 % institutional holding
Tanzania	47.9%
PIC	36.1%
South Africa (excl. PIC)	8.3%
Uganda	5.9%
United States	1.8%
	100%

Corporate information

Vodacom Tanzania Public Limited Company

(Incorporated in the United Republic of Tanzania)
Registration number: 38501
(ISIN: TZ1996102715 Share Code: VODA)

Directors

AA Mufuruki[1] (Chairman), I Ferrao[2] (Managing Director), JJ Marais (Finance Director)[3], D Gutierrez[4], T Streichert[5], K Gomado[6], M Mbungela[3], ADJ Delport[3], M Ikongo[1], W Ouko[7], T Semane[3], HJC Surtees[2]

1. Tanzanian 2. British 3. South African 4. Bolivian
5. German 6. Ghanaian 7. Kenyan

Company secretary

Caroline Mduma

Registered office

15th Floor, Vodacom Tower,
Ursino Estate, Plot 23, Bagamoyo Road,
P.O. Box 2369, Dar es Salaam, Tanzania.

Transfer secretary

CSD & Registry Company Limited
Dar es Salaam Stock Exchange
14th Floor, Golden Jubilee Towers, Ohio Street,
PO Box 70081, Dar es Salaam, Tanzania.

Sponsoring licensed dealing member

Orbit Securities Company Limited

External communications

Rosalynn Mworia

Investor Relations

Robert Wall-Pring
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Definition of terms

2G	2G networks are operated using global system for mobile ('GSM') technology which offers services such as voice, text messaging and low speed data. In addition, our network supports general packet radio services ('GPRS'), often referred to as 2.5G. GPRS allows mobile devices to access online data services such as the internet and email.
3G	A cellular technology based on wide band code division multiple access delivering voice and faster data services.
4G	4G or long-term evolution ('LTE') technology offers even faster data transfer speeds than 3G.
5G	5G is the coming fifth-generation wireless broadband technology which will provide better speeds and coverage than the current 4G.
Active customers	Active customers are based on the total number of mobile customers using any service during the last three months. This includes customers paying a monthly fee that entitles them to use the service even if they do not actually use the service and those customers who are active while roaming.
Active data customers	Active data customers are based on the number of unique users generating billable data traffic during the month. Also included are users on integrated tariff plans, or who have access to corporate access point names ('APNs'), and users who have been allocated a revenue generating data bundle during the month. A user is defined as being active if they are paying a contractual monthly fee for this service or have used the service during the reported month.
30 day active M-Pesa customers	30 day active M-Pesa customers are the number of unique customers who have generated billable transactions during the past 30 days.
ARPU	ARPU is calculated by dividing the average monthly service revenue by the average monthly active customers during the period.
Capital Markets and Securities Act	Capital Markets and Securities Act, Cap. 79 of the Laws of the United Republic of Tanzania (Act No. 5 of 1994), as amended from time to time.
Cloud services	Services where the customer has little or no equipment at their premises and all the equipment and capability associated with the service is run from the Vodacom network and data centres instead. This removes the need for customers to make capital investments and instead they have an operating cost model with a recurring fee.
Companies Act	Companies Act, Cap. 212 of the Laws of the United Republic of Tanzania (Act No. 12 of 2002), as amended from time to time.
Customer value management ('CVM')	The delivery of perceived value to identifiable customer segments that results in a profitable return for the company.
EBIT	Earnings before interest, taxation, impairment losses, profit/loss on disposal of investments, profit/loss from associate and restructuring cost.
EBITDA	Earnings before interest, taxation, depreciation and amortisation, impairment losses, profit/loss on disposal of investments, property, plant and equipment, and intangible assets, profit/loss from associate and restructuring cost.
EPOCA	The Electronic and Postal Communications Act, Cap. 172 of the Laws of the URT (Act No. 3 of 2010) as amended from time to time.
Free cash flow	Cash generated from operations less additions to property, plant and equipment and intangible assets, proceeds on disposal of property, plant and equipment and intangible assets, tax paid, net finance charges paid or received. Free cash flow excludes movements in amounts owed to M-Pesa customers.
GSM Association	An organisation which represents the interests of mobile operators globally, uniting nearly 800 operators with almost 300 companies in the broader mobile ecosystem.

Definition of terms continued

Internet of Things ('IoT')	The network of physical objects embedded with electronics, software, sensors, and network connectivity, including built-in mobile SIM cards, that enables these objects to collect data and exchange communications with one another or a database.
Mobile broadband	Mobile broadband allows internet access through a browser or a native application using any portable or mobile device such as smartphone, tablet or laptop connected to a cellular network.
Mobile customer	A mobile customer is defined as a subscriber identity module ('SIM') which has access to the network for any purpose, including data only usage.
Mobile termination rate ('MTR')	A per minute charge paid by a telecommunications network operator when a customer makes a call to another mobile or fixed network operator.
MoU	Minutes of use per month is calculated by dividing the average monthly minutes (traffic) during the period by the average monthly active customers during the period.
Operating free cash flow	Cash generated from operations less additions to property, plant and equipment and intangible assets other than licence and spectrum payments and purchases of customer bases, net of proceeds on disposal of property, plant and equipment and intangible assets, other than licence and spectrum payments and disposals of customer bases. Operating free cash flow excludes movements in amounts owed to M-Pesa customers.
PABX	A private automatic branch exchange ('PABX') is an automatic telephone switching system within a private enterprise.
RAN	Radio access network is the part of a mobile telecommunications system which provides cellular coverage to mobile phones via a radio interface, managed by base stations installed on towers and rooftops across the coverage area, and linked to the core nodes through a backhaul infrastructure which can be owned, leased or a mix of both.
Roaming	Allows customers to make calls, send and receive texts and data on other operators' mobile networks, usually while travelling abroad.
Smartphone penetration	The number of smartphones and other smart devices used on our network during a month divided by the total number of mobile customers which used any service during the same period.
SME	Small to medium-sized enterprise.
SoHo	Small office-home office.
Spectrum	The radio frequency bands and channels assigned for telecommunication services.
Vodacom Group	Vodacom Group Limited and each of its subsidiary companies.
Vodacom Tanzania or the Company	Vodacom Tanzania Public Limited Company.
Vodafone Group Plc	Vodafone Group Plc and each of its subsidiary companies.
VPN	A virtual private network ('VPN') is a network that uses a shared telecommunications infrastructure, such as the internet, to provide remote offices or individual users with secure access to their organisation's network.
Weighted NPS	The net promoter score ('NPS') is an index ranging from -100 to 100 that measures the willingness of customers to recommend an operator's products or services to others. It is used as a proxy for gauging the customers' overall satisfaction with an operator's product or service and the customers' loyalty to the brand. For each operator, responses are collected from customers who use its products or services as either the primary or alternative means of telecommunication (a 'primary user' or 'alternative user'). Responses from primary and alternative users are then weighted by the natural proportion of primary and alternative users for that operator in order to calculate the weighted NPS.
WiMAX	Worldwide Interoperability for Microwave Access ('WiMAX') technology is a broadband wireless data communications technology which is able to provide high speed data over a wide area.

Disclaimer

Non-IFRS information

The auditor's report does not necessarily cover all of the information contained in this announcement, which sets out the consolidated preliminary results of Vodacom Tanzania Public Limited Company ('the Company') and its subsidiaries (together 'the Group') for the year ended 31 March 2018. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's work they should obtain a copy of that report together with the accompanying financial information from the registered office of the Company. This announcement contains certain non-IFRS financial measures which has not been reviewed or reported on by the Group's auditors. The Group's management believes these measures provide valuable additional information in understanding the performance of the Group or the Group's businesses because they provide measures used by the Group to assess performance. However, this additional information presented is not uniformly defined by all companies, including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Additionally, although these measures are important in the management of the business, they should not be viewed in isolation or as replacements for or alternatives to, but rather as complementary to, the comparable IFRS measures. Refer to the 'Operating and financial review' section of this announcement for details relating to service revenue, EBIT and earnings per share.

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Forward-looking statements

This announcement, which sets out the consolidated preliminary results of the Group for the year ended 31 March 2018, contains 'forward-looking statements', which, save as is otherwise stated in the Prospectus issued by the Company on 12 February 2017 (a copy of which is available on the Company's website), have not been reviewed or reported on by the Group's auditors, with respect to the Group's financial condition, results of operations and businesses and certain information relating to the Group's plans and objectives. In particular, such forward-looking statements include statements relating to: the Group's future performance; future capital expenditures, acquisitions, divestitures, expenses, revenues, financial conditions, dividend policy, and future prospects; business and management strategies relating to the expansion and growth of the Group; the effects of regulation of the Group's business by the government in the country in which it operates; the Group's expectations as to the launch and roll out dates for products, services or technologies; expectations regarding the operating environment and market conditions; growth in customers and usage; and the rate of dividend growth by the Group.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'will', 'anticipates', 'aims', 'could', 'may', 'should', 'expects', 'believes', 'intends', 'plans' or 'targets' (including in their negative form). By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following: changes in economic or political conditions in markets served by operations of the Group; greater than anticipated competitive activity; higher than expected costs or capital expenditures; slower than expected customer growth and reduced customer retention; changes in the spending patterns of new and existing customers; the Group's ability to expand its spectrum position or renew or obtain necessary licences; the Group's ability to achieve cost savings; the Group's ability to execute its strategy in fibre deployment, network expansion, new product and service roll-outs, mobile data, Enterprise and 4G network expansion; changes in foreign exchange rates, as well as changes in interest rates; the Group's ability to realise benefits from entering into partnerships or joint ventures and entering into service franchising and brand licensing; unfavourable consequences to the Group of making and integrating acquisitions or disposals; changes to the regulatory framework in which the Group operates; the impact of legal or other proceedings; loss of suppliers or disruption of supply chains; developments in the Group's financial condition, earnings and distributable funds and other factors that the Board takes into account when determining levels of dividends; the Group's ability to satisfy working capital and other requirements; changes in statutory tax rates or profit mix; and/or changes in tax legislation or final resolution of open tax issues. All subsequent written or oral forward-looking statements attributable to the Company, to any member of the Group or to any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. Subject to compliance with applicable law and regulations, the Company does not intend to update these forward-looking statements and does not undertake any obligation to do so.

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