



2017

WPP SCANGROUP LIMITED

ANNUAL REPORT &
CONSOLIDATED FINANCIAL
STATEMENTS



WPP SCANGROUP LIMITED

ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS

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WPP SCANGROUP LIMITED

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CORPORATE INFORMATION

DIRECTORS

David Hutchison*
Bharat Thakrar
Jonathan Neil Eggar*
Richard Omwela
Muchiri Wahome
Andrew Scott*
Laurence Mellman*
Scott Spirit*
Patricia Ithau

Chairman
Chief Executive Officer

* British

SECRETARY

Reuben Mwangi
Certified Public Secretary (Kenya)
The Chancery, 5th Floor
Valley Road, Upper Hill
P. O. Box 34537- 00100
Nairobi

REGISTERED OFFICE

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Valley Road, Upper Hill
P. O. Box 34537- 00100
Nairobi
Telephone: +254 (20) 2710021, 2799000

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P. O. Box 40092 – 00100
Nairobi

PRINCIPAL BANKERS

Stanbic Bank Kenya Limited
Upper Hill Medical Centre Branch
P. O. Box 2492 – 00200
Nairobi

LEGAL ADVISERS

Daly & Inamdar Advocates
ABC Place, 6th Floor
Waiyaki Way
P. O. Box 40034 – 00100
Nairobi

SHARE REGISTRARS

Comp-rite Kenya Limited
2nd Floor, Crescent Business Centre
The Crescent, off Parkland Road
P.O. Box 64328 – 00619
Nairobi

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CORPORATE INFORMATION (Continued)

GROUP COMPANIES, BUSINESS ACTIVITIES AND GEOGRAPHIC PRESENCE

Business Activities	Country	Business Activities	Country
<i>Advertising</i>		<i>Media investment management</i>	
Scanad Ghana Ltd.	Ghana	GroupM Africa Ltd.	Kenya
Ogilvy Ghana Ltd.	Ghana	MEC Africa Ltd.	Kenya
Scanad Kenya Ltd.	Kenya	Media Compete East Africa Ltd.	Kenya
J. Walter Thompson Kenya Ltd.	Kenya	Mindshare Kenya Ltd.	Kenya
Scanad Africa Ltd.	Kenya	Ogilvy Africa Media Ltd.	Kenya
Grey East Africa Ltd.	Kenya	Scangroup (Malawi) Ltd.	Malawi
Ogilvy & Mather (Eastern Africa) Ltd.	Kenya	Scangroup (Mauritius) Ltd.	Mauritius
Geometry Global Ltd.	Kenya	Scangroup Mozambique Limitada	Mozambique
Ogilvy Africa Ltd.	Kenya	Scangroup (Zambia) Ltd.	Zambia
Ogilvy Kenya Ltd.	Kenya		
Scanad Nigeria Ltd.	Nigeria	<i>Public relations</i>	
Scanad Rwanda Ltd.	Rwanda	Hill & Knowlton East Africa Ltd.	Kenya
O&M Africa B.V. (Branch Office)	South Africa	Ogilvy Public Relations Ltd.	Kenya
Scanad Tanzania Ltd.	Tanzania	Hill & Knowlton Strategies Nigeria Ltd.	Nigeria
J.Walter Thompson Tanzania Ltd.	Tanzania	Hill & Knowlton Strategies Uganda Ltd.	Uganda
Ogilvy Tanzania Ltd.	Tanzania	Hill + Knowlton Strategies SA Pty Ltd.	South Africa
Scanad Uganda Ltd.	Uganda	WPP Team Gabon SARL	Gabon
JWT Uganda Ltd.	Uganda		
Ogilvy & Mather Zambia Ltd.	Zambia	<i>Digital advertising</i>	
		Squad Digital Ltd.	Kenya
		Squad Digital Nigeria Ltd.	Nigeria
<i>Market research</i>		<i>Speciality communication</i>	
Millward Brown West Africa Ltd.	Ghana	Roundtrip Ltd.	Kenya
Millward Brown East Africa Ltd.	Kenya		
Millward Brown Nigeria Ltd.	Nigeria		

Note: This is not a complete list of legal entities within the group.

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REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of WPP Scangroup Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2017, which disclose its state of affairs.

PRINCIPAL ACTIVITY

The principal activity of the Group is the provision of integrated marketing communication services, which combines six disciplines viz. advertising, media investment management, advertising research, public relations, digital advertising and specialty communications into cohesive marketing strategies for products and services of our customers.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

All amounts in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Profit before tax	696,414	725,925	311,288	166,891
Tax charge	(218,471)	(265,545)	(54,712)	(57,542)
Profit for the year	477,943	460,380	256,576	109,349
Other comprehensive income / (loss)	34,088	(49,653)	-	-
Total comprehensive income for the year	512,031	410,727	256,576	109,349

Detailed results on page 17

DIVIDENDS

The directors propose a first and final dividend of Sh0.75 per share totalling Sh284,148,826.50 based on 378,865,102 shares in issue (2016: Sh0.50 per share totalling Sh189,432,551 based on 378,865,102 shares).

The payment of dividend is subject to approval by the shareholders at the Annual General Meeting. This amount is not included in liabilities as presented in the financial statements. The proposed dividend is payable to all shareholders on the Register of Members at the close of business on 31 May 2018. Dividend payment will be subject to withholding tax where applicable.

DIRECTORS

The current members of the Board of Directors are as shown on Page 2.

Mr. David Hutchison retires by rotation under the provision of Article 93 of the Articles of Association and being eligible offers himself for re-election as a director. Having attained the age of seventy years on 9 October 2014 he retires in accordance with The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 and being eligible, offers himself for re-election.

WPP SCANGROUP LIMITED

ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE DIRECTORS

(Continued)

ENHANCED BUSINESS REVIEW

OVERVIEW

WPP Scangroup Limited remains committed to provide its clients best in class marketing services true to its mission statement to be the best marketing services solutions provider in Sub Saharan Africa. While the industry is going through a digital disruption as has been seen globally, the company has already been adapting by integrating the digital thinking in the traditional capacity. The company believes that the future is in technology driven marketing however, it may take some time for complete adaptation by local clients. While there is excitement and value in digital the same has not been reflected in the overall spends. TV and Radio continue to be dominant while digital has been relatively small despite global trends.

OPERATIONS

The year 2017 was a tough economic year due to the impact of the 2017 elections, in addition, there was drought and the interest rate cap policy hurt many sectors by reducing liquidity. We were not any different and faced revenue pressures like our clients in this difficult market environment. Another major impact was the closing down of Nakumatt Limited, which severely affected the distribution of our FMCG sector clients, who as a result reduced their marketing activity and therefore media spend. Similarly, the banking sector also reduced marketing activity due to the interest rate caps and in order for them to maintain their margin.

However, as a result of this reduced activities, we took cost control measures and still maintained our service delivery to client by being more innovative and efficient and delivering cost effective solutions. This shows in our results, where in spite of a drop in our top line revenue our operating profit has shown growth.

GOVERNANCE

WPP Scangroup Limited Board of Directors are responsible for good corporate governance of the group and attaches great importance to the need to conduct business and operations of the group with Integrity, Transparency and Accountability. The Board is also collectively responsible for promoting the success of the company by directing and supervising the company's policy and strategy and is responsible to shareholders for the Group's financial and operational performance and risk management. The Board is committed to complying with legislation, regulation and best practice, and it has in particular adopted the Capital Markets Authority guidelines on Corporate Governance practices by public listed companies in Kenya.

CSR & SUSTAINABILITY

WPP Scangroup Limited aims to make a positive contribution to society and the environment. We work hard to reduce our impact on the environment, to manage any ethical issues associated with our work, to support and engage our people and to help good causes through our pro bono work. Serving the sustainability communications needs of our clients is also a growing business opportunity. Our companies help clients to understand sustainability, embed green and ethical values in their brands and communicate their progress. We focus on six priority sustainability themes that are important for holding company WPP and support our relationships with clients, employees, investors and other stakeholders. These are:

- Our client work – providing sustainability services to clients and applying high ethical standards to the way we work, including protecting consumer privacy.
- Employment – adopting leading employment practices to recruit retain and develop our people.
- Environment - cutting our environmental impact including reducing our carbon footprint.
- Supply chain - integrating sustainability into our procurement decisions.
- Social investment – supporting charities, through pro bono work, donations and volunteering and by negotiating free media space for charity campaigns.
- Governance and management – managing sustainability risks and opportunities in our businesses.

WPP SCANGROUP LIMITED

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REPORT OF THE DIRECTORS

(Continued)

ENHANCED BUSINESS REVIEW (Continued)

The following activities were initiated in 2017:

- WPP Scangroup Limited supported Red-Cross by giving donations of dry food stuff worth Ksh 100,000 and a cheque of Ksh 151,000. This was in aid of famine relief which had greatly affected Kenyans at the beginning of 2017.
- JWT / Scanad Digital has done pro-bono work for Faraja Trust involving breast cancer where the Trust will be subsidising the cost of breast cancer survivor Bra-prosthetics.
- Ogilvy Africa worked on the Ol-Pajeta project 'most eligible bachelor' to save the last Northern White Rhino dubbed 'Sudan'. They worked together with Tinder to drive donations to save the Rhino.
- HK Strategies – Nigeria, worked on pro-bono work for Warif to bring attention to rampant sexual abused of young girls in Nigeria.

STRATEGIC GOALS & DEVELOPMENTS

Our strategic objective and goals would be to service the needs of our Client which are:-

- Provide Business solutions
- To provide culturally relevant, more entertaining and modern communication
- Our message to be personalised, customized irrespective of the medium
- Increased and measurable ROI for clients through a targeted approach for different segments

While our objective will be improving on our existing service and the creative product, we will be actively focussing on the use of Technology in applications:-

1. Optimus: A marketing automation platform integrating client needs for ad-serving and lead management. It automates the entire marketing process using machine learning, data and programmatic media – from deploying programmatic media campaigns, lead management, creative asset management, social media response management, customer on boarding to cross selling.
2. Digital Transformation Consulting: Consulting assignments that enable business transformation using digital infrastructure.
3. Chat bots: Artificial Intelligence (AI) driven personal assistants, integrated with location and payment services, for banking, fast food and telecom category clients.
4. C-Suite Online PR management: The Social media profile of the executive impacts the corporate brand. Managing social media profile of C-suite is complex but critical. The service we offer manages the strategy and execution of building strong profiles and positively affecting brand narratives.

Our priorities for 2018 are:

1. To grow our top-line by focusing on
 - a. Agency of the future model offering business solution to clients
 - b. Focus on local and public sector clients
2. Re-establish our regional focus
 - a. Focus more on local clients in each of the country we are present in and offer them integrated solutions
 - b. Improve the creative product in the market and build capability
3. Geographical Growth
 - a. Our Nigeria issue is resolved and we should be operating by Q2 2018 albeit as a minority as per local regulations which do not allow non Nigerians to hold more than a 24.9% stake
 - b. We will be operating a Creative and a Media agency. Our Digital, PR and Research arms are already present and showing stable growth.
4. We will be looking to grow our market research division.

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ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE DIRECTORS

(Continued)

ENHANCED BUSINESS REVIEW (Continued)

STAFF

As the business expands we are committed to the recruitment of local talent with a goal to hone their skills and also provide growth opportunities through exchange programs. Management continues to be committed to the improvement in its staff capabilities in 2018. Though the economic view is a bit cautiously optimistic given the current business environment, but management also firmly believes a team effort will be key in overcoming all hurdles.

LOOKING AHEAD

Political volatility around the globe, particularly in the US and Europe, impact on currencies in which our service operates, changing economic trends, resulting from a stabilising global financial environment with a recovering oil price, diminishing quantitative easing and interest rate hikes have a knock-on effect on commodities' markets and consumer purchasing behaviour. All the above besides the digital disruption which is completely changing our market and industry is forcing us to change the way we work and operate.

In Kenya the 2017 elections were prolonged but were concluded in early 2018 and national peace has been maintained. With political uncertainty now diminished and with the assumption that normal economic activity will resume we are cautiously optimistic about the possibilities for our business in 2018.

EMPLOYEE STATISTICS

The tables below summarise the number and composition of employees in terms of gender:

i) Categorisation by employment contract

	31 December 2017	31 December 2016
Permanent	638	758
Contracted	<u>214</u>	<u>175</u>
	<u>852</u>	<u>933</u>

ii) Categorisation by gender

	31 December 2017		31 December 2016	
	Male	Female	Male	Female
Senior leadership	65%	35%	56%	44%
Head Of Department	42%	58%	30%	70%
Senior Managers	65%	35%	67%	33%
Overall	57%	43%	58%	42%

KEY CORPORATE RISKS AND MITIGATING FACTORS

The Group is exposed to risks in its business environment which affects the achievement of its objectives. To lessen the impact on the business, mitigating factors have been put in place. The Board of Directors have established a Risk management committee which is responsible for developing and monitoring the Group's risk management policies. These policies are established to identify and analyse the risks faced by the Group, set appropriate risk limits and to monitor risks and adherence to limits.

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REPORT OF THE DIRECTORS

(Continued)

BOARD ANNOUNCEMENTS

In March 2017, Mr Scott Spirit and Ms Patricia Ithau were appointed as Non-Executive Directors of WPP Scangroup Limited.

Mr. Spirit is the Chief Digital Officer at WPP Plc and manages a global role in corporate strategy and digital development and technology. The Company will tap into his experience in the digital space in line with changing global marketing trends.

Ms. Patricia Ithau is an experienced business executive and seasoned marketing professional.

DIRECTORS' STATEMENT AS TO INFORMATION GIVEN TO AUDITORS

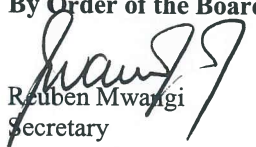
Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with the provisions of section 719 (2) of the Kenyan Companies Act, 2015. The Directors monitor the effectiveness, objectivity and independence of the auditor. The Directors also approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees.

By Order of the Board


Reuben Mwangi
Secretary

25 April 2018
Nairobi

WPP SCANGROUP LIMITED

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DIRECTORS' REMUNERATION REPORT

INFORMATION NOT SUBJECT TO AUDIT

Chairman's statement

The Directors remuneration policy sets out the guidelines that the Group and Company have applied to remunerate its Executive and Non-Executive Directors. The Directors remuneration report has been prepared in accordance with the relevant provisions of the CMA code of Corporate Governance and the requirements of the Kenyan Companies Act, 2015.

The Group's and Company's Nomination and Remuneration committee ("the committee") of the Board is responsible for overseeing and monitoring the company's corporate governance policies, practices and guidelines.

The Committee is mandated to review the remuneration of the Directors to ensure that the same is competitive and aligned with the business strategy and long-term objectives of the Company.

During the period under review, Jonathan Neil Eggar entitled 200,000 shares under long term incentives scheme. These have been vested on 5th January 2018.

The Directors' remuneration policy at a glance is set out below:

Executive Directors

The Executive Director is remunerated in accordance with the staff remuneration policy. His remuneration package comprises a base salary, pension/gratuity and other benefits designed to recognise the skills and experience of an Executive Director.

Non-Executive Directors

In recognition of their contribution to the Company, Non-Executive Directors receive fees as well as sitting allowances for Board and Committee meetings. The fees are approved by Shareholders at Annual General Meetings and are payable on a quarterly basis. The Non-Executive Directors are not covered by the Company's incentive programs and do not receive performance-based remuneration. No pension contributions are payable on their fees.

Travel and related expenses

The Company reimburses travel and accommodation expenses related to attendance of Board meetings for Non-Executive Board members who are not Kenyan residents. There is a travel policy for Non-Executive Directors.

Implementation report

During the year under review, there was no arrangement to which the Group and Company was a party where Directors acquired benefits by means of transactions in the Group's and Company's shares outside the applicable law. The Group has a strict insider trading policy to which the Directors and senior management must adhere to. There were no Directors' loans at any time during the year.

WPP SCANGROUP LIMITED**ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS****DIRECTORS' REMUNERATION REPORT**
(Continued)**Directors' Contract of Service**

The tenures of the Directors in office at the end of the current financial period are tabulated below:

	Name	Position	1st date of appointment	Last re-election	Date of end of current tenure
1	David Graham Michael Hutchison	Chairman/Director	14/11/2005	26/05/2017	31/05/2018
2	Bharat Thakrar	Director/CEO	26/01/1999	N/A	N/A
3	Andrew Grant Balfour Scott	Director	31/10/2008	N/A	N/A
4	Richard Omwela	Director	14/11/2005	26/05/2017	25/05/2020
5	Wahome Muchiri	Director	14/11/2005	31/05/2016	30/05/2019
6	Lawrence Mellman	Director	17/04/2012	N/A	N/A
7	Jonathan Neil Eggar	Director	29/05/2015	N/A	N/A
8	Patricia Ithau	Director	15/03/2017	15/03/2017	25/05/2020
9	Scott Edward Spirit	Director	15/03/2017	15/03/2017	N/A

At the previous annual general meeting (AGM) shareholders voted for the adoption of the Directors remuneration through proposal and secondment on the floor of the AGM.

The remuneration of all Directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate.

INFORMATION SUBJECT TO AUDIT

The remuneration paid to Directors in the period under review and the prior year is summarised in the table below:

31 December 2017**All figures in Sh'000**

Director	Salary	Allowances	Fees	Value of non cash benefits	Total
Bharat Thakrar	42,850	29,468	-	7,091	79,409
Jonathan Neil Eggar	30,000	1,912	-	1,035	32,947
David Hutchison	-	-	1,200	-	1,200
Richard Omwela	-	-	700	-	700
Muchiri Wahome	-	-	660	-	660
Patricia Ithau	-	-	455	-	455
Total	72,850	31,380	3,015	8,126	115,371

WPP SCANGROUP LIMITED


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DIRECTORS' REMUNERATION REPORT
(Continued)

31 December 2016

All figures in Sh'000

Director	Salary	Allowances	Fees	Value of non cash benefits	Total
Bharat Thakrar	42,850	28,315	-	7,091	78,256
Jonathan Neil Eggar	30,000	1,910	-	1,035	32,945
David Hutchison	-	-	1,240	-	1,240
Richard Omwela	-	-	700	-	700
Muchiri Wahome	-	-	660	-	660
Total	72,850	30,225	2,600	8,126	113,801



Company Secretary
REUBEN MWANGI

Nairobi

25/04/2018

WPP SCANGROUP LIMITED

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Group maintains proper accounting records that are sufficient to show and explain the transactions of the Group and disclose, with reasonable accuracy, the financial position of the Group. The directors are also responsible for safeguarding the assets of the Group, and for taking reasonable steps for the prevention and detection of fraud and error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgements that are reasonable in the circumstances.


Having made an assessment of the Group's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

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

Approved by the board of directors on 25 April 2018 and signed on its behalf by:



David Hutchison
Director



Bharat Thakrar
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WPP SCANGROUP LIMITED

Report on the Audit of the Consolidated and Company Financial Statements

Opinion

We have audited the consolidated and company financial statements of WPP Scangroup Limited set out on pages 17 to 56, which comprise the consolidated and company statements of financial position as at 31 December 2017, the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity, and consolidated and company statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the consolidated and company financial statements give a true and fair view of the consolidated and company financial position of the Group as at 31 December 2017 and its consolidated and company financial performance and consolidated and company cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code.

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

Key Audit Matters

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

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF WPP SCANGROUP LIMITED (Continued)**

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of goodwill</p> <p>Goodwill represents consideration paid in excess of fair value of net assets of the subsidiaries acquired. As at 31 December 2017, the goodwill balance was Sh 1,612,235,000 representing 12% of the total assets of the Group. This asset has been recognised in the consolidated statement of financial position as a consequence of the acquisition of subsidiaries disclosed in note 20 of the consolidated financial statements.</p> <p>As required by the applicable accounting standards (IAS 36, <i>Impairment of Assets</i>), the directors conduct annual impairment tests to assess the recoverability of the carrying value of goodwill. This is performed using discounted cash flow models.</p> <p>As disclosed in note 6.b to the consolidated financial statements, there are a number of critical accounting judgements made and key sources of estimation in determining the inputs into these models which include:</p> <ul style="list-style-type: none"> • Growth rates applicable to the cash generating units (CGUs) to which goodwill has been allocated based on director's view of future business prospects; • Estimation of the future cash flows expected to be generated by the CGUs; and • The discount rates applied to the projected future cash flows to arrive at the present value. <p>Accordingly, the determination of the carrying value of goodwill and related impairment test of this asset requires the directors' significant judgement and estimations and we therefore considered it to be a key audit matter.</p>	<p>Our procedures included challenging the directors on the suitability of the impairment model and reasonableness of the assumptions through performing the following audit procedures:</p> <ul style="list-style-type: none"> • Engaged our internal fair value specialists to assist with: <ul style="list-style-type: none"> ○ Assessing the methodology used in preparing the impairment testing model; ○ Critically evaluating whether the model used by the directors to calculate the value in use of the individual CGUs complies with the requirements of IAS 36, <i>Impairment of Assets</i>; and ○ Reviewing the assumptions used to calculate the growth and discount rates and assessing these rates for reasonableness. • Analysed the key assumptions used in the impairment model for goodwill, including specifically the long term growth rates, operating cash flow projections and discount rates. The key assumptions used for estimating cash flow projections in the Group's impairment testing are those relating to revenue growth and operating margin; • Analysed the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance to test the reasonableness of the directors' projections; • Subjected the key assumptions to sensitivity analyses; and • Tested the integrity and mathematical accuracy of the impairment model and agreeing relevant input data to externally derived data (where applicable) as well as forming our own assessment. <p>We found that the assumptions used by the directors were comparable with historical performance and the expected future outlook and the discount rates used were appropriate in the circumstances.</p> <p>We consider the disclosures in the consolidated financial statements of the goodwill asset to be appropriate in line with IAS 36.</p>

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WPP SCANGROUP LIMITED (Continued)

Other Information

The directors are responsible for the other information, which comprises the corporate information, report of the directors, directors' remuneration report and statement of directors' responsibilities. The other information comprises the information included in the annual report but does not include the consolidated and company financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Consolidated and Company Financial Statements

The directors are responsible for the preparation of the consolidated and company financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as the directors determine are necessary to enable the preparation of consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF WPP SCANGROUP LIMITED (Continued)**

Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated 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 those charged with governance 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 those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

Report of the Directors

In our opinion the information given in the Report of the Directors on pages 4 to 8 is consistent with the financial statements.

Directors' Remuneration Report

In our opinion the auditable part of the Director's Remuneration report presented on pages 9 to 11 has been prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditors' report is *CPA Anne Muraya* – P/No 1697.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

25 April 2018

WPP SCANGROUP LIMITED

ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

All figures in Sh'000	Notes	CONSOLIDATED		COMPANY	
		2017	2016	2017	2016
Billings	7	14,118,620	16,306,447	1,885,130	2,112,864
Direct costs		(9,995,751)	(11,471,374)	(1,746,843)	(2,013,977)
Revenue		4,122,869	4,835,073	138,287	98,887
Interest income net of interest expenses	8	290,412	406,528	192,179	304,421
Other income	9	21,130	22,688	238,255	6,138
Operating and administrative expenses		(3,710,602)	(4,475,205)	(243,177)	(236,851)
Foreign exchange losses		(27,395)	(63,159)	(14,256)	(5,704)
Profit before tax	10	696,414	725,925	311,288	166,891
Tax charge	11	(218,471)	(265,545)	(54,712)	(57,542)
Profit for the year		477,943	460,380	256,576	109,349
Other comprehensive income / (loss):					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Exchange difference on translating foreign operations		34,088	(49,653)	-	-
Total comprehensive income for the year		512,031	410,727	256,576	109,349
Profit attributable to:					
Equity share holders of the parent company		454,696	422,985	256,576	109,349
Non-controlling interests		23,247	37,395	-	-
		477,943	460,380	256,576	109,349
Total comprehensive income attributable to:					
Equity share holders of the parent company		488,099	372,416	256,576	109,349
Non-controlling interests		23,932	38,311	-	-
		512,031	410,727	256,576	109,349
Basic earnings per share (Sh)	13	1.20	1.12	0.68	0.29
Diluted earnings per share (Sh)	13	1.20	1.12	0.68	0.29

WPP SCANGROUP LIMITED

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STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

All figures in Sh'000	Notes	CONSOLIDATED		COMPANY	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
ASSETS					
<i>Non-current assets</i>					
Equipment	14	340,186	398,730	125,165	115,110
Investment in subsidiaries	15	-	-	6,646,821	6,622,624
Investments in associates and other equity investment	16	4,541	4,067	-	-
Long term loan receivable	17	498,684	-	498,684	-
Long term loan to subsidiaries	18	-	-	66,124	118,937
Deferred tax asset	19	379,251	359,205	196,734	193,306
Goodwill	20	1,612,235	1,612,235	-	-
		<u>2,834,897</u>	<u>2,374,237</u>	<u>7,533,528</u>	<u>7,049,977</u>
<i>Current assets</i>					
Trade and other receivables	21	6,501,076	6,326,467	961,817	704,910
Receivable from related parties	18	181,547	135,314	644,706	2,014,621
Work-in-progress		93,055	82,367	5,897	-
Tax recoverable	11.3	688,137	586,471	31,357	26,018
Cash, bank and deposit balances	22	3,460,200	3,981,542	2,397,914	1,832,579
		<u>10,924,015</u>	<u>11,112,161</u>	<u>4,041,691</u>	<u>4,578,128</u>
TOTAL ASSETS		<u>13,758,912</u>	<u>13,486,398</u>	<u>11,575,219</u>	<u>11,628,105</u>
EQUITY AND LIABILITIES					
<i>Capital and reserves</i>					
Share capital	23	378,865	378,865	378,865	378,865
Share premium		8,281,817	8,281,817	8,281,817	8,281,817
Revenue reserve		508,141	320,150	1,820,600	1,753,457
Translation deficit		(320,031)	(353,434)	-	-
Equity attributable to share holders of the holding company		<u>8,848,792</u>	<u>8,627,398</u>	<u>10,481,282</u>	<u>10,414,139</u>
Non-controlling interests		116,377	181,241	-	-
Total equity		<u>8,965,169</u>	<u>8,808,639</u>	<u>10,481,282</u>	<u>10,414,139</u>
<i>Non-current liabilities</i>					
Deferred tax liability	19	5,880	4,662	-	-
		<u>5,880</u>	<u>4,662</u>	<u>-</u>	<u>-</u>
<i>Current liabilities</i>					
Trade and other payables	24	4,359,821	4,270,656	765,041	577,740
Tax payable	11.3	153,692	212,481	-	-
Payable to related parties	18	262,721	178,080	317,267	624,346
Dividends payable	25	11,629	11,880	11,629	11,880
		<u>4,787,863</u>	<u>4,673,097</u>	<u>1,093,937</u>	<u>1,213,966</u>
TOTAL EQUITY AND LIABILITIES		<u>13,758,912</u>	<u>13,486,398</u>	<u>11,575,219</u>	<u>11,628,105</u>

The financial statements on pages 17 to 56 were approved and authorised for issue by the Board of Directors on 25 April 2018 and were signed on its behalf by:


David Hutchison
Director


Bharat Thakrar
Director

WPP SCANGROUP LIMITED
ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

All amounts in Sh'000	Share capital	Share premium	Revenue reserve	Translation deficit	Attributable to		Total
					share holders of the holding company	Non-controlling interests	
At 1 January 2016	378,865	8,281,817	86,598	(302,865)	8,444,415	159,845	8,604,260
Profit for the year	-	-	422,985	-	422,985	37,395	460,380
Other comprehensive income	-	-	-	(50,569)	(50,569)	916	(49,653)
Dividend declared - 2015	-	-	(189,433)	-	(189,433)	(16,915)	(206,348)
At 31 December 2016	378,865	8,281,817	320,150	(353,434)	8,627,398	181,241	8,808,639
At 1 January 2017	378,865	8,281,817	320,150	(353,434)	8,627,398	181,241	8,808,639
Profit for the year	-	-	454,696	-	454,696	23,247	477,943
Acquisition of non-controlling interests	-	-	(119,554)	-	(119,554)	-	(119,554)
Non-controlling interest acquired	-	-	42,282	-	42,282	(42,282)	-
Other comprehensive income	-	-	-	33,403	33,403	685	34,088
Dividend declared - 2016	-	-	(189,433)	-	(189,433)	(46,514)	(235,947)
At 31 December 2017	378,865	8,281,817	508,141	(320,031)	8,848,792	116,377	8,965,169

The reserve accounts included in the Statement of Changes in equity are explained below:

- Revenue reserve represent accumulated profits retained by the company after payment of dividend to the shareholders
- The translation reserve represents the cumulative position of translation gains or losses arising from conversion of net assets of foreign subsidiary companies to the reporting currency

WPP SCANGROUP LIMITED

ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS

**COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED
31 DECEMBER 2017**

All amounts in Sh'000	Share capital	Share premium account	Revenue reserve	Total
At 1 January 2016	378,865	8,281,817	1,833,541	10,494,223
Profit for the year	-	-	109,349	109,349
Dividend declared - 2015	-	-	(189,433)	(189,433)
At 31 December 2016	378,865	8,281,817	1,753,457	10,414,139
At 1 January 2017	378,865	8,281,817	1,753,457	10,414,139
Profit for the year	-	-	256,576	256,576
Dividend declared - 2016	-	-	(189,433)	(189,433)
At 31 December 2017	378,865	8,281,817	1,820,600	10,481,282

Revenue reserve represent accumulated profits retained by the company after payment of dividend to the shareholders.

WPP SCANGROUP LIMITED

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STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

All figures in Sh'000	Notes	CONSOLIDATED		COMPANY	
		2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		696,414	725,925	311,288	166,891
Depreciation on equipment	14	125,512	169,544	29,875	62,930
Provision / (reversal) of bad and doubtful debts	21	36,935	11,433	4,043	(23,568)
Interest expense	8	1,737	11,547	1,621	3,707
Net loss / (gain) on sale of assets		3,418	(4,303)	585	(352)
Interest income	8	(292,149)	(418,075)	(193,800)	(308,128)
Dividend income	9	-	-	(235,000)	-
<u>Working capital adjustments:</u>					
(Increase) / decrease in trade and other receivables		(211,544)	(868,199)	(260,950)	392,281
Increase in work-in-progress		(10,688)	(67,084)	(5,897)	-
Increase in trade and other payables		89,165	711,272	187,301	13,137
Increase / (decrease) in related party balances		38,408	93,608	1,062,836	(1,577,725)
Cash generated from / (used in) operating activities after working capital changes		477,208	365,668	901,902	(1,270,827)
Tax paid on operating income		(352,382)	(362,714)	(35,824)	(62,997)
Net cash generated from / (used in) operating activities		<u>124,826</u>	<u>2,954</u>	<u>866,078</u>	<u>(1,333,824)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of equipment	14	(90,014)	(106,253)	(41,672)	(39,305)
Proceeds from sale of equipment		17,507	19,250	1,157	1,792
Capital pending allotment refunded		-	-	95,357	50,171
Loan disbursed	17	(498,684)	-	(498,684)	-
Dividend received		-	-	235,000	-
Payments made for acquisition of subsidiaries		(119,554)	-	(119,554)	-
Interest income received net of tax		256,161	379,054	157,213	301,457
Net cash generated from investing activities		<u>(434,584)</u>	<u>292,051</u>	<u>(171,183)</u>	<u>314,115</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Net movement in related party loans		-	(176,400)	52,813	(1,332)
Dividends paid including tax on dividend		(241,356)	(209,210)	(189,684)	(189,624)
Interest paid		(1,737)	(11,547)	(1,621)	(3,707)
Net cash used in financing activities		<u>(243,093)</u>	<u>(397,157)</u>	<u>(138,492)</u>	<u>(194,663)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(552,851)</u>	<u>(102,152)</u>	<u>556,403</u>	<u>(1,214,372)</u>
MOVEMENT IN CASH AND CASH EQUIVALENTS					
At the beginning of the year		3,909,484	4,062,212	1,779,907	2,994,279
Net (decrease) / increase during the year		(552,851)	(102,152)	556,403	(1,214,372)
Effect of fluctuations in exchange rates		40,106	(50,576)	-	-
Cash and cash equivalents at end of the year	22	<u>3,396,739</u>	<u>3,909,484</u>	<u>2,336,310</u>	<u>1,779,907</u>

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

1. STATEMENT OF COMPLIANCE

The consolidated financial statements of WPP Scangroup Limited and its subsidiaries (the Group) for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Kenyan Companies Act. For the purposes of the Kenyan Companies Act, the balance sheet is represented by the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis of accounting. Except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The significant accounting policies adopted remain unchanged from the previous year unless mentioned otherwise. The consolidated financial statements are presented in Kenya Shillings and all values are rounded to the nearest thousand (Sh000), except when otherwise indicated. Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

WPP SCANGROUP LIMITED

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

3. BASIS OF CONSOLIDATION (Continued)

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1. Business combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**4.1 Business combinations and Goodwill (Continued)**

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

4.2. Investments in associates

An associate is an entity over which the company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the company's interest in that associate (which includes any long-term interests that, in substance, form part of the company's net investment in the associate) are not recognised, unless the company has incurred legal or constructive obligations or made payments on behalf of the associate.

Where the company transacts with an associate, profits and losses are eliminated to the extent of the company's interest in the relevant associate.

4.3. Revenue recognition

Revenue comprises commission, fees and rebates earned in respect of media placements, advertising and marketing services, measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue is stated exclusive of VAT, sales taxes.

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Revenue recognition (Continued)

4.3.1. Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the service. The stage of completion of the service is determined as follows:

- retainer fees are recognised by reference to the stage of completion of the contract period, determined as the proportion of the total contract time that has elapsed at the end of the reporting period;
- service income is recognised in the period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

4.3.2. Dividend and interest income

Dividend income from investments is recognised when the group's right to receive payment as a shareholder has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

4.4. Work-in-progress

Work in progress is stated at the lower of cost or net realisable value and represents direct recoverable cost chargeable to specific clients. Attributable profits are only recognised once a job is complete and billed out to client.

4.5. Equipment

4.5.1. Recognition and measurement

Items of equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset, other costs directly attributable to bringing the assets to a working condition for their intended use and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

Any gain or loss on disposal of an item of Property and Equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

4.5.2. Depreciation

Items of Property and Equipment are depreciated from the date the asset is available for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual value using the written down basis over their estimated useful lives at rates as follows:

Computers and accessories	30%
Motor vehicles	25%
Furniture, fittings and equipment	12.5%

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**4.5. Property and Equipment (Continued)**

Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset.

Depreciation method, useful lives and residual value are reviewed at each reporting date and adjusted if appropriate.

4.5.3. Impairment

The Group assesses the carrying value of its property and equipment to determine if any impairment has occurred. Where this indicates that an asset may be impaired, the Group applies the requirements of IAS 36 Impairment of Assets in assessing the carrying amount of the asset. This process includes comparing its recoverable amount with its carrying value. Also refer note 4.10

4.6. Taxation

Income tax expense represents the sum of the tax currently payable and net deferred tax charge for the year.

4.6.1. Current tax

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

4.6.2. Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

4.6.3. Current and Deferred Tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination. Also refer note 4.1.

4.7. Leases

The Group's leases are classified as finance leases whenever the terms of the lease substantially transfer all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at the inception of the lease at the lower of their fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the consolidated profit or loss on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the consolidated income statement as it is incurred.

Operating lease rentals are charged to the consolidated profit or loss on a straight-line basis over the lease term. Any premium or discount on the acquisition of a lease is spread over the life of the lease on a straight-line basis.

4.8. Foreign currencies

The Group's consolidated financial statements are presented in Kenya Shillings, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

4.8.1. Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 Foreign currencies (Continued)

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

4.8.2. Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Kenya Shillings at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

4.9. Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group has become a party to the contractual provisions of the instrument.

4.9.1. Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in number of delayed payments in the portfolio, past average credit period as well as observable changes in national or economic conditions that correlate with default on receivables.

4.9.2. Cash and cash equivalents

Cash and cash equivalents include cash in hand, fixed deposits and deposits held at call with banks which are highly liquid investments with original maturities of three months or less. Cash and cash equivalents are measured at realisable value.

4.10. Impairment

4.10.1. Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.10 Impairment (Continued)**

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

4.10.1. Non-derivative financial assets

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

4.10.2. Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**4.10 Impairment (Continued)**

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.11. Employee benefits**4.11.1. Retirement benefits costs and termination benefits**

The Group in Kenya and Zambia has engaged a third party retirement benefit service provider to provide retirement benefits to its eligible employees. The benefit plans are "Defined Contribution Plans". Payments to defined contribution retirement benefit plan are recognised as an expense when employees have rendered service entitling them to the contributions. The assets of the scheme are held in a trustee administered fund separate from the retirement benefit service providers.

The Group also contributes to the statutory defined contribution pension schemes, the National Social Security Fund of Kenya, Tanzania, Uganda and Zambia. In Nigeria, Ghana and Rwanda the Group contributes to regional pension funds administered by equivalent government regulatory bodies. Employer's contribution is determined by local statutes.

The Group's obligations to retirement benefit schemes are recognised in the profit or loss as they fall due.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

4.11.2. Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

4.12. Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate.

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Share-based payment arrangements (Continued)

The Group formed a Trust which is independent of the Company to facilitate purchase of its shares to fund the above liability. From time to time the Group funds purchase of its shares by the trust. The costs are recognised as pre-payments. When shares granted under the Employee Share Option plan vest shares held in the trust are transferred to the employee. To the extent of transferred shares, employee benefits reserve is off set against the pre-payments.

4.13. Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) AND INTERPRETATIONS (IFRIC)

(a) Adoption of new and revised International Financial Reporting Standards

(i) *New standards and amendments to published standards effective for the period ended 31 December 2017*

The following revised IFRSs were effective in the current period and had no material impact on the amounts reported in these financial statements.

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

The amendments to IAS 12 Income Taxes clarify the following aspects:

Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. The carrying amount of an asset does not limit the estimation of probable future taxable profits.

Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The application of these amendments has had no impact on the Group's and Company's financial statements as the Group already assesses the sufficiency of the future taxable profits in a way that is consistent with these amendments.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised International Financial Reporting Standards (continued)

(i) New standards and amendments to published standards effective for the year ended 31 December 2017 (Continued)

Annual Improvements to 2010-2012

The annual improvements to IFRSs 2012-2014 cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 5 add specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. It clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated and company financial statements.

Amendments to IAS 7 Disclosure Initiative

The amendments to IAS 7 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- a) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- b) clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;
- c) clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
- d) additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The amendments to the standard has had no impact on the consolidated and company financial statements.

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised International Financial Reporting Standards (Continued)

(ii) *New and amended standards in issue but not yet effective in the year ended 31 December 2017*

<i>New standards and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2017*

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

- a) impairment requirements for financial assets; and
- b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(a) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)***(iii) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2017
(Continued)*

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(iii) *New and revised IFRSs in issue but not yet effective for the year ended 31 December 2017* (Continued)

IFRS 9 Financial Instruments (Continued)

Based on an analysis of the Group's and Company's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the Directors of the Group have performed a preliminary assessment of the impact of IFRS 9 to the Group's and Company's financial statements as follows:

Classification and measurement

All the financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

Financial assets measured at amortised cost, listed redeemable notes that will be carried at FVTOCI under IFRS 9, finance lease receivables, amounts due from customer under construction contracts, and financial guarantee contracts will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, as required or permitted by IFRS 15. The Group does not hold any listed redeemable notes, finance lease receivables, amounts due from customer under construction contracts or financial guarantee contracts.

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the trade and other receivables balances and are currently assessing the potential impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(iii) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2017 (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to identification of performance obligations, principal versus agent considerations as well as licensing application guidance.

The Group recognises revenue mainly from commissions, fees and rebates earned in respect of media placements, advertising and marketing services, measured at the fair value of the consideration received or receivable. Based on preliminary assessment, the Directors do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right of use asset and a corresponding liability be recognised for all lessees (i.e. on balance sheet) except for short term leases and leases of low value assets.

The right of use is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into principal and interest portions which will be presented as financing and operating cash flows respectively.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(iii) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2017 (Continued)

IFRS 16 Leases (Continued)

In contrast to lessee accounting, IFRS 16 substantially carries forward lessor accounting treatment in IAS 17 and continues to require a lessor to classify a lease as either an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Group is assessing the potential impact on the consolidated and company financial statements resulting from the application of these changes.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- (i) In estimating the fair value of a cash settled share based payment, the accounting for the effects of vesting and non vesting conditions should follow the same approach as for equity settled share-based payments.
- (ii) Where tax law or regulation require an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- (iii) A modification of share based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - The original liability is derecognised;
 - The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to modification date; and
 - Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Directors of the Group do not anticipate that the application of the amendments in future will have a significant impact on the consolidated and company financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. (e.g. a non-refundable deposit or deferred revenue)

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(a) Adoption of new and revised International Financial Reporting Standards (IFRS)
(Continued)****(iii) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2017
(Continued)****Amendments to IFRS 2 Classification and Measurement of Share-based Payment
Transactions (Continued)**

The interpretation specifies that the date of transactions is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements as the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Group is assessing the potential impact on the consolidated and company financial statements resulting from the application of these changes.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2017 cycle makes amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

(iv) Early adoption of standards

The Group did not early adopt new or amended standards in the period ended 31 December 2017.

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

6. SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, the directors have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of judgment in applying the Group's accounting policies are dealt with below:

a. Critical judgments in applying accounting policies

Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its goodwill to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

b. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating unit and suitable discount rate in order to calculate present value. Refer to Note 20 for detailed assumptions.

7. BILLINGS

The Group's billings are derived from sales in the following markets:

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Kenya (including export sales)	9,877,533	9,826,665	1,885,130	2,112,864
Uganda	623,243	1,102,359	-	-
Tanzania	994,137	1,617,583	-	-
South Africa	199,082	353,612	-	-
Ghana	1,408,138	1,736,940	-	-
Nigeria	417,607	484,913	-	-
Others	598,880	1,184,375	-	-
	<u>14,118,620</u>	<u>16,306,447</u>	<u>1,885,130</u>	<u>2,112,864</u>

8. INTEREST INCOME NET OF INTEREST EXPENSES

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Interest on deposits	288,633	413,258	193,301	307,444
Other Interest	3,516	4,817	499	684
	<u>292,149</u>	<u>418,075</u>	<u>193,800</u>	<u>308,128</u>
Interest expense	<u>(1,737)</u>	<u>(11,547)</u>	<u>(1,621)</u>	<u>(3,707)</u>
	<u>290,412</u>	<u>406,528</u>	<u>192,179</u>	<u>304,421</u>

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9. OTHER INCOME

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Profit on disposal of assets	5,657	5,445	-	352
Bad debts earlier written off now recovered	1,432	1,738	-	-
Cash discount	12,361	13,909	3,255	4,325
Dividend income	-	-	235,000	-
Other incomes	1,680	1,596	-	1,461
	<u>21,130</u>	<u>22,688</u>	<u>238,255</u>	<u>6,138</u>

10. PROFIT BEFORE TAX

The profit before tax is arrived at after charging: All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Staff costs				
- Salaries and wages	2,257,804	2,584,054	454,990	445,236
- Social security	100,468	127,142	12,144	15,465
- Medical expenses	84,100	94,197	19,446	19,379
- Leave pay	11,347	6,567	1,970	2,660
- Other staff cost	190,191	372,634	21,544	8,806
	<u>2,643,910</u>	<u>3,184,594</u>	<u>510,094</u>	<u>491,546</u>
Operating lease rentals	190,343	264,661	20,366	11,298
Travel and transport	100,915	140,494	15,781	16,974
Depreciation	125,512	169,544	29,875	62,930
Communication	70,342	102,649	7,106	24,326
Printing and stationery	28,527	26,460	3,626	3,009
Provision / (reversal) for bad and doubtful debts	36,935	11,433	4,043	(23,568)
Auditors' remuneration	31,010	33,262	3,637	2,582
Loss on sale of assets	9,075	1,142	585	-
Intercompany balance written off	-	-	50,264	-
Directors' remuneration				
non-executive directors' fee	2,375	2,000	2,375	2,000
non- executive directors' emoluments	640	600	640	600
executive directors' emoluments	104,230	103,075	104,230	103,075
	<u></u>	<u></u>	<u></u>	<u></u>

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

11. TAXATION**11.1. Tax expense**

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Current taxation based on the adjusted profit				
For companies at 30%	212,347	368,677	58,140	92,438
For companies charged at different rates	28,607	53,447	-	-
Prior year over provision	(7)	(3,183)	-	-
	<u>240,947</u>	<u>418,941</u>	<u>58,140</u>	<u>92,438</u>
Deferred tax				
- current year credit	(16,541)	(145,295)	(3,428)	(34,896)
- prior year over provision	(5,935)	(8,101)	-	-
	<u>(22,476)</u>	<u>(153,396)</u>	<u>(3,428)</u>	<u>(34,896)</u>
	<u>218,471</u>	<u>265,545</u>	<u>54,712</u>	<u>57,542</u>

11.2. Reconciliation of expected tax based on accounting profit to tax expense

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Accounting profit before taxation	696,414	725,925	311,288	166,891
Tax at the applicable rate of 30%	208,924	217,778	93,386	50,067
Effect of expenses not deductible for tax purposes	16,704	67,995	31,826	7,475
Effect of companies charged at different rates	(6,373)	(11,615)	-	-
Effect of incomes not taxable	-	-	(70,500)	-
Tax paid on intercompany dividend income	5,158	2,671	-	-
Prior years over provision-deferred tax	(5,935)	(8,101)	-	-
Prior years over provision-income tax	(7)	(3,183)	-	-
	<u>218,471</u>	<u>265,545</u>	<u>54,712</u>	<u>57,542</u>

11.3. Movement in net of tax recoverable and tax payable

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
At beginning of year	373,990	332,779	26,018	2,381
Tax paid	402,125	431,427	63,479	116,075
Charge for the year	(240,947)	(418,941)	(58,140)	(92,438)
Effect of exchange rate difference	(723)	28,725	-	-
At the end of the year	<u>534,445</u>	<u>373,990</u>	<u>31,357</u>	<u>26,018</u>
Breakup of net tax recoverable				
Tax recoverable	688,137	586,471	31,357	26,018
Tax payable	(153,692)	(212,481)	-	-
	<u>534,445</u>	<u>373,990</u>	<u>31,357</u>	<u>26,018</u>

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12 SEGMENTAL REPORTING

The disclosure requirements of IFRS 8 Operating Segments are not applicable to the group. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the Chief Operating decision Maker (CODM) in order to allocate resources to the segments and to assess performance. Thus, under IFRS 8, the major reporting segment is advertising and media investment management with other income comprising less than 10% of total income. This is the information which has been reported in these financial statements. Refer note 7.

13. EARNINGS PER SHARE

13.1. Basic earnings per share

Basic earnings per share is calculated based on the profit attributable to shareholders divided by the weighted average number of ordinary shares in issue in each period as follows:

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Profit attributable to share holders of the holding company (Sh'000)	454,696	422,985	256,576	109,349
Weighted average number of shares (in thousands)	378,865	378,865	378,865	378,865
Basic earnings per share (Sh)	1.20	1.12	0.68	0.29

13.2. Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2017 and 31 December 2016 no such instruments were outstanding. Hence Diluted earnings per share is same as Basic earnings per share presented in Note 13.1.

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14. EQUIPMENT**14.1. Equipment – Group**

All figures in Sh'000	Computers and accessories	Motor vehicles	Furniture, fittings and equipment	Total
COST				
At 1 January 2016	589,211	137,802	501,790	1,228,803
Additions	54,399	19,912	31,942	106,253
Disposals	(28,684)	(39,470)	(1,438)	(69,592)
Exchange rate adjustment	(12,641)	(10,330)	(14,620)	(37,591)
At 31 December 2016	<u>602,285</u>	<u>107,914</u>	<u>517,674</u>	<u>1,227,873</u>
At 1 January 2017	602,285	107,914	517,674	1,227,873
Additions	51,813	7,716	30,485	90,014
Disposals	(32,575)	(19,114)	(108,528)	(160,217)
Exchange rate adjustment	(3,063)	(2,168)	(4,216)	(9,447)
At 31 December 2017	<u>618,460</u>	<u>94,348</u>	<u>435,415</u>	<u>1,148,223</u>
DEPRECIATION				
At 1 January 2016	419,319	69,428	247,627	736,374
Charge for the year	95,899	21,146	52,499	169,544
Elimination on disposal	(24,255)	(27,769)	(2,383)	(54,407)
Exchange rate adjustment	(7,900)	(7,142)	(7,326)	(22,368)
At 31 December 2016	<u>483,063</u>	<u>55,663</u>	<u>290,417</u>	<u>829,143</u>
At 1 January 2017	483,063	55,663	290,417	829,143
Charge for the year	50,936	16,608	57,968	125,512
Elimination on disposal	(28,461)	(12,203)	(98,628)	(139,292)
Exchange rate adjustment	(2,717)	(1,873)	(2,736)	(7,326)
At 31 December 2017	<u>502,821</u>	<u>58,195</u>	<u>247,021</u>	<u>808,037</u>
NET BOOK VALUE				
At 31 December 2017	<u>115,639</u>	<u>36,153</u>	<u>188,394</u>	<u>340,186</u>
At 31 December 2016	<u>119,222</u>	<u>52,251</u>	<u>227,257</u>	<u>398,730</u>

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

14.2. Equipment – Company

All figures in Sh'000	Computers and accessories	Motor vehicles	Furniture, fittings and equipment	Total
COST				
At 1 January 2016	242,537	48,996	63,076	354,609
Additions	24,778	-	14,527	39,305
Disposals	(432)	(7,147)	-	(7,579)
At 31 December 2016	<u>266,883</u>	<u>41,849</u>	<u>77,603</u>	<u>386,335</u>
At 1 January 2017	266,883	41,849	77,603	386,335
Additions	35,903	-	5,769	41,672
Disposals	(1,294)	(1,040)	(718)	(3,052)
At 31 December 2017	<u>301,492</u>	<u>40,809</u>	<u>82,654</u>	<u>424,955</u>
DEPRECIATION				
At 1 January 2016	177,125	16,817	20,492	214,434
Charge for the year	46,389	7,838	8,703	62,930
Elimination on disposal	(55)	(6,084)	-	(6,139)
At 31 December 2016	<u>223,459</u>	<u>18,571</u>	<u>29,195</u>	<u>271,225</u>
At 1 January 2017	223,459	18,571	29,195	271,225
Charge for the year	17,432	5,781	6,662	29,875
Elimination on disposal	(549)	(624)	(137)	(1,310)
At 31 December 2017	<u>240,342</u>	<u>23,728</u>	<u>35,720</u>	<u>299,790</u>
NET BOOK VALUE				
At 31 December 2017	<u>61,150</u>	<u>17,081</u>	<u>46,934</u>	<u>125,165</u>
At 31 December 2016	<u>43,424</u>	<u>23,278</u>	<u>48,408</u>	<u>115,110</u>

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15. INVESTMENT IN SUBSIDIARIES AT COST

	2017		2016	
	%	Sh'000	%	Sh'000
Ogilvy Kenya Limited	100%	1,866,659	100%	1,866,659
Millward Brown East Africa Limited	100%	1,693,569	100%	1,693,569
Ogilvy Africa Limited	100%	1,494,001	100%	1,494,001
O&M Africa B.V.	100%	671,911	100%	671,911
Scangroup Mauritius Holding Limited *	100%	220,006	100%	315,363
Hill & Knowlton East Africa Limited	100%	245,123	100%	245,123
Ogilvy Tanzania Limited	100%	135,912	100%	135,912
GroupM Africa Limited (erstwhile Redsky Limited)	100%	84,542	100%	84,542
Scanad Kenya Limited	100%	40,000	100%	40,000
Scanad East Africa Limited	100%	31,500	100%	31,500
Scanad Africa Limited (erstwhile McCann Kenya Limited)	100%	15,000	100%	15,000
Scangroup (Mauritius) Limited (erstwhile MIA Mauritius Limited)	100%	10,006	100%	10,006
J. Walter Thompson Kenya Limited	90%	18,000	90%	18,000
Squad Digital Limited **	75.5%	119,962	51%	408
MEC Africa Limited (erstwhile Smollan E. A. Limited)	100%	550	100%	550
Media Compete East Africa Limited	100%	40	100%	40
Grey East Africa Limited	100%	40	100%	40
		6,646,821		6,622,624

* Equity investment in Scangroup Mauritius Holding Limited amounting to Sh 95.36million for which shares were not allotted was refunded during the year.

** Equity investment in Squad Digital Limited amounting to Sh 119.55m for acquiring 24.5% additional shareholding.

WPP Scangroup Limited is the ultimate holding company of the following companies which are subsidiaries of Scanad East Africa Limited, a wholly owned subsidiary of WPP Scangroup Limited:

	Shareholding %
Scanad Uganda Limited	100%
Scanad Tanzania Limited	82%
Roundtrip Limited	100%
JWT Tanzania Limited (subsidiary of Scanad Tanzania Limited)	82%

Scangroup Mauritius Holdings Limited is the holding company of other subsidiaries incorporated outside Kenya as follows:

	Shareholding %
STE Scanad DRC	100%
Scanad Burundi Limited SPRL	100%
Scanad Rwanda Limited	100%
JWT Uganda Limited	100%
Scangroup (Malawi) Limited	100%
Scangroup (Zambia) Limited	100%
Scangroup Mozambique Limitada	100%

Hill & Knowlton East Africa Limited, (a wholly owned subsidiary of WPP Scangroup Limited) holds 51% equity shares in Hill + Knowlton Strategies South Africa Pty Limited.

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

15. INVESTMENT IN SUBSIDIARIES AT COST (CONTINUED)**Summarised financial information on subsidiaries with material non-controlling interest**

The summarised financial information below represents amounts before intragroup eliminations.

All figures in Sh'000	Squad Digital Limited		J W Thompson Kenya Limited	
	2017	2016	2017	2016
As at 31 December				
Assets	404,813	419,080	297,977	492,429
Liabilities	268,718	238,426	143,181	204,461
Equity attributable to the owners of the company	102,752	92,134	139,316	259,171
Non-controlling interest	24.5%	49%	10%	10%
Billings	611,475	552,645	304,769	549,518
Expenses	(661,717)	(542,404)	(279,594)	(545,790)
Profit / (loss) before tax for the year	(50,242)	10,241	25,175	3,728
Profit / (loss) attributable to the owners of the company	(27,544)	3,387	15,144	(2,573)
Profit / (loss) attributable to non-controlling interest	(8,938)	3,254	1,683	(286)
Profit / (loss) after tax for the year	(36,482)	6,641	16,827	(2,859)
Net cash inflow / (outflow) from operating activities	(821)	4,057	151,467	(982)
Net cash outflow from investing activities	(501)	(733)	(185)	(721)
Net cash (outflow) / inflow from financing activities	(5)	-	(150,006)	-
Net cash (outflow) / inflow	(1,327)	3,324	1,276	(1,703)

16. INVESTMENT IN ASSOCIATES AND OTHER EQUITY INVESTMENTS

As at 31 December 2017 O&M Africa B.V. a 100% subsidiary of WPP Scangroup Limited own equity shares in following companies:

Associate Companies	Country	% shares
Ogilvy & Mather Advertising Namibia (Proprietary) Limited	Namibia	30.0%
Ogilvy Zimbabwe (Private) Limited	Zimbabwe	25.0%
Ocean Ogilvy Gabon	Gabon	25.0%
Ocean Central Africa	Cameroon	25.0%
Ocean Burkina Faso	Burkina Faso	25.0%
Ocean Afrique Occidentale	Senegal	25.0%
Ocean Conseil	Cote d'Ivoire	25.0%
Other Equity Investment		
Prima Garnet Communications Limited	Nigeria	12.6%

The associates companies are accounted for using the equity method in these consolidated financial statements. The Group does not recognise any of them as material. Accordingly additional disclosure as required by IFRS 12 are not made.

Profits of the associate companies have not been included in the consolidated profit or loss because of considerations of the requirements of IAS 39 and IAS 36 on impairment. Recognition of profits from the associate companies would cause their carrying amounts to be less than the recoverable amounts which would trigger impairment losses to be recognised as part of the carrying amount of the investments in associates.

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

17. LONG TERM LOAN RECEIVABLE

The long term loan receivable of Sh 498.68million was advanced to First Primus West Africa limited during the year. It is denominated in Nigeria Naira (NGN) and the equivalent amount at the end of the year was NGN 1,740million. It is secured by first priority floating charge over the borrower's properties. An amount of NGN 620million attracts interest at 9% per annum while NGN 1,120million attracts interest at 1% per annum.

18. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Transactions between the company and its subsidiaries which are related parties have been eliminated on consolidation.

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Balances recoverable from related parties				
<i>Due after one year</i>				
Loan recoverable from various subsidiaries	-	-	66,124	118,937
	<u>-</u>	<u>-</u>	<u>66,124</u>	<u>118,937</u>
<i>Due within one year</i>				
Current receivables from various subsidiaries	-	-	644,706	2,014,621
Current receivables from fellow subsidiaries	181,547	135,314	-	-
	<u>181,547</u>	<u>135,314</u>	<u>644,706</u>	<u>2,014,621</u>
<i>Other balances payable to related parties</i>				
Various subsidiaries	-	-	317,267	624,346
Current payable to fellow subsidiaries	262,721	178,080	-	-
	<u>262,721</u>	<u>178,080</u>	<u>-</u>	<u>-</u>
Transactions with related parties				
Sale of services	303,536	270,193	631,121	881,544
Purchase of services	102,374	99,062	132,679	106,906
Remuneration of directors and key management compensation	107,245	105,675	107,245	104,227
Directors' remuneration - Executive directors' emoluments (included in key management compensation above)	<u>104,230</u>	<u>103,075</u>	<u>104,230</u>	<u>103,075</u>

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

19. DEFERRED TAX

Deferred income taxes are calculated on all temporary differences under the liability method using the currently enacted tax rates applicable for the various entities within the Group ranging from 3% to 30%. The net deferred tax asset is attributable to the following items:

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Excess depreciation / (accelerated capital allowances)	11,100	11,179	(2,606)	1,535
Unrealised exchange losses	11,665	11,217	2,068	228
Tax losses carried forward	315,383	311,029	193,252	189,592
Provisions	35,223	21,118	4,020	1,951
	<u>373,371</u>	<u>354,543</u>	<u>196,734</u>	<u>193,306</u>
<i>Movement in deferred tax account is as follows</i>				
At beginning of period – asset	354,543	213,952	193,306	158,410
Credit for the year	16,541	145,295	3,428	34,896
Prior year over provision	5,935	8,101	-	-
Effect of exchange rates	(3,648)	(12,805)	-	-
At end of period – asset	<u>373,371</u>	<u>354,543</u>	<u>196,734</u>	<u>193,306</u>
<i>Breakup of deferred tax asset and liability</i>				
Deferred tax asset	379,251	359,205	196,734	193,306
Deferred tax liability	(5,880)	(4,662)	-	-
	<u>373,371</u>	<u>354,543</u>	<u>196,734</u>	<u>193,306</u>

A deferred taxation asset has been recognized on accumulated tax losses of Sh 1,051,27,000 (2016: Sh 1,036,73,000) as the directors are confident that the group will have future taxable profits against which the unused tax losses can be utilized.

20. GOODWILL

Goodwill represents consideration paid in excess of fair value of net assets acquired. The following table contains the breakdown of the total value by entities to which goodwill relates.

All figures in Sh'000	2017	2016
<i>Cost and carrying value as at the end of</i>		
Millward Brown East Africa Limited	1,273,197	1,273,197
O&M Africa B.V.	152,929	152,929
GroupM Africa Limited	83,548	83,548
Ogilvy Kenya Limited	79,194	79,194
Hill+Knowlton Strategies (South Africa) Pty Ltd	23,367	23,367
Total	<u>1,612,235</u>	<u>1,612,235</u>

In accordance with the Group's accounting policy, the carrying values of goodwill are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

The goodwill impairment review is undertaken annually on 31 December. The review assessed whether the carrying value of goodwill was supported by the net present value of future cash flows, using a pre-tax discount rate and management forecasts for a projection period of up to five years, followed by an assumed annual long-term growth rate and no assumed improvement in operating margin. Management have made the judgement that this long-term growth rate does not exceed the long-term average growth rate for the industry.

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20. GOODWILL (CONTINUED)

Under IFRS, an impairment charge is required for goodwill when the carrying amount exceeds the 'recoverable amount', defined as the higher of fair value less costs to sell and value in use. Our approach in determining the recoverable amount utilises a discounted cash flow methodology, which necessarily involves making numerous estimates and assumptions regarding revenue growth, operating margins, appropriate discount rates and working capital requirements. The key assumptions used for estimating cash flow projections in the Group's impairment testing are those relating to revenue growth and operating margin. The key assumptions take account of the businesses' expectations for the projection period. These expectations consider the macroeconomic environment, industry and market conditions, the unit's historical performance and any other circumstances particular to the unit, such as business strategy and client mix.

In addition, judgements are applied in determining the level of cash-generating unit identified for impairment testing and the criteria used to determine which assets should be aggregated. A difference in testing levels could affect whether an impairment is recorded and the extent of impairment loss. Changes in our business activities or structure may also result in changes to the level of testing in future periods.

Further, future events could cause the Group to conclude that impairment indicators exist and that the asset values associated with a given operation have become impaired. Any resulting impairment loss could have a material impact on the Group's financial condition and results of operations.

Historically no impairment losses have been recognised in the group's financial statements. As a result, changes in the assumptions used in our impairment model have not had a significant effect on the impairment charges recognised and a reasonably possible change in assumptions would not lead to a significant impairment. The carrying value of goodwill will continue to be reviewed at least annually for impairment and adjusted to the recoverable amount if required.

21. TRADE AND OTHER RECEIVABLES

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Trade receivables	5,840,289	5,500,406	864,495	544,109
Less: Provision for bad and doubtful debts	(48,958)	(37,273)	(4,370)	(4,370)
	5,791,331	5,463,133	860,125	539,739
Value added tax recoverable	320,319	399,478	4,455	44,438
Staff recoverable	11,722	23,593	5,234	9,160
Other receivables and pre-payments	377,704	440,263	92,003	111,573
	<u>6,501,076</u>	<u>6,326,467</u>	<u>961,817</u>	<u>704,910</u>
<u>Movement in allowance for doubtful debts</u>				
Balance at the beginning of the year	37,273	69,106	4,370	27,938
Provision for bad debts	36,935	11,433	4,043	-
Amounts written off during the year as uncollectible	(27,775)	(46,454)	(4,043)	-
Reversal of provision for bad debts	-	-	-	(23,568)
Effect of exchange rates	2,525	3,188	-	-
Balance at the end of the year	<u>48,958</u>	<u>37,273</u>	<u>4,370</u>	<u>4,370</u>

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22. CASH, BANK AND DEPOSIT BALANCES

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Cash in hand	4,829	6,468	1,736	1,870
Bank balances	618,162	749,923	56,081	114,369
Short term deposits				
- Fixed deposits with banks	2,470,863	2,905,807	2,341,595	1,663,668
- Call deposits with banks	367,814	267,678	1,174	-
	<u>3,461,668</u>	<u>3,929,876</u>	<u>2,400,586</u>	<u>1,779,907</u>
Bank overdraft (Note 25)	(64,929)	(20,392)	(64,276)	-
Cash and cash equivalent	3,396,739	3,909,484	2,336,310	1,779,907
Accrued interest on fixed deposits	63,461	72,058	61,604	52,672
	<u>3,460,200</u>	<u>3,981,542</u>	<u>2,397,914</u>	<u>1,832,579</u>

The deposits mature within 6 months after the year end. The effective interest on the fixed deposits for the year ended 31 December 2017 was 9.14% (2016: 11.96%) while the effective interest rate on the call deposits was 7.42% (2016: 9.32%).

23. SHARE CAPITAL

All figures in Sh'000	2017	2016
Authorised share capital:		
Ordinary shares 400,000,000 (2016: 400,000,000) of Sh 1 each	<u>400,000</u>	<u>400,000</u>
Issued and fully paid up shares		
Ordinary shares 378,865,102 (2016: 378,865,102) of Sh 1 each	<u>378,865</u>	<u>378,865</u>

24. TRADE AND OTHER PAYABLES

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Trade payables	3,828,179	3,628,794	727,875	537,286
Other payables	449,936	561,350	30,665	33,953
Leave pay accrual	42,660	44,797	6,501	6,501
Value added tax payable	39,046	35,715	-	-
	<u>4,359,821</u>	<u>4,270,656</u>	<u>765,041</u>	<u>577,740</u>

Movement in leave pay accrual

Balance at the beginning of the year	44,797	49,687	6,501	3,842
Provision for leave pay	18,040	6,567	1,970	2,660
Paid during the year	(13,321)	(7,818)	(1,970)	(1)
Reversals of provision for leave pay	(6,693)	(1,423)	-	-
Effect of exchange rates	(163)	(2,216)	-	-
Balance at the end of the year	<u>42,660</u>	<u>44,797</u>	<u>6,501</u>	<u>6,501</u>

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

25. DIVIDENDS PAYABLE

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
At 1 January	11,880	12,071	11,880	12,071
Dividends declared	235,947	206,348	189,433	189,433
Dividends paid	(236,198)	(206,539)	(189,684)	(189,624)
At 31 December	11,629	11,880	11,629	11,880

Unclaimed dividend amounting to Sh 2.21million remitted to Unclaimed Financial Assets Authority during the year (2016: Sh 6.38million).

26. BANK OVERDRAFT

The Company has, for and on behalf of all its subsidiaries, availed a general short term banking facility, incorporating overdrafts, letter of credit and / or guarantee of bank facility of Sh500million and forward exchange contract facility of USD12million from Stanbic Bank Kenya Limited. The utilisation of these facilities are monitored at a group level. Securities offered for the facilities are as follows:

- (i) A Joint and several debenture over all the present and future moveable and immovable assets of WPP Scangroup Limited and all the subsidiaries in Kenya for an amount of Sh500million.
- (ii) Cross corporate guarantees and indemnities by WPP Scangroup Limited and its subsidiaries in Kenya for an amount of Sh500million.
- (iii) Right of set-off.

27. CAPITAL COMMITMENTS

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Authorised but not contracted	-	-	-	-
Authorised and contracted	6,639	5,815	1,999	2,521
	6,639	5,815	1,999	2,521

Capital commitments relates to renovation of office premises.

28. OPERATING LEASE COMMITMENTS

The total future minimum lease payments due to third parties under non-cancellable operating leases for various office premises are as follows:

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Within 1 year	128,889	143,767	29,026	31,383
Within 2 to 3 years	127,958	248,365	41,053	54,664
	256,847	392,132	70,079	86,047

29. CONTINGENT LIABILITIES

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Pending claims	21,360	21,360	181	181
Guarantees	22,777	20,955	11,777	7,532
	44,137	42,315	11,958	7,713

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29. CONTINGENT LIABILITIES (CONTINUED)

These relate to claims against the Group by various parties. The likely outcome of these claims cannot be determined as at the date of signing these financial statements. The directors' estimate of the maximum liability arising from these pending claims is set out above. However, the directors' do not expect any significant liability to arise from these pending matters.

30. RISK MANAGEMENT POLICIES

The Group's financial risk management objectives and policies are detailed below:

30.1 Capital risk management

The Group manages its capital with an aim to:

- retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- allocate capital efficiently to support growth
- safeguard company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- provide an adequate return to shareholders by pricing advertising services commensurately with the level of risk.

An important aspect of the Group's overall capital management process is the setting of a target risk-adjusted rate of return which is aligned to performance objectives and ensures that the Group is focused on the creation of value for shareholders.

The Group has a number of sources of capital available to it and seeks to optimise its equity/debt structure in order to ensure that it can consistently maximize returns to shareholders. As at the year-end the Group's borrowing are not in excess of its cash and cash equivalents. Table below sets out the calculation of gearing ratio.

All figures in Sh'000	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Share capital	378,865	378,865	378,865	378,865
Share premium	8,281,817	8,281,817	8,281,817	8,281,817
Revenue reserves	508,141	320,150	1,820,600	1,753,457
Translation deficit	(320,031)	(353,434)	-	-
	8,848,792	8,627,398	10,481,282	10,414,139
Non controlling interests	116,377	181,241	-	-
Total Equity	8,965,169	8,808,639	10,481,282	10,414,139
Loan payable to a related parties	-	-	-	-
Less: Cash, bank and deposit balances	3,460,200	3,981,542	2,397,914	1,832,579
Excess of Cash and cash equivalents over borrowings	(3,460,200)	(3,981,542)	(2,397,914)	(1,832,579)
Gearing ratio	N/A	N/A	N/A	N/A

30.2 Financial risk management objectives

The Group's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates. The Group's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Group does not hedge any risks and has in place policies to ensure that credit is extended to customers with an established credit history.

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

30. RISK MANAGEMENT POLICIES (CONTINUED)**30.3 Credit risk**

The Group's credit risk is primarily attributable to its trade receivables, bank balance and short term deposits. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and assessment of the prevailing economic environment. The management assesses the creditworthiness of all clients by reviewing available financial information. Payment history of the client is used to review the maximum credit limits. Exposure to client is also managed through other mechanisms such as the right to offset where a client is also a vendor of the company. Credit risk on trade receivables is less because the majority of the Group's clients are multinational companies with high credit ratings. Credit risk on liquid funds with financial institutions is also low, because funds are held by banks with good credit-standing. Amount that best represents the Group's maximum exposure to credit as at 31 December 2017 is made up as follows:

All figures in Sh'000	Fully performing	Past due	Impaired	Total
At 31 December 2017				
Bank balance	618,162	-	-	618,162
Long term loan receivable	498,684	-	-	498,684
Receivable from related parties	181,547	-	-	181,547
Trade receivables	4,606,480	1,184,851	48,958	5,840,289
Short term deposits	2,902,138	-	-	2,902,138
	<u>8,807,011</u>	<u>1,184,851</u>	<u>48,958</u>	<u>10,040,820</u>
Less: Provision for impaired assets	-	-	(48,958)	(48,958)
Net Performing assets	<u>8,807,011</u>	<u>1,184,851</u>	<u>-</u>	<u>9,991,862</u>
At 31 December 2016				
Bank balance	749,923	-	-	749,923
Receivable from related parties	135,314	-	-	135,314
Trade receivables	4,532,665	930,468	37,273	5,500,406
Short term deposits	3,245,543	-	-	3,245,543
	<u>8,663,445</u>	<u>930,468</u>	<u>37,273</u>	<u>9,631,186</u>
Less: Provision for impaired assets	-	-	(37,273)	(37,273)
Net Performing assets	<u>8,663,445</u>	<u>930,468</u>	<u>-</u>	<u>9,593,913</u>
<u>Age of receivables that are past due but not impaired</u>				
			<u>2017</u>	<u>2016</u>
91-120 days			307,181	353,446
121-180 days			702,350	322,770
Over 180 days			175,320	254,252
Total			<u>1,184,851</u>	<u>930,468</u>
<u>Age of impaired trade receivables</u>				
91-120 days			-	-
121-180 days			-	-
Over 180 days			48,958	37,273
Total			<u>48,958</u>	<u>37,273</u>

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

30. RISK MANAGEMENT POLICIES (CONTINUED)

30.3 Credit risk (Continued)

Amount that best represents the Company's maximum exposure to credit as at 31 December 2017 is made up as follows:

All figures in Sh'000	Fully performing	Past due	Impaired	Total
At 31 December 2017				
Bank balance	56,081	-	-	56,081
Long term loan receivable	498,684	-	-	498,684
Long term loan to subsidiaries	66,124	-	-	66,124
Receivable from related parties	644,706	-	-	644,706
Trade receivables	793,967	66,158	4,370	864,495
Short term deposits	2,404,373	-	-	2,404,373
	<u>4,463,935</u>	<u>66,158</u>	<u>4,370</u>	<u>4,534,463</u>
Less: Provision for impaired assets	-	-	(4,370)	(4,370)
Net Performing assets	<u>4,463,935</u>	<u>66,158</u>	<u>-</u>	<u>4,530,093</u>
At 31 December 2016				
Bank balance	114,369	-	-	114,369
Long term loan to subsidiaries	118,937	-	-	118,937
Receivable from related parties	2,014,621	-	-	2,014,621
Trade receivables	516,303	23,436	4,370	544,109
Short term deposits	1,716,340	-	-	1,716,340
	<u>4,480,570</u>	<u>23,436</u>	<u>4,370</u>	<u>4,508,376</u>
Less: Provision for impaired assets	-	-	(4,370)	(4,370)
Net Performing assets	<u>4,480,570</u>	<u>23,436</u>	<u>-</u>	<u>4,504,006</u>
Age of receivables that are past due but not impaired				
		2017	2016	
91-120 days		20,545	11,502	
121-180 days		36,745	4,536	
Over 180 days		8,868	7,398	
Total		<u>66,158</u>	<u>23,436</u>	
Age of impaired trade receivables				
91-120 days		-	-	
121-180 days		-	-	
Over 180 days		4,370	4,370	
Total		<u>4,370</u>	<u>4,370</u>	

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

30. RISK MANAGEMENT POLICIES (CONTINUED)

30.3 Credit risk (Continued)

The customers under the fully performing category settle their balance in the normal course of trade. Trade receivable that are past due are not doubtful. Out of the total past due amount of Sh1,184million (2016:Sh930million) a sum of Sh454million (2016:Sh512million) has been settled subsequent to the year-end. The credit control department actively follows the debts that are past due. The group does not hold any collateral or other securities to cover client credit risk. Bank balances and short term deposits are fully performing. Those amounts are held in reputable banks, which have a high credit rating.

30.3.1 Liquidity risk management

Liquidity risk is the risk that cash may not be available to settle obligations when due, at a reasonable cost. The primary liquidity risk of the Group is its obligation to pay vendors as they fall due. Management has built an appropriate liquidity risk management framework for the Group's short, medium and long-term needs. The Group manages liquidity risk by monitoring forecast and actual cash flows and by maintaining credit facilities from banks. Refer note 26 for details of bank credit facilities the Group has.

The tables below analyses the Group's and Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. For Group:

All figures in Sh'000	Less than 1 month	Between 1 - 3 months	Over 3 months	Total
At 31 December 2017				
Payable to related parties	262,721	-	-	262,721
Trade payables	2,179,623	925,487	723,069	3,828,179
	<u>2,442,344</u>	<u>925,487</u>	<u>723,069</u>	<u>4,090,900</u>
At 31 December 2016				
Payable to related parties	178,080	-	-	178,080
Trade payables	1,796,433	948,050	884,311	3,628,794
	<u>1,974,513</u>	<u>948,050</u>	<u>884,311</u>	<u>3,806,874</u>

For Company:

All figures in Sh'000	Less than 1 month	Between 1 - 3 months	Over 3 months	Total
At 31 December 2017				
Payable to related parties	317,267	-	-	317,267
Trade payables	403,913	175,199	148,763	727,875
	<u>721,180</u>	<u>175,199</u>	<u>148,763</u>	<u>1,045,142</u>
At 31 December 2016				
Payable to related parties	624,346	-	-	624,346
Trade payables	117,726	47,813	371,747	537,286
	<u>742,072</u>	<u>47,813</u>	<u>371,747</u>	<u>1,161,632</u>

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NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (Continued)

30. RISK MANAGEMENT POLICIES (CONTINUED)

30.3.2 Interest rate risk

Interest rate risk arises primarily from bank borrowings and borrowings from related parties. The potential impact of 1% increase or decrease in interest rate on profitability of the company would have been an increase or decrease of Sh0.19million (2016: Sh1.04million).

30.3.3 Foreign currency risk

The Group's operations are predominantly in Kenya where the currency has been fluctuating against the major convertible currencies. A portion of the Group's purchases and sales are denominated in foreign currencies principally in US dollars. The Group does not hedge its foreign currency risk. This risk is insignificant.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

At 31 December 2017, if the average exchange rate for the year was 5% higher or lower, the profit before tax would have increased or decreased by approximately Sh23.4million (2016:Sh15.8million).

30.3.4 Price risk

Price risk arises from fluctuations in the prices of equity investments. At 31 December 2017 and 31 December 2016, the group did not hold investments that would be subject to price risk; hence this risk is not applicable.

30.3.5 Concentration risk

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties.

31. DIVIDENDS

The directors propose a first and final dividend of Sh0.75 per share totalling Sh284,148,826.50 based on 378,865,102 shares in issue. (2016: Sh0.50 per share totalling Sh189,432,551 based on 378,865,102 shares)

The payment of dividend is subject to approval by the shareholders' at the Annual General Meeting. This amount is not included in liabilities as presented in the financial statements. Dividend payment will be subject to withholding tax where applicable.

32. EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the reporting date and the date of this report.

33. INCORPORATION

The Company is domiciled and incorporated in Kenya as a public limited liability company under the Companies Act (Cap. 486). 50.1% shares of the Company are beneficially held by WPP plc, a company incorporated in Jersey. Financial statements of WPP plc are available at www.wpp.com.

[End]