THE REPUBLIC OF KENYA

US$1,000,000,000 7.250 per cent. Notes due 2028
Issue Price for the Notes due 2028: 100.00 per cent.
US$1,000,000,000 8.250 per cent. Notes due 2048
Issue Price for the Notes due 2048: 100.00 per cent.

The US$1,000,000,000 7.250 per cent. Notes due 2028 (the "**2028 Notes**") and the US$1,000,000,000 8.250 per cent. Notes due 2048 (the "**2048 Notes**" and, together with the 2028 Notes, the "**Notes**") to be issued by the Republic of Kenya, acting through the National Treasury (the "**Issuer**" or "**Kenya**") are direct, unconditional and unsecured obligations of Kenya.

The Notes will bear interest from (and including) 28 February 2018 at the rate of 7.250 per cent. per annum for the 2028 Notes and at the rate of 8.250 per cent. per annum for the 2048 Notes, in each case payable semi-annually in arrear on 28 February and 28 August of each year, commencing on 28 August 2018. The 2028 Notes will mature on 28 February 2028 (the "**2028 Maturity Date**") and the 2048 Notes will mature on 28 February 2048 (the "**2048 Maturity Date**").

Payments on the Notes will be made in US dollars without deduction for or on account of taxes imposed or levied by Kenya to the extent described under "*Terms and Conditions of the Notes—Taxation*".

The Notes have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any State or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a summary of certain restrictions on resale, see "*Transfer Restrictions*" and "*Plan of Distribution*".

The Notes will be offered and sold outside the United States in reliance on Regulation S under the Securities Act ("Regulation S") and within the United States to qualified institutional buyers ("QIBs") within the meaning of Rule 144A under the Securities Act ("Rule 144A"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

An investment in the Notes involves a high degree of risk. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 9.

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/ EC, as amended (including the amendments made by Directive 2010/73/EU) (the "**Prospectus Directive**"). This Prospectus constitutes a prospectus for the purposes of the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to Notes that are to be admitted to trading on the regulated market of the Irish Stock Exchange plc (the "**Main Securities Market**") or on another regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**") or that are to be offered to the public in any member state of the European Economic Area ("**EU Member States**"). Application has been made to the Irish Stock Exchange for the Notes to be admitted to its official list (the "**Official List**") and trading on the Main Securities Market. Application will also be made to the Financial Conduct Authority in its capacity as competent authority ("**the UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's regulated market.

The Notes are expected to be rated B+ by Fitch (Hong Kong) Limited ("**Fitch**") and as B+ by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). All references to Fitch and S&P in this Prospectus are to the entities as defined in this paragraph. Fitch is not established in the European Union and has not applied for registration under Regulation (EC) No 1060/2009 (as amended, the "**CRA Regulation**"). Ratings by Fitch have been endorsed by Fitch Ratings Ltd. in accordance with the CRA Regulation. Each of Fitch Ratings Ltd. and S&P is established in the European Union and registered under the CRA Regulation. As such, each of Fitch Ratings Ltd. and S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. The European Securities and Markets Authority has indicated that ratings issued in Hong Kong which have been endorsed by Fitch Ratings Ltd. may be used in the EU by the relevant market participants. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Notes will be offered and sold in registered form in denominations of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000. The 2028 Notes and the 2048 Notes that are offered and sold in reliance on Regulation S (respectively, the "**2028 Unrestricted Notes**" and the "**2048 Unrestricted Notes**" and, together, the "**Unrestricted Notes**") will be represented by beneficial interests in two global notes (respectively, the "**2028 Unrestricted Global Note**" and the "**2048 Unrestricted Global Note**" and, together, the "**Unrestricted Global Notes**") in each case in registered form without interest coupons attached, which will be registered in the name of Citivic Nominees Limited, as nominee for, and will be deposited on or about 28 February 2018 (the "**Closing Date**") with, Citibank Europe plc, as common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The 2028 Notes and the 2048 Notes that are offered and sold in reliance on Rule 144A (respectively, the "**2028 Restricted Notes**" and the "**2048 Restricted Notes**" and, together, the "**Restricted Notes**") will be represented by beneficial interests in one or more global notes (respectively, the "**2028 Restricted Global Note**" and the "**2048 Restricted Global Note**", together, the "**Restricted Global Notes**") in each case in registered form without interest coupons attached, which will be deposited on or about the Closing Date with Citibank, N.A., London Branch, as custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). Interests in the Restricted Global Notes will be subject to certain restrictions on transfer. Beneficial interests in the Unrestricted Global Notes and Restricted Global Notes (together, the "**Global Notes**") will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Except in the limited circumstances as described herein, certificates will not be issued in exchange for beneficial interests in the Global Notes.

Joint Lead Managers

CITIGROUP	**J.P. MORGAN**	**STANDARD BANK**	**STANDARD CHARTERED BANK**

Prospectus dated 26 February 2018

RESPONSIBILITY STATEMENT

Kenya accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

To the best of the knowledge and belief of Kenya, the information contained in this Prospectus is true and accurate in every material respect and is not misleading in any material respect, and this Prospectus, does not omit to state any material fact necessary to make such information not misleading. The opinions, assumptions, intentions, projections and forecasts expressed in this Prospectus with regard to Kenya are honestly held by Kenya, have been reached after considering all relevant circumstances and are based on reasonable assumptions.

IMPORTANT NOTICE

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by Kenya or the joint lead managers listed in the section entitled "*Plan of Distribution*" (the "**Joint Lead Managers**"). Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Kenya since the date hereof. This Prospectus may only be used for the purpose for which it has been published.

This Prospectus does not constitute an offer of, or an invitation by, or on behalf of, Kenya or the Joint Lead Managers to subscribe for, or purchase, any of the Notes in any jurisdiction in which such offer or invitation is unlawful. This Prospectus does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by Kenya and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by Kenya or the Joint Lead Managers that any recipient of this Prospectus should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of Kenya.

The Joint Lead Managers have not separately verified the information contained in this Prospectus. Accordingly no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers or any of them as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by Kenya in connection with the Notes or their distribution.

For a description of certain restrictions on offers, sales and deliveries of the Notes, see "*Plan of Distribution*".

The Republic of Kenya is a sovereign state. Consequently, it may be difficult for investors to obtain or enforce judgments or arbitral awards. See "*Risk Factors—Kenya is a sovereign state, and accordingly it may be difficult to obtain or enforce judgments or arbitral awards against it*".

The Notes have not been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

IN CONNECTION WITH THE ISSUE OF THE NOTES, CITIGROUP GLOBAL MARKETS LIMITED AS STABILISATION MANAGER (THE "**STABILISATION MANAGER**") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY OVERALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A

LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE 2028 NOTES OR THE 2048 NOTES, AS THE CASE MAY BE, IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF SUCH NOTES. ANY STABILISATION ACTION OR OVER ALLOTMENT SHALL BE CONDUCTED BY THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

This Prospectus may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Each purchaser or holder of interests in the Notes will be deemed, by its acceptance or purchase of any such Notes, to have made certain representations and agreements as set out in "*Transfer Restrictions*".

Notwithstanding anything herein to the contrary, from the commencement of discussions with respect to the transaction contemplated by this Prospectus, all persons may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction described herein and all materials of any kind (including opinions and other tax analyses) that are provided to such persons relating to such tax treatment and tax structure, except to the extent that any such disclosure could reasonably be expected to cause this transaction not to be in compliance with securities laws. For the purposes of this paragraph, the tax treatment of this transaction is the purported or claimed US federal income tax treatment of this transaction and the tax structure of this transaction is any fact that may be relevant to understanding the purported or claimed US federal income tax treatment of this transaction.

An investment in the Notes may not be suitable for all investors. Generally, investment in emerging markets such as Kenya is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors are urged to consult their own legal, tax and financial advisers before making an investment. Such risks include, but are not limited to, higher volatility and more limited liquidity in respect of the Notes, a fragile export base, budget deficits, lack of adequate infrastructure necessary to accelerate economic growth and changes in the political and economic environment. Emerging markets can also experience more instances of corruption by government officials and misuse of public funds than do more mature markets, which could affect the ability of governments to meet their obligations under issued securities.

Investors should also note that emerging markets such as Kenya are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

- has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

- understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant financial markets; and

- is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent the Notes are legal investments for it, the Notes can be used as collateral for various types of borrowing and other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

Annual information presented in this Prospectus is based upon a fiscal year commencing on 1 July in one year and ending on 30 June in the subsequent year, unless otherwise indicated. While the fiscal year ends on 30 June of each year, certain information in this prospectus provided by the Kenya National Bureau of Statistics, including GDP and GDP sector information, are provided as of 31 December of each year. Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be the sum of the figures which precede them. Statistical information reported herein has been derived from official publications of, and information supplied by, a number of agencies and ministries of Kenya, including the National Treasury, the Central Bank of Kenya (the "**CBK**") and the Kenya National Bureau of Statistics. Some statistical information has also been derived from information publicly made available by third parties such as the International Monetary Fund (the "**IMF**") and the World Bank (the "**World Bank**"). Where such third party information has been so sourced, the source is stated where it appears in this Prospectus. Kenya confirms that it has accurately reproduced such information and that, so far as it is aware and is able to ascertain from information published by third parties, it has omitted no facts which would render the reproduced information inaccurate or misleading. As used in this Prospectus, references to the "government" are to the government of Kenya, and the term "central government" is interchangeable with and means the same as "national government".

Similar statistics may be obtainable from other sources, but the date of publication, underlying assumptions, methodology and, consequently, the resulting data may vary from source to source. In addition, statistics and data published by one ministry or agency may differ from similar statistics and data produced by other agencies or ministries due to differing underlying assumptions, methodology or timing of when such data is reproduced. Certain historical statistical information contained herein is provisional or otherwise based on estimates that Kenya and/or its agencies believe to be based on reasonable assumptions. Kenya's official financial and economic statistics are subject to internal review as part of a regular confirmation process. Accordingly, the financial and economic information set out in this Prospectus may be subsequently adjusted or revised and may differ from previously published financial and economic information. In addition, Kenya's budget figures as presented in the Prospectus may be subject to subsequent revision. While Kenya does not expect such revisions to be material, no assurance can be given that material changes will not be made.

References to any individual period such as 2016/17 are references to a fiscal year commencing on 1 July in one year and ending on 30 June in the subsequent year. References to any individual calendar year are references to a calendar year commencing on 1 January and ending on 31 December in the same year. All references in this document to "Kenyan shilling", "shilling" and "KES" are to the currency of the Republic of Kenya; to "US dollars", "US$" and "$" are to the currency of the United States of America; and to "euro" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended. For ease of information, certain financial information relating to the Republic of Kenya included herein is presented as translated into US dollars at the US dollar/KES rates of exchange deemed appropriate by Kenya. Unless otherwise specified, such rates were applicable as of the end of such specified period(s). Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted into US dollars at that or any other rate. References to "SDR" are to the Special Drawing Right, a unit of account having the meaning ascribed to it from time to time by the Rules and Regulations of the IMF. References in this document to "billions" are to thousands of millions.

Information contained herein that is identified as being derived from a publication of the Republic of Kenya or one of its agencies or instrumentalities is included herein on the authority of such publication as an official public document of the Republic of Kenya. All other information contained herein with respect to the Republic of Kenya is included as an official public statement made on the authority of the Minister of Finance of the Republic of Kenya.

Rebasing of National Accounts

In September 2014, Kenya National Bureau of Statistics rebased its national accounts, changing the base year from 2001 to 2009, and revised the annual and quarterly national accounts statistics for the period 2006 to

2013. Kenya National Bureau of Statistics applied the System of National Accounts 2008 and the International Standard Industrial Classification revision 4 system ("**ISIC**") to compile the rebased GDP estimates. The System of National Accounts is the internationally agreed standard set of recommendations on how to compile measures of economic activity, and ISIC is the international standard for the classification of productive economic activities. This revision is the sixth time that Kenya has revised the national account statistics. The first revision was carried out in 1957 and subsequent revisions were carried out in 1967, 1976, 1985 and 2005. The UN Statistical Commission recommends that countries rebase every five years.

Rebasing enables economic estimates to better understand the current structure of the economy and sectoral growth drivers, and to better reflect the performance of the most important parts of the economy. For example, the rebasing in 2014 allowed the government to account for changes in production structure, relative product prices and products. These measures have led to changes in the size of GDP, growth rates, contributions by sector and related indicators that use GDP.

FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements, which involve risks and uncertainties. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "*believes*", "*estimates*", "*anticipates*", "*expects*", "*intends*", "*may*", "*will*" or "*should*" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the government's intentions, beliefs or current expectations concerning, among other things, the general political and economic conditions in Kenya. All forward-looking statements are based upon information available to Kenya on the date of this Prospectus, and Kenya undertakes no obligation to update any of these in light of new information or future events. Kenya derives many of its forward-looking statements from its budgets and forecasts, which are based upon many detailed assumptions. While Kenya believes that its assumptions are reasonable, it cautions that it is difficult to predict the impact of known factors, and it is impossible to anticipate all factors that could affect Kenya's actual results. These factors include, but are not limited to:

External factors, such as:

- the impact of changes in international oil prices;
- the impact of changes in other international commodity prices including tea, coffee and horticultural products;
- interest rates in financial markets outside Kenya;
- the impact of changes in the credit rating of Kenya;
- economic conditions in Kenya's major export markets;
- the impact of possible future regional instability;
- changes in the amount of remittances from non-residents; and
- the decisions of international financial institutions, multilateral development banks and creditor countries regarding the amount and terms of their financial assistance to Kenya;

as well as internal factors, such as:

- general economic, political and business conditions in Kenya;
- the impact of possible future social and political unrest;
- present and future exchange rates of the Kenyan currency;
- the level of foreign currency reserves;
- the impact of natural disasters, health epidemics and droughts and other agricultural blights;
- the level of domestic and external public debt;
- domestic inflation;
- the ability of Kenya to implement important economic reforms;
- the ability of Kenya to upgrade its infrastructure;
- the levels of foreign direct and portfolio investment; and
- the levels of domestic interest rates in Kenya.

ENFORCEMENT OF CIVIL LIABILITIES

Kenya is a sovereign state, and substantially all of the assets of Kenya are located in Kenya. Consequently, it may be difficult for investors to obtain or enforce judgments of courts and/or arbitral tribunals in England, the United States or anywhere else against Kenya. Kenya has not submitted to the jurisdiction of any courts in respect of the Notes, but instead has agreed to resolve disputes by arbitration in accordance with rules and procedures of the London Court of International Arbitration ("**LCIA**"). Kenya has waived certain immunities for the purpose of arbitration of disputes arising out of or in connection with the Notes. Kenya has not, however, waived immunity from execution or attachment in respect of certain of its assets. See "*Terms and Conditions of the Notes—Governing Law, Arbitration and Enforcement—Consent to Enforcement and Waiver of Immunity*". Kenya is a party to the United Nations (New York) Convention on Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention** ").

Kenya's waiver of immunity is, however, limited. Such a waiver constitutes only a limited and specific waiver for the purposes of the Notes, and under no circumstances shall it be interpreted as a general waiver by Kenya or a waiver with respect to proceedings unrelated to the Notes.

Arbitral awards obtained outside Kenya may be enforced in Kenya, in accordance with the New York Convention, under the Arbitration Act 1995. Leave to enforce the award as a decree of the High Court must be obtained. Such leave may be refused where the recognition or enforcement of such award is contrary to public policy in Kenya or falls under section 37 of the Arbitration Act, 1995. Where an order is made against the government for the payment of money or costs, a further application must follow for a certificate of order against the government and must be served on the Attorney General. The amount can then be paid out of appropriations provided in the national budget. Aside from this procedure, no execution, attachment or process may be issued by any Kenyan court for enforcing payment by the government of any money or costs, and no person shall be individually liable under any order for payment by the government, any government department or any officer of the government in relation to such money or costs. Injunctive relief and orders for specific performance may not be made by Kenyan courts against the government.

EXCHANGE RATES

The currency of Kenya is the Kenyan shilling. The following table sets forth, for the periods indicated, the high, low, average and period end official rates set by the CBK, expressed in US dollars. These translations should not be construed as representations that KES amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated as of any of the dates mentioned in this Prospectus at all.

	Average	**High**	**Low**	**Period End**
		(*KES: US$1.00*)		
2013	86.12	87.70	83.72	86.31
2014	87.92	90.71	85.46	90.60
2015	98.59	106.25	90.70	102.31
2016	101.50	102.49	100.47	102.49
2017	103.41	104.02	102.56	103.23
2018				
January	102.92	103.44	102.34	102.36
February (through 23 February 2018)	101.34	101.99	101.04	101.73

Source: Central Bank of Kenya

The US dollar versus KES exchange rate as released by the CBK on 23 February 2018 was KES101.73 per 1 US dollar.

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OVERVIEW

You should read this overview as an introduction to this Prospectus. Any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole. This overview does not purport to be complete and is qualified in its entirety by the more detailed information elsewhere in the Prospectus. Prospective investors should also carefully consider the information set forth in the "Risk Factors" below prior to making any investment decision. Capitalised terms not otherwise defined in this overview have the same meaning as elsewhere in this Prospectus. See "Republic of Kenya" and "The Economy", amongst other sections, for a more detailed description of the Issuer. References in this overview to a "Condition" are to the numbered condition corresponding thereto set out in the "Terms and Conditions of the Notes".

Republic of Kenya

General

Kenya occupies a land area of 581,309 square kilometres on the equator and is bordered by the Indian Ocean to the south east, Tanzania to the south, Uganda to the west, South Sudan to the north west, Ethiopia to the north and Somalia to the north east. Kenya has an estimated population of approximately 45.4 million, as of 2016. The Republic of Kenya is divided into 47 semi-autonomous counties that are headed by Governors and County Assemblies. Nairobi is the largest city and the capital of the country. In August 2010, Kenyans overwhelmingly voted to adopt the new Constitution in a national referendum. The Constitution introduced additional checks and balances, including a bill of rights for Kenyan citizens, and significant devolution of power and resources to the 47 newly created counties. It also eliminated the position of Prime Minister following the first presidential election under the Constitution, which occurred on 4 March 2013. While allegations of irregularities in the voting process were made, the 2013 elections were not marred by violence. Uhuru Kenyatta, running against a field including Prime Minister Odinga, won in the first round by a close margin, and the newly constituted Supreme Court dismissed the opposition's appeal, and Mr. Kenyatta was sworn into office. Uhuru Kenyatta was re-elected as President in August 2017, but the vote was annulled by the Supreme Court, which cited irregularities in the vote. The Supreme Court ordered that a re-run of the election for President and Deputy President be held within 60 days of the successful petition. The October 2017 re-run was boycotted by the opposition National Super Alliance ("**NASA**"), led by Raila Odinga, and turnout was significantly lower than in the August 2017 election. President Kenyatta was re-elected in the October 2017 re-run and the results were again challenged in the Supreme Court of Kenya. In November 2017, the Supreme Court ruled the petitions were without merit and declared that President Kenyatta had been validly re-elected as President, and he was subsequently sworn in as President of Kenya.

The Economy

Kenya has experienced continued growth in GDP over the last few years, supported by ongoing public infrastructure projects, strong public and private sector investment and appropriate economic and fiscal policies, reflecting the broad based nature of the Kenyan economy. Real GDP growth was 5.4 per cent. in 2014, 5.7 per cent. in 2015, 5.8 per cent. in 2016 and 4.7 per cent. in the nine months ended 30 September 2017.

The average annual inflation rate has remained low and stable over the last few years as a result of prudent monetary and fiscal policies.

Over the last few years, Kenya's fiscal deficit has been widening, increasing by 2.1 per cent. in 2015/16 and 31.4 per cent. in 2016/17, primarily due to lower growth in government revenues compared to expenditures. Revenue collection has consistently lagged behind targets due to less than budgeted income tax and Appropriation-in-Aid ("**A-i-A**") receipts. The government's fiscal deficit as a percentage of GDP was 8.4, 7.4 and 8.9 per cent. in 2014/15, 2015/16 and 2016/17, respectively.

Kenya's overall balance of payments position has improved in recent years, with the balance of payments deficit decreasing from US$1,176 million to US$1,109 million and US$413 million in 2014/15, 2015/16 and 2016/17, respectively.

Selected Economic Information

	Year ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017[(1)]
Domestic economy					
Nominal GDP (KES millions)	5,402,410	6,260,646	7,158,694	5,479,333	6,294,686
Real GDP (KES millions)	3,842,032	4,061,542	4,299,087	3,243,621	3,395,717
Real GDP (growth rate)(per cent.)	5.4	5.7	5.8	5.7	4.7

Notes:
(1) Preliminary.
Source: Kenya National Bureau of Statistics

	Year ended 30 June		
	2015	2016	2017[(1)]
Average annual inflation rate (per cent.)	6.6%	6.3%	8.0%
Balance of payments			
Exports of goods, f.o.b. (US$ millions)	5,822	6,090	5,746
Imports of goods, f.o.b. (US$ millions)	17,158	13,543	15,031
Balance on goods and services(US$ millions)	(8,947)	(5,910)	(7,761)
Current account balance (US$ millions)	(5,905)	(3,122)	(4,645)
Capital Account (US$ millions)	223	277	183
Financial Account (US$ millions)	(5,550)	(3, 822)	(6,486)
Public finance			
National government revenues (KES millions)	1,135,889	1,262,240	1,426,890
National government expenditures (KES millions)	1,640,022	1,781,945	2,109,976
Deficit including grants (cash basis) (KES millions)	(487,193)	(497,318)	(683,086)
per cent. of GDP[(2)]	8.4%	7.4%	8.9%
Public debt[(3)]			
National government external debt (US$ millions)	13,983	17,168	20,817
National government internal debt (US$ millions)	14,400	17,954	20,371
Total national government debt (US$ millions)	28,384	35,122	41,189

Notes:
(1) Preliminary.
(2) Figures calculated at 30 June are calculated with the nominal GDP as at 30 June of the year provided.
(3) National Government Debt excludes certain publicly guaranteed debt such as debt of state-owned enterprises and debt of local government.
Source: Kenya National Bureau of Statistics; National Treasury; Central Bank of Kenya.

Vision 2030

In 2007, the government announced "Vision 2030" as its long-term plan for attaining middle income status as a nation by 2030. In line with Vision 2030, the government prepares successive medium term plans ("**MTPs**") that outline the policies, programmes and projects that the government intends to implement over a five year period. The first MTP covered the period from 2008 to 2012, with the second MTP covering the 2013 to 2017 period. The current MTP is the third MTP, which covers the 2018 to 2022 period.

In the initial year of the first MTP, a number of projects aimed at national healing and reconciliation following the post-election violence were implemented. Repair of damaged infrastructure, assistance to affected small scale businesses and resettlement of internally displaced persons were all undertaken in order to raise GDP growth (which fell to 1.5 per cent. in 2008) and to promote national reconciliation.

The government announced the second MTP of Vision 2030 in October 2013. The second MTP gave priority to devolution as specified in the Constitution and to more rapid socio-economic development with equity as a tool for building national unity. The second MTP also aimed to build on the successes of the first MTP, particularly in increasing the scale and pace of economic transformation through infrastructure development, and places strategic emphasis on priority sectors under the economic and social pillars of Vision 2030. Under the second MTP, transformation of the economy was focused on rapid economic growth on a stable macro-economic environment, modernisation of infrastructure, diversification and commercialisation of agriculture, food security, a higher contribution of manufacturing to GDP, wider access to African and global markets, wider access for Kenyans to better quality education and health care, job creation targeting unemployed youth, provision of better housing and provision of improved water sources and sanitation to Kenyan households.

The government announced the third MTP of Vision 2030 in March 2017. The third MTP will carry forward and complete the programmes and projects initiated during the second MTP. It also aims to achieve high inclusive and broad based economic growth. The third MTP aims to achieve structural transformation of the economy by increasing the share of manufacturing and industrial sectors and increasing the share of exports to GDP, especially manufactured exports, as a means to generate employment and higher economic growth and to ensure a sustainable balance of payments position. In line with the strategies outlined in the third MTP and building on the progress made so far under Vision 2030, the government aims to focus on the "Big Four" over the next five years, prioritising food security, universal health care, affordable housing and increasing the role of the manufacturing sector in Kenya's economy (the "**Big Four Plan**").

The 2017/18 Budget

On November 2016, the National Treasury presented to Parliament the Budget Policy Statement, a document that states the government's plans for raising and spending money in the coming fiscal year 2017/18 and the main priorities on which it will spend its resources. Consistent with the second MTP and the five pillars of the Vision 2030 plan, the government announced in the Budget Policy Statement that it plans to (i) sustain a conducive business environment by maintaining macroeconomic stability and enhancing security so as to promote sustainable growth and encourage investment opportunities in the country; (ii) continue spending in infrastructure to unlock growth constraints and maintain and expand the on-going public investments in road, rail, energy and water supplies; (iii) enable transformation of agriculture from subsistence to commercial farming and agribusiness, and to ensure sustainable food security in the country; (iv) continue investing in quality and accessible healthcare, relevant education and strengthen the social safety net; and (v) further entrench devolution for the delivery of better government services and enhanced rural economic development.

The budget estimates includes allocations, among others, of KES134.9 billion for on-going road construction projects, KES75.5 billion for the Standard Gauge Rail project, KES7.3 billion for on-going irrigation projects countrywide and transformation of agriculture from subsistence to productive commercial farming, KES14.3 billion for enhancing security operations and KES53.3 billion for energy related initiatives, including geothermal development and the rural electrification programme. The 2017/18 budget assumes:

- economic growth of 5.3 per cent. for 2017/18 and 5.9 per cent. for 2018/19;
- average inflation of 6.3 per cent. in 2017/18;
- the net-public debt to GDP ratio will increase from 51.9 per cent. for 2016/17 to 53.0 per cent. for 2017/18; and
- total revenue to be up to 19.0 per cent. of GDP in 2017/18.

Recent Developments

Downgrade of Kenya's sovereign rating by Moody's

In an unsolicited rating published on 13 February 2018, Moody's Investors Service, Inc. ("**Moody's**") downgraded Kenya's sovereign rating, citing Kenya's fiscal deficit and the increased reliance on commercial external debt funding to fund the deficit and refinance existing debt. Moody's downgraded Kenya's sovereign rating from B1 to B2 (with a stable outlook). (Moody's is not established in the European Union and has not applied for registration under the CRA Regulation. The rating has been endorsed by Moody's Investors Service Ltd. in accordance with the CRA Regulation. Moody's Investors Service Ltd. is established in the European Union and registered under the CRA Regulation. As such Moody's Investors Service Ltd. is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. The European Securities and Markets Authority has indicated that ratings issued in the United States which have been endorsed by Moody's Investors Service Ltd. may be used in the EU by the relevant market participants.)

Resignation of Kenya’s Attorney General

On 13 February 2018, Kenya’s Attorney General Githu Muigai tendered his resignation to President Kenyatta. The President, after accepting the tendered resignation of the Attorney General, nominated Paul Kihara Kariuki, the current President of the Court of Appeal for consideration and approval of appointment as the Attorney General. The Attorney General is due to remain in office until Paul Kihara Kariuki is sworn into office following parliamentary approval.

THE OFFERING

The following is an overview of the terms of (and other matters relating to) the Notes and, where applicable, the Notes.

Issuer..	The Republic of Kenya, acting through the National Treasury.
Notes Being Issued..........................	US$1,000,000,000 7.250 per cent. Notes due 2028.
	US$1,000,000,000 8.250 per cent. Notes due 2048.
Issue Price of Notes........................	100.00 per cent. of the principal amount of the 2028 Notes.
	100.00 per cent. of the principal amount of the 2048 Notes.
Issue Date	28 February 2018.
Maturity and Redemption.............	The 2028 Notes will mature on 28 February 2028 and will be redeemed at par on that date. The 2048 Notes will mature on 28 February 2048 and will be redeemed at par on that date. The Notes are not redeemable prior to maturity.
Interest..	The 2028 Notes bear interest from and including 28 February 2018 to but excluding 28 February 2028 at the rate of 7.250 per cent. per annum and the 2048 Notes bear interest from and including 28 February 2018 to but excluding 28 February 2048 at the rate of 8.250 per cent. per annum, in each case payable semi-annually in arrear on 28 February and 28 August in each year commencing on 28 August 2018.
Status	The 2028 Notes and the 2048 Notes (as the case may be) constitute direct, unconditional, unsubordinated and (subject to a negative pledge, described below) unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsubordinated and (subject as provided in the negative pledge described below) unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law, *provided*, *further*, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other obligations and, in particular, shall have no obligation to pay such other obligations at the same time or as a condition of paying sums due on the Notes and vice versa. The Notes are backed by the full faith and credit of the Issuer.
Negative Pledge................................	So long as any 2028 Note or 2048 Note (as the case may be) remains outstanding, the Issuer has undertaken that it will not (save for the specific exceptions provided in the Conditions) create, incur, assume or permit to subsist any Security (as defined in the Conditions) upon the whole or any part of its present or future assets or revenues to secure (i) any of its Public External Indebtedness, (ii) any guarantees in respect of Public External Indebtedness or (iii) Public External Indebtedness of any other person, without, at the same time or prior thereto, securing the 2028 Notes or the 2048 Notes (as the case may be) equally and rateably therewith or providing such other arrangement as shall be approved by relevant Noteholders.
Events of Default..............................	Condition 10 (Events of Default) provides that holders of the 2028 Notes or the 2048 Notes, as the case may be, who hold at

least 25 per cent. in aggregate principal amount of the relevant Notes then outstanding may declare such Notes to be immediately due and payable at their principal amount together with accrued interest if, *inter alia*, (i) the Issuer fails to pay principal or interest on such Notes when due and continues to do so for 15 business days or 30 days, respectively; (ii) the Issuer does not comply with one or more of the terms of such Notes, the applicable Agency Agreement or the applicable Deed of Covenant and (if capable of remedy) such default continues for 45 days following service of notice by any relevant Noteholder requiring such breach be remedied, (iii) the Issuer is in default or there is an acceleration in maturity in relation to any External Indebtedness or default in any guarantee thereof in excess of US$25,000,000; (iv) the Issuer declares a moratorium in respect of its External Indebtedness; (v) the Issuer ceases to be a member of the IMF or ceases to be eligible to use the general resources of the IMF, (vi) the Issuer denies the validity of the 2028 Notes or the 2048 Notes (as the case may be) or any of its obligations under such Notes, or it shall become unlawful for the Issuer to perform or comply with all or any of its obligations set out in such Notes as a result of any change in law or regulation in Kenya or final and unappealable ruling of a court in Kenya; or such obligations cease to be in full force and effect; or (vii) if any authorisation, consent of, or filing or registration with any governmental authority necessary for the payment of such Notes when due ceases to be in effect; all as more particularly described in Condition 10 (Events of Default). A declaration of acceleration may be rescinded in certain circumstances by the resolution in writing of the holders of at least 50 per cent. in aggregate principal amount of the outstanding 2028 Notes or 2048 Notes (as the case may be) in accordance with the procedures in Condition 10 (Events of Default).

Noteholder Meetings .... Condition 13 (Meetings of Noteholders; Written Resolutions) contains a "**collective action**" clause, which permits defined majorities to bind all holders of the 2028 Notes or the 2048 Notes, as the case may be. If the Issuer issues debt securities that contain collective action clauses in substantially the same form as the collective action clause in the terms of the Notes, the Notes would be capable of aggregation for voting purposes with any such debt securities, thereby allowing "cross-series" modifications to the terms and conditions of all affected series of Notes (even, in some circumstances, where majorities in certain series did not vote in favour of the modifications being voted on).

See Condition 13 (Meetings of Noteholders; Written Resolutions) and "*Risk Factors— The terms of the 2028 Notes and the 2048 Notes may be modified, waived or substituted without the consent of all the holders of the 2028 Notes or the 2048 Notes (as the case may be).*"

Withholding Tax .... All payments by the Issuer under the Notes are to be made without withholding or deduction for or on account of Taxes (as defined in Condition 8 (Taxation)) unless the withholding or deduction for taxes is required by law. In such circumstances, the Issuer may be required to pay additional amounts so that Noteholders will receive the full amount which otherwise would have been due and payable under the Notes; all as more particularly described in Condition 8 (Taxation).

Listing	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market. Application will also be made to the UK Listing Authority for the Notes to be admitted to the official list of the UK Listing Authority and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's regulated market.
Form and Denomination	The Notes will be in registered form and will be offered and sold in a minimum denomination of US$200,000 and integral multiples of US$1,000 thereof.
Settlement	The Notes will initially be represented by Global Notes. One or more Restricted Global Notes will be issued in respect of Notes offered and sold in reliance on Rule 144A. The Unrestricted Global Notes will be issued in respect of the Notes offered and sold in reliance on Regulation S.
Transfer Restrictions	The Notes have not been registered under the Securities Act, and are subject to certain restrictions on transfers. See "*Transfer Restrictions*" and "*Plan of Distribution*".
Use of Proceeds	Kenya expects the net proceeds of the issue of the Notes, before expenses, to amount to approximately US$1,999,600,000 which it intends to use for financing development expenditures and to refinance part of its obligations outstanding under certain syndicated loan agreements.
Fiscal Agent	Citibank, N.A, London Branch.
Registrar	Citigroup Global Markets Deutschland AG.
Rule 144A CUSIP/ISIN/Common Code	**2028 Notes:** 491798 AG9 / US491798AG90 / 178426192
Rule 144A CUSIP/ISIN/Common Code	**2048 Notes:** 491798 AH7 / US491798AH73 / 178426478
Regulation S ISIN/Common Code	**2028 Notes:** XS1781710543 / 178171054 **2048 Notes:** XS1781710626 / 178171062
Further Issues	The Issuer may from time to time, without notice to or the consent of the registered holders of the 2028 Notes or the 2048 Notes (as the case may be), issue additional securities that will form a single series with such Notes, subject to certain conditions set out in Condition 15 (Further Issues).
Governing Law	The Agency Agreements, the Deeds of Covenant and the Notes (including any non-contractual obligations arising from or in connection with any of them) are governed by, and will be construed in accordance with, English law.
Arbitration	Any dispute arising out of or in connection with the Notes shall be resolved by arbitration under the Arbitration Rules of the London Court of International Arbitration, as more particularly described in Condition 16 (Governing Law, Arbitration and Enforcement). The parties have expressly excluded the jurisdiction of the courts.

Risk Factors .... Any one or more of the risk factors below could affect Kenya's economy, its ability to fulfil its obligations under the Notes and your investment in the Notes.

Risks Relating to the Republic of Kenya ....

- Investing in securities in emerging markets such as Kenya generally poses a greater degree of risk than investment in more mature market economies because the economies in emerging markets are more susceptible to destabilisation resulting from domestic and international developments.

- Kenya's recent elections involved a high degree of volatility and any continuing levels of political uncertainty may adversely affect Kenya's capital markets, level of tourism and foreign investment, as well as Kenya's economy as a whole.

- If the government is unable to achieve budgetary targets and limit Kenya's fiscal deficit, Kenya's economic growth may be adversely affected.

- Kenya may be unable to meet its economic growth and reform objectives and policies which may adversely affect the performance of the Kenyan economy.

- Kenya continues to be challenged by internal security issues as well as unfavourable media coverage which has had and may continue to have a negative impact on the economy, including the tourism industry.

- Failure to address actual and perceived risks of corruption and money laundering may adversely affect Kenya's economy and ability to attract foreign direct investment.

- The Kenyan banking sector is subject to operational risks relating to the introduction of and reliance on information technology systems including cybersecurity and privacy risks.

- A significant portion of the Kenyan economy is not recorded.

- Because legal reforms in a number of areas were adopted fairly recently and are largely untested, any perceived inadequacy in the Kenyan legal system may generally deter foreign and domestic investment in Kenya and adversely affect Kenya's economy.

- An escalation in tensions with Kenya's neighbours could disrupt the Kenyan economy and have negative consequences for Kenya in its international diplomatic and trade relations.

- Failure to significantly improve Kenya's infrastructure could adversely affect Kenya's economy, competitive ranking and growth prospects, including its ability to meet GDP growth targets.

- Statistical information published by Kenya may differ from that produced by other sources and may be unreliable. Statistical information may also be more limited in scope and published less frequently than in the case of other countries such that adequate monitoring of key fiscal and economic indicators may be difficult.

- High inflation could have a material adverse effect on Kenya's economy and its ability to service its debt, including the Notes.

- Kenya's energy sector relies exclusively on imported oil to meet its petroleum requirements and is therefore vulnerable to oil price increases and prolonged weakness in the Kenya shilling to US dollar exchange rate.

- Periodic strikes by doctors and teachers disrupt the provision of health and education services in Kenya and may lead to further increases in the public sector wage bill, which could crowd out spending in much-needed infrastructure and affect the stability of the Kenyan economy.

- Unanticipated changes in monetary policies in developed markets may cause capital outflows from emerging and frontier markets and generate a negative impact on emerging and frontier economies, such as Kenya.

- China is Kenya's largest creditor and an adverse impact on the Chinese economy may impact the future ability of Kenya to increase its borrowings.

- The impact of climate change, including the occurrence of floods and drought, has negatively affected Kenya in the past and may negatively affect it in the future.

- Power shortages, over-dependence on hydropower and high energy costs may negatively impact economic growth.

- Health risks could adversely affect Kenya's economy.

- Any significant depreciation of the Kenyan shilling against the US dollar or other major currencies might have a negative effect on Kenya's ability to repay its debt denominated in currencies other than the Kenyan shilling, including the amounts due under the Notes.

Risks Relating to the Notes ....

- Events in other emerging markets, including those in other African countries, may negatively affect the Notes.

- The credit ratings of the Notes are subject to revision or withdrawal, either of which could adversely affect the trading price of the Notes.

- The liquidity of the Notes may be limited and trading prices may fluctuate.

- Fluctuations in exchange rates and interest rates may adversely affect the value of the Notes.

- Definitive Notes not denominated in an integral multiple of US$200,000 or its equivalent may be illiquid and difficult to trade.

- The terms of the 2028 Notes and the 2048 Notes may be modified, waived or substituted without the consent of all the holders of the 2028 Notes or the 2048 Notes (as the case may be).

- Kenya is a sovereign state and arbitration is the only way an investor may enforce the Notes, and accordingly it may be difficult to obtain or enforce judgments or arbitral awards against it.
- The value of the Notes could be adversely affected by a change in English law or administrative practice

RISK FACTORS

An investment in the Notes involves a high degree of risk. You should carefully consider the risks described below as well as the other information contained in this Prospectus before buying any of the Notes. Any of the following risks could materially adversely affect Kenya's economy and your investment in the Notes. The risks described below are not the only risks Kenya faces. Additional risks and uncertainties not currently known to Kenya or that Kenya currently deems to be immaterial may also materially affect Kenya's economy and its ability to fulfil its obligations under the Notes. In any such case, you may lose all or part of your investment in the Notes.

Risks Relating to the Republic of Kenya

Investing in securities in emerging markets such as Kenya generally poses a greater degree of risk than investment in more mature market economies because the economies in emerging markets are more susceptible to destabilisation resulting from domestic and international developments.

Investing in securities in emerging markets such as Kenya generally poses a greater degree of risk than investment in more mature market economies because the economies in emerging markets are more susceptible to destabilisation resulting from domestic and international developments. These risks include, but are not limited to, higher volatility and more limited liquidity in respect of the Notes, greater political risk, a fragile export base, budget and current account deficits, lack of adequate infrastructure necessary to accelerate economic growth and changes in the political and economic environment. Although significant progress has been made in reforming Kenya's economy and its political and judicial systems, Kenya is still in the process of developing the necessary infrastructure, regulatory and judicial framework that is essential to support market institutions and broad-based social and economic reforms. Emerging markets can also experience more instances of corruption by government officials and misuse of public funds than more mature markets, which could affect the ability of governments to meet their obligations under issued securities Further, because international investors' reactions to events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors, Kenya could be adversely affected by negative economic or financial developments in other emerging market countries. Investors should also note that emerging markets such as Kenya are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Any of the foregoing may adversely impact Kenya's economy.

In addition, Kenya's economy and macroeconomic goals are susceptible to adverse external shocks, including potential global economic crisis, the ongoing instability in the international financial markets, turmoil in the European banking system and the sovereign debt market of certain members of the European Monetary System, the United Kingdom's vote to withdraw from the European Union, tightening of US monetary policy and consequent increase in the US interest rates and persistent geopolitical uncertainty in the international oil markets. If economic recovery from the global recession stalls, and some of Kenya's primary trading partners continue to experience economic difficulties, or euro area members experience difficulties issuing securities in the sovereign debt market or servicing existing debt, it could result in fewer exports by Kenya, which relies largely on its export markets. In addition, the United Kingdom's impending withdrawal from the European Union could adversely affect European or worldwide economic or market conditions and could contribute to instability in global financial and foreign exchange markets.

Africa is the largest market for Kenya's exports, accounting for 40.7 per cent. of total exports in 2016, and 37.7 per cent. in the nine months ended 30 September 2017. The Common Market for Eastern and Southern Africa ("**COMESA**") remained the dominant destination of exports, accounting for approximately 72.5 per cent. of the total exports to Africa and 30 per cent. of total exports in 2016. The European Union continues to be Kenya's second largest export market, accounting for 21.0 per cent. of total exports in 2016 and 21.6 per cent. in the nine months ended 30 September 2017. Exports to the European Union declined by 3.7 per cent. in 2016, with exports from the United Kingdom and Germany, two of the top three destinations of Kenya's exports within the European Union, declining by 7.6 per cent. and 5.2 per cent., respectively, in the same period. In addition, a large portion of foreign tourists visiting Kenya are from Italy, Germany, the United States and the United Kingdom, which accounted for a combined 38.2 per cent. of departing tourists in 2016. A decline in demand for exports to Kenya's major trading partners, such as the European Union or COMESA countries, or a decline in tourism receipts, could have a material adverse impact on Kenya's balance of payments and economy.

Kenya's recent elections involved a high degree of volatility and any continuing levels of political uncertainty may adversely affect Kenya's capital markets, level of tourism and foreign investment, as well as Kenya's economy as a whole.

Kenya has in the past experienced volatility and violence related with the acquisition or maintenance of political power. Despite a peaceful election in 2013, incidents of political violence were reported in relation to the recent general elections in 2017. Uhuru Kenyatta was re-elected as President in August 2017, however the vote was annulled by the Supreme Court, which cited irregularities in the vote. The Supreme Court ordered that a re-run of the election for President and Deputy President be held within 60 days of the successful petition. The October 2017 re-run was boycotted by the opposition, NASA, led by Raila Odinga, and turnout was significantly lower than in the August 2017 election. President Kenyatta was re-elected in the October 2017 re-run and the results were again challenged in the Supreme Court of Kenya. In November 2017, the Supreme Court ruled the petitions were without merit and declared that President Kenyatta had been validly re-elected as President, and he was subsequently sworn in as President of Kenya. The opposition, NASA, refused to recognise Kenyatta's election victory and, on 30 January 2018, held a ceremony in Nairobi to 'swear in' Raila Odinga as the 'People's President', a move which Kenya's Attorney General has referred to as treason. NASA has also indicated and that it will mobilise opposition-held county governments and opposition legislators to obstruct government activities. Members of NASA and an offshoot, the National Resistance Movement (the "**NRM**"), have also launched boycotts of several private companies which they believe are linked to the Jubilee party. Kenya's Interior Cabinet Secretary has declared the NRM an organised criminal group and some of its members have been arrested and charged with crimes relating to the "swearing-in" of Raila Odinga. An NRM leader was arrested by police and held for several days, despite the issuance of a High Court order for his release, and ultimately deported to Canada. Several privately owned television states were temporarily taken off the air by the government for transmitting live coverage of the NASA event.

The political controversy also involved violence, with Amnesty International estimating at least 33 deaths in Nairobi resulting from the August 2017 polls and the Kenyan National Human Rights Commission estimating up to 67 deaths resulting from both the August 2017 polls and the repeat polls in October 2017. Reports of violence resulted in reactions from the international community, including an announcement by the European Union reducing the size of its observer mission in Kenya as a result of safety concerns.

The political violence and instability experienced as a result of the prolonged elections have had a negative effect on tourism and the economy as a whole. Although some stability was achieved following the Supreme Court ruling in November 2017, political uncertainty remains as a result of NASA's refusal to recognise Kenyatta as President. In addition, the reorganisation of the government and appointment of a new cabinet may delay the implementation of Kenya's fiscal policies under the Vision 2030 plan. There is no assurance that instability will not increase again in the future, which may impact Kenya's level of tourism and foreign investment or risk of sudden withdrawal of foreign deposits among other things, which in turn may adversely affect Kenya's economy and its ability to service its debt, including the Notes.

If the government is unable to achieve budgetary targets and limit Kenya's fiscal deficit, Kenya's economic growth may be adversely affected.

Kenya's fiscal deficit has risen in recent years, reaching 8.9 per cent. of GDP in 2016/17 while nominal debt rose to 51.9 per cent. of GDP, according to the draft 2018 Budget Policy Statement published by the National Treasury in January 2018 (the "**Draft 2018 Budget Policy Statement**"). Government revenues in particular fell short of budget targets, reaching 18.2 per cent. of GDP (including grants). Unless the government is able to realise additional revenues or cut expenditure significantly, the government forecasts a deficit at 7.2 per cent. of GDP (including grants) for fiscal year 2017/18, compared to 6.5 per cent. of GDP originally budgeted. The government is currently taking active measures to reduce expenditures in order to reduce its fiscal deficit, in particular, it plans to enhance domestic revenue mobilisation and increase recurrent spending in favour of capital investment to promote sustainable and inclusive growth. If the government is not able to realise additional revenues or raise sufficient debt to address the deficit, it may be forced to cut expenditures. The increasing fiscal uncertainty may also serve to discourage foreign investment in Kenya. Failure to reduce the fiscal deficit may result in an increase in Kenya's debt levels and a subsequent increase in debt servicing costs or interest payments, which risks eroding additional revenue performance. While the government is targeting a fiscal deficit of 3.0 per cent. of GDP (including grants) by 2021/22, there is no assurance that the government will be able to implement policies to achieve its budgetary targets and failure to limit Kenya's fiscal deficit could negatively impact Kenya's sovereign credit rating and may result in a material adverse impact on the Kenyan economy.

Kenya may be unable to meet its economic growth and reform objectives and policies which may adversely affect the performance of the Kenyan economy.

Although the government has announced its intention to pursue a series of economic and fiscal reform initiatives, including those set forth in Vision 2030 and the second and third MTP, no assurance can be given that such initiatives will be adequately funded, will achieve or maintain the necessary long-term political support, will be fully implemented or prove successful in achieving their objectives. Continued pursuit of long-term objectives such as those set forth in Vision 2030 and the second and third MTP will depend on a number of factors including continued political support at many levels of the Kenyan society, adequate funding, effective transition to devolved government, improved security, power sector reform, availability of human capital and significant coordination. The significant funding requirements for these plans may prove difficult or impossible to meet. Kenya may be unable to complete planned flagship projects or may experience difficulties implementing reforms. If the government is not able to fund or implement the medium-term objectives contained in the second and third MTP, or if there is a delay in such funding or implementation, then the government may not be able to meet the long-term strategic objectives set forth in Vision 2030, which could result in a material adverse effect on the economy.

Despite recording annual real GDP growth rates of 5.4 per cent., 5.7 per cent. and 5.8 per cent. in 2014, 2015 and 2016, respectively, poverty remains high in Kenya. Kenya's most recent employment data is derived from the 2009 Census, at which time the government estimated unemployment at 9.7 per cent. The country's Vision 2030 acknowledges that there are also large disparities in incomes and access to education, healthcare and land, as well as to basic needs, including, clean water, adequate housing and sanitation. High and persistent levels of poverty and unemployment and increasing inequality may individually or in the aggregate have negative effects on the Kenyan economy. If reforms do not adequately address the high levels of poverty, unemployment and inequality, or if Kenya is unable to meet its reform objectives in such areas, such continued conditions may materially adversely affect Kenya's economic growth.

Kenya has also worked with the IMF in recent years to rebuild Kenya's international reserves by supporting the conditions for sustainable growth while preserving macroeconomic stability, help address balance of payments financing needs and provide a reserve cushion to help Kenya deal with adverse shocks. Currently, Kenya has in place a Stand-By Arrangement and Standby Credit Facility for a combined amount of SDR 1.06 billion (approximately US$1.5 billion) (the "**SBA-SCF 2**"). Kenya has not drawn on the SBA-SCF 2 and such facility expires in March 2018.

However, the second and third reviews of the IMF programme due in June 2017 and December 2017 could not be completed on time due to the prolonged election period. Accordingly, no funds under the SBA-SCF 2 facility (including previously available amounts that were not drawn down) are available to Kenya until it has reached certain targets to the satisfaction of the IMF, which will be assessed at the next review. Following the conclusion of the general election, the IMF is now in Nairobi from 19 February 2018 to conduct a review under the SBA-SCF2 and for consultations on whether to extend the existing SBA-SCF or to agree on a new programme. Even if the IMF agrees to make this or another programme available upon conclusion of their review, the government intends to continue to treat the arrangements as precautionary and does not intend to draw on the facility unless exogenous shocks lead to an actual balance of payments need.

At present, there is no indication of on what terms any facility might be made available, and no assurance that any standby facility will be made available at all. Accordingly, in the event of non-renewal of the facility, Kenya may have reduced buffers in the event of any significant exogenous shocks and significant adverse movements in the balance of payments position. In addition, statements made by the IMF may contain adverse information that could negatively impact the price of the Notes.

Kenya continues to be challenged by internal security issues as well as unfavourable media coverage which has had and may continue to have a negative impact on the economy, including the tourism industry.

Kenya has from time to time experienced internal security concerns. The Al-Shabaab group, an extremist militant group, has claimed responsibility for multiple attacks in recent years, including a terrorist attack at the Westgate Mall in September 2013, and continues to threaten further attacks, not only against Kenya but also against Western countries for their intervention in Somalia. Further, the Mombasa Republican Council, a separatist organisation based at the coastal town of Mombasa, has demanded that Mombasa secede from the rest of the country. The government believes that members of Mombasa Republican Council could potentially be a recruiting ground for al Shabaab. In addition, the Dadaab refugee complex in north east Kenya, originally established in 1991 to house refugees from the Somali civil war, has elicited tension among the surrounding communities, with concerns that the camp is a ground for recruiting Islamist militants, compromising border security and causing significant law and order problems within Kenya's territory. In November 2013, the Somali and Kenyan governments signed an agreement with the United Nations High Commission for Refugees to begin repatriating Somali refugees. All repatriations are done voluntarily, but any forced repatriation of Somali refugees, or even the perception of such repatriation, could potentially build resentment among affected individuals and enhance al Shabaab's appeal and recruitment efforts in Kenya. There can also be no assurance that repatriated persons will not seek to return to Kenya. Continued concerns that the Dadaab camp is a ground for recruiting Islamist militants led to the government's proposal to close the camp. However, in February 2017, the High Court ruled that the Kenyan Interior Ministry acted beyond its powers in issuing a directive to close the camp. The Dadaab camp currently remains open. See "*Republic of Kenya - Anti-Corruption, Anti-Money Laundering and Combating Terrorism – Combating Terrorism*". Kenya also suffers from high crime rates. The total number of crimes reported to the police increased by 4.5 per cent. from 69,376 in 2014 to 72,490 in 2015, and increased by a further 6.2 per cent. to 76,986 in 2016. Such internal security concerns may create further social, religious and political tension, which in turn can negatively impact the economy and fiscal stability, all of which could have a material adverse effect on Kenya's economy.

In particular, foreign tourism is an important contributor to Kenya's economy, as well as being an important source of foreign exchange and one of Kenya's largest employers. As a result of security concerns, the United Kingdom, the United States, France and Australia have, in the past, issued travel advisories advising their citizens to avoid or reconsider travel to certain areas within Kenya, although some of these travel advisories have since been revised or withdrawn. The United Kingdom and the United States were, respectively, the largest and second largest sources of foreign tourists to Kenya in 2016. Accordingly, such travel warnings, as well as unfavourable media coverage, including coverage of violence in some parts of Kenya related to the 2017 elections, may create a negative perception of Kenya as a holiday destination and thus have a detrimental impact on the level of tourism. See "*Risk Factors— Kenya's recent elections involved a high degree of volatility and any continuing levels of political uncertainty may adversely affect Kenya's capital markets, level of tourism and foreign investment, as well as Kenya's economy as a whole*". As a result of the events mentioned above, Kenya saw earnings from tourism decrease, by 7.3 per cent. from KES94.0 billion in 2012/13 to KES87.1 billion in 2013/14, and further decrease by 2.9 per cent. to KES84.6 billion in 2014/15. Although earnings from tourism have begun to recover, increasing by 17.8 per cent from KES84.6 billion in 2014/15 to KES99.7 billion in 2015/16, as a result of improved security and domestic and international marketing campaigns, there can be no assurance that this level of tourism receipts will be maintained or that tourism will not be adversely affected in the future. Any such decrease in tourism is likely to have a wider economic impact. See "*The Economy—Principal Sectors of the Economy—Tourism*" for more information.

If the level of instability, crime and violence, and unfavourable coverage of Kenya or Africa in the media, continues or increases in the future, Kenya's level of tourism and foreign investment, among other things, may suffer and potentially materially adversely affect Kenya's economy and its ability to service its debt, including the Notes.

Failure to address actual and perceived risks of corruption and money laundering may adversely affect Kenya's economy and ability to attract foreign direct investment.

Although Kenya has implemented and is pursuing major initiatives to prevent and fight corruption and money laundering, both remain important issues in Kenya and a key constraint on economic growth. Kenya is ranked 145 out of 176 in Transparency International's 2016 Corruption Perceptions Index and placed at the 17 percentile rank (with 100 the highest rank) on the World Bank's Worldwide Governance Indicators for 2016 (control of corruption dimension). Although the number of cases handled by the Kenya Ethics and Anti - Corruption Commission (the "**EACC**") declined following the enactment of the Ethics and Anti-corruption Commission Act, 2011 and the Anti-Corruption and Economic Crimes (Amnesty and Restitution) Regulations, 2011, the number of cases has risen in recent years and corruption continues to be a concern. The total number of cases handled by the EACC increased by 41.3 per cent from 4,006 in 2013/14 to 5,660 in 2014/15 and further increased by 40.1 per cent to 7,929 in 2015/16 and by 1.45 per cent. to 8,044 in 2016/17. In October 2013, the Financial Action Task Force (the "**FATF**") established by the G-7 countries identified Kenya as one of 11 jurisdictions with strategic anti-money laundering deficiencies. In June 2014, the FATF announced that Kenya was no longer subject to the FATF's monitoring process under its on-going global Anti-Money Laundering/Combating the Financing of Terrorism compliance process. The FATF announced that Kenya had established the legal and regulatory framework to meet its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in February 2010.

Since 2002, Kenya has implemented various initiatives aimed at combating corruption, money laundering and financing of terrorism, including establishing a National Task Force on Anti-Money Laundering and combating the Financing of Terrorism and recently amending the Proceeds of Crime Act. See "*Republic of Kenya – Anti Corruption, Anti-Money Laundering and Combating Terrorism*".

There is no certainty, however, as to the success of these measures. Failure to implement these strategies, continued corruption in the public sector and deficiencies in the systems for addressing money laundering activities could have a material adverse effect on the Kenyan economy and may have a negative effect on Kenya's ability to attract foreign investment. See also "*The Economy— Major Infrastructure Projects— Expansion of Railway Transport*" for a discussion of the procurement process in the Mombasa to Nairobi standard gauge railway project.

In particular, there has been substantial political and media scrutiny regarding alleged misappropriation with respect to disbursements of proceeds of international financings, including with respect to US$2.75 billion 2014 Eurobond issuance. The government believes it has followed all appropriate and required procedures in connection with the receipt and disbursement of the proceeds from the 2014 Eurobond issuance and provided full disclosure of the respective transaction entries on the National Treasury website. However, some politicians and other commentators have alleged that the government has failed to accurately and completely account for the net proceeds of the Eurobond. The Auditor General of the Republic of Kenya has investigated the use of proceeds, but has not yet finalised his report. In addition, the matter has been referred by the National Treasury to PKF Kenya, an external audit firm, for their review, which is ongoing. Accordingly, any future allegations, whether or not substantiated, may result in additional claims in Kenya and could impact the price of the Notes.

The Kenyan banking sector is subject to operational risks relating to the introduction of and reliance on information technology systems including cybersecurity and privacy risks

As part of the government's "Vision 2030" strategy and successive MTPs, information and communication technology ("**ICT**") has been prioritised by the government as having a key role in expanding access to financial services and improving the ways of doing business in Kenya as a whole. As various ICT products and infrastructure been implemented throughout the Kenyan banking sector, including the increasing usage of mobile financial services and additional ICT financial products, there has been an inherent operational risk with Kenyan banks' dependency on their ICT systems to process a large number of transactions on an accurate and timely basis, and to store and process business and operating data. The proper functioning of the banks' financial controls, risk management, credit analysis and reporting, accounting, customer service and other ICT functions, are critical to the individual banks' business as well as to the overall health of the banking sector. In addition, as various financial products have been leveraged on the new ICT payment platforms, including the provision of government services to the private sector and the collection of government payments, the banking sector and other businesses whose performance is linked to these ICT systems remain an important source of corporate tax revenue for the government. Therefore, any failure or disruption to mobile banking services or other ICT products operated by the banking sector may lead to significant loss of potential government revenue, customers' deposits and market confidence. Such failures can be caused by a variety of factors, including natural disasters, extended power outages, computer viruses, and/or complications related to the availability and operation of the national fibre optic coverage. The proper functioning of ICT systems also depends on accurate and reliable data and other system inputs, which are subject to human errors.

In addition, information security risks for large financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology and the increased sophistication and activities of organised criminals and hackers. Kenyan banks' databases contain certain personal data of their customers, which may be vulnerable to damage, including telecommunications and network failures, natural disasters and human acts both by individuals external to the banks business as well as the banks' employees. Although Kenyan banks maintain information security software, their computer systems, software and networks may be vulnerable to unauthorised access, misuse, denial-of-service attacks, phishing attacks (SMS phishing by which individuals or organised groups send SMS or text messages to the customers to obtain sensitive information or account credentials), computer viruses or other malicious codes. Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could give rise to the disablement of the banks ICT systems used to service the banks customers, including the government. As attempted attacks continue to evolve in scope and sophistication, banks may incur significant costs in their attempts to modify or enhance protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach.

Any substantial failure of the Kenyan banking sector ICT systems or any failure by Kenyan banks to effectively manage cybersecurity and privacy risks, may affect the health of the banking sector as a whole, and therefore have a material adverse effect on Kenya's economy.

A significant portion of the Kenyan economy is not recorded.

A significant portion of the Kenyan economy is comprised of the informal, or shadow, economy. Based on information from the Kenya National Bureau of Statistics, approximately 83.1 per cent. of employment in 2016 was in the informal sector, which the government defines as including all small-scale activities that are semi-organised, unregulated and use low and simple technologies while employing few persons. The informal economy is not recorded and is only partially taxed, resulting in a lack of revenue for the government, ineffective regulation, unreliability of statistical information (including the understatement of GDP and the contribution to GDP of various sectors) and inability to monitor or otherwise regulate a large portion of the economy. Lack of effective regulation and enforcement in this sector also gives rise to other issues, including health and safety issues. Although the government is attempting to address the informal economy by streamlining certain regulations, particularly tax laws, there can be no assurance that such reforms will adequately address the issues and bring the informal economy into the formal sector thus having a material adverse effect on Kenya's economy.

Because legal reforms in a number of areas were adopted fairly recently and are largely untested, any perceived inadequacy in the Kenyan legal system may generally deter foreign and domestic investment in Kenya and adversely affect Kenya's economy.

The justice system in Kenya is going through major changes. The reform of the legal and institutional framework includes reforms to the judiciary and the police services.

With respect to the judiciary, a new and independent Judicial Service Commission responsible for nominating judges was created and competitively appointed with the approval of Parliament. On 22 March 2011, a Judicial Service Act was enacted that establishes the mandate and membership of the Judicial Service Commission, creates a Judiciary Fund, and regulates appointment and removal of judges, among other things. Judges and magistrates have undergone public vetting and many new judges and magistrates have been appointed to increase capacity. Infrastructure development, including the construction of new courts and the purchase of equipment, has been completed. The Chief Justice and the Deputy Chief Justice of the Supreme Court were competitively appointed with the approval of Parliament. In addition, the judiciary now has its own Judiciary Fund and the government has increased funding from KES2 billion in 2011/12 to KES16.5 billion for 2013/14. In 2015/16 and 2016/17, government funding to the Judiciary Fund was KES18.5 billion and KES15.3 billion, respectively. Moreover, new court procedural rules have also been promulgated, which are aimed at improving efficiency. Because the legal reforms in a number of areas were adopted fairly recently and are largely untested, any perceived inadequacy in the Kenyan legal system may generally deter foreign and domestic investment in Kenya and adversely affect Kenya's economy.

With respect to the police services, the Constitution has provided for major changes to security and police governance, including provisions to diminish political manipulation and increase accountability of the police. The Constitution also merged the prior two police forces (the Kenya Police Service and the Administration Police Service) into one National Police Service. During 2011, three key police reform laws were passed: the National Police Service Act, which provides for the establishment, structure, powers and operations of the police service; the National Police Service Commission Act, which makes further provisions for the functions and powers of the National Police Service Commission and the qualifications and procedures for appointment of such; and the Independent Policing Oversight Authority Act, 2011, which provides for civilian oversight of the work of the police and establishes the Independent Policing Oversight Authority, as well as its functions and powers. Reforms to the police force are continuing. No assurance can be given that these reforms might not lead to increased costs for the government and materially adversely affect Kenya's economy or an increase in the levels of crime through poor implementation. See "*Kenya continues to be challenged by internal security issues as well as unfavourable media coverage which has had and may continue to have a negative impact on the economy, including the tourism industry*".

An escalation in tensions with Kenya's neighbours could disrupt the Kenyan economy and have negative consequences for Kenya in its international diplomatic and trade relations.

Kenya has in the past been involved in territorial disputes with its neighbours, and such disputes may continue. In 2008, both Kenya and Uganda claimed Migingo Island as their territory. A joint re-demarcation line of the border was launched on 2 June 2009 to recover and to place survey markers on land, making delineation of the boundary on the lake more precise. The two countries have established a joint technical experts committee to demarcate the borderline along the island, as well as a joint taskforce that will see police in the two countries patrol the disputed island and the entire common border.

Also, Kenya has submitted to the UN Commission on the Limits of the Continental Shelf (the "**UN Commission**") its filing on claims to mineral exploitation rights in ocean waters beyond the 200 nautical mile baseline. Somalia and Kenya are in discussion over the non-objection of their respective submissions. In addition, in 2014 Somalia instituted proceedings against Kenya before the International Court of Justice (the "**ICJ**") with regard to the dispute concerning the location of the maritime boundary between the two countries in the Indian Ocean. In February 2017, the ICJ dismissed Kenya's initial objection and ruled that the ICJ had authority to hear the full case. See "*Republic of Kenya— Border Disputes*" for more information. An escalation in tensions with Kenya's neighbours could materially adversely affect the Kenyan economy and have negative consequences for Kenya in its international diplomatic and trade relations.

Failure to significantly improve Kenya's infrastructure could adversely affect Kenya's economy, competitive ranking and growth prospects, including its ability to meet GDP growth targets.

Failure to improve infrastructure may impede growth of key sectors of the economy and may constrain Kenya's economic growth. The lack of infrastructure (including inadequate power supply and transportation systems) may be a significant constraint in further development in the key sectors of the economy, and Kenya's current rate of growth may decline in future periods as a result of poor infrastructure development. Over the last five years, however, Kenya has made progress in the development and expansion and improvement of airports, ports, rail, pipelines, hydropower, geothermal plants, ferries, housing and public works facilities.

Nevertheless, government concerns still exist over the length of future planning and consultative processes, poverty and unemployment levels, food insecurity and poor living conditions. For example, the government has identified that:

- in the health sector, the number of people accessing health care is low due to the cost;
- in the manufacturing sector, there is low value addition which has hindered improved economic growth, job creations and poverty reduction;
- in the agriculture sector, reliance on rain fed agriculture is too high and unpredictable weather conditions in Kenya has led to incidents of hunger and malnutrition; and

- in the housing sector, urbanisation has led to a shortage of affordable housing, resulting in some people living in sub-standard housing.

A failure to improve significantly Kenya's infrastructure in order to support growth in the key sectors of its economy may constrain Kenya's overall economic growth and make it difficult to meet the objectives of Vision 2030, which may in turn result in a material adverse effect on Kenya's ability to meet its debt obligations, including those under the Notes. For more information on risks to growth of key sectors of the economy, see "*—Kenya may be unable to meet its economic growth and reform objectives and policies which may adversely affect the performance of the Kenyan economy*".

Statistical information published by Kenya may differ from that produced by other sources and may be unreliable. Statistical information may also be more limited in scope and published less frequently than in the case of other countries such that adequate monitoring of key fiscal and economic indicators may be difficult.

The National Treasury, Kenya National Bureau of Statistics and the CBK all produce, and prior to August 2010 the Ministry of Finance produced, statistics relating to Kenya and its economy. Although collaborative efforts are being taken by the relevant agencies in order to produce accurate and consistent social and economic data, there may be inconsistencies in the compilation of data and methodologies used by some of these agencies, and in common with many developing economies, given the relative size of the informal economy in Kenya there may be material omissions or misstatements in the statistical data prepared by such agencies. As a result, there can be no assurance that these statistics are as accurate or as reliable as those published by more developed countries. In addition, Kenya's statistical information may also be more limited in scope and published less frequently than in the case of other countries such that adequate monitoring of key fiscal and economic indicators may be difficult.

Some of the statistics contained in this Prospectus for 2014, 2015, 2016 and 2017 may be estimated or provisional figures that are subject to later revision. In 2014, the government rebased its national accounts, resulting in changes in the size of GDP and growth rates and in other measures derived from these statistics. See "*The Economy—2014 Rebase of GDP*". There have also been significant efforts to improve the compilation of Kenya's balance of payments data in recent years, including through technical assistance provided by the IMF, however, errors and omissions in the balance of payments data persist and may complicate the assessment of such data. The inability to improve compilation of key fiscal and economic indicators may affect how effectively government policy is made in response to such statistical information and thus have a material adverse effect on Kenya's economic growth. Prospective investors should be aware that figures relating to Kenya's GDP, its balance of payments and other figures cited in this Prospectus may be subject to some degree of uncertainty and that the information set forth in this Prospectus may become outdated relatively quickly, which may result in such figures being revised in future periods.

High inflation could have a material adverse effect on Kenya's economy and its ability to service its debt, including the Notes.

Historically, inflation in Kenya has fluctuated significantly from year to year. International food and petroleum prices in the past resulted in inflation levels as high as 14.0 per cent. in 2011. The average annual inflation rate decreased to 9.4 per cent. in 2012 and further to 5.7 per cent. in 2013. The average annual inflation rate increased to 6.9 per cent in 2014, before easing to 6.6 per cent. in 2015 and 6.3 per cent. in 2016. However, the average annual inflation rate increased to 8.0 per cent. in 2017, due to the drought affecting food prices in the first half of the year. Although tighter monetary policies have historically helped to curb inflation, the impact on inflation of higher fuel and other import prices is beyond the government's control. There can be no assurance that the inflation rate will not rise in the future. Significant inflation could have a material adverse effect on Kenya's economy and the ability to service the Notes. See "*Monetary and Financial System—Inflation and interest rates*".

Kenya's energy sector relies exclusively on imported oil to meet its petroleum requirements and is therefore vulnerable to oil price increases and prolonged weakness in the Kenya shilling to US dollar exchange rate.

Kenya's energy sector relies exclusively on imported oil to meet its petroleum requirements. Net imports of petroleum increased by 9.6 per cent. from 4.4 million tonnes in 2015 to 4.8 million tonnes in 2016. Accordingly, a rise in the international price of oil significantly affects Kenya's economy because, among other things, a higher oil price increases Kenya's imports cost and thereby increases its trade and current account deficits and exerts upward pressure on prices and inflation.

Kenya procures oil through an open tender system, under which the government tenders online for petroleum products to be purchased every month. The oil marketing company that offers the lowest price on freight and premium wins the tender and is engaged to deliver the petroleum products on behalf of the other licensed oil marketing companies. The participants in the tender are all licensed import and wholesale oil marketing companies. Because the price is fixed for the amount of oil needed for a month, Kenya is not able to take advantage of any decreases in the market price of oil during that month.

Oil prices and markets historically have been volatile, and they are likely to continue to be volatile in the future. Prices of oil are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, oil, market uncertainty and a variety of additional factors that are beyond Kenya's control. These factors include, but are not limited to, political conditions in the Middle East and other regions, internal and political decisions of the Organisation of the Petroleum Exporting Countries ("**OPEC**") and other oil producing nations to decrease or increase production of crude oil, domestic and foreign supplies of oil, consumer demand, weather conditions, domestic and foreign government regulations, transport costs, the price and availability of alternative fuels and overall economic conditions. Kenya does not have a hedging policy to manage oil price risk.

Further, international oil prices are typically denominated in US dollars and so prolonged weakness in the exchange rate of the Kenyan shilling against the US dollar will increase the local cost of petroleum and other oil-based products, even if there is no change in the international price of oil. Should oil prices increase and prolonged weaknesses in the Kenyan shilling against the US dollar occur, such events could have a material adverse effect on Kenya's economy.

Periodic strikes by doctors and teachers disrupt the provision of health and education services in Kenya and may lead to further increases in the public sector wage bill, which could crowd out spending in much-needed infrastructure and affect the stability of the Kenyan economy.

Since 2013, there have been periodic strikes by doctors, nurses and teachers, demanding increased salaries and collective bargaining agreements with unions. In 2013, doctors impacted by the implementation of devolution went on strike, demanding that their salaries and allowances should not be paid at the county level. In January 2015, the teachers' trade union, Kenya National Union of Teachers and the Kenya Union of Post Primary Education Teachers, called for a nation-wide strike that paralysed primary, secondary and tertiary colleges' education in Kenya. A collective bargaining agreement was signed between the Teachers' Union and the Teachers Service Commission in 2016. Between December 2016 and March 2017, doctors went on strike again, demanding increased wages. The strike lasted one hundred days, ending with the conclusion of a collective bargaining agreement between the doctors' union and the national and county governments. In 2017, nurses in Kenya also held a five month strike over delays in wage rises, demanding a collective bargaining agreement. The strikes brought health services to a halt in many parts of the country, with patients being sent away in government run hospitals. In addition, lecturers have recently threatened to go on strike in Kenya, although this is currently on hold.

The occurrence of such strikes significantly disrupts the provision of health and education services in Kenya, and there can be no assurance that doctors, nurses and teachers will not carry out further strikes, or that strikes may not occur in other sectors. Such strikes may result in the government having to increase wages or implement costly measures to prevent further disruption, thus increasing government expenditure. While the government wage bill has been lower in recent years, from 33.9 per cent. of government revenue (7.5 per cent. of GDP) in 2012/13 to approximately 24.0 per cent. of government revenue (4.4 per cent. of GDP in 2016/17), any further increases in the wage bill could crowd out spending in needed infrastructure investment and social protection. Any reforms to address the wage bill could include reductions in public sector employment in addition to decreases in remuneration. Resistance to these reforms by those who will be immediately affected may be followed by further protests, demonstrations and strikes. Instability in the civil service sector could affect the stability of the Kenyan economy. On the other hand, if the government fails to implement reforms to the wage bill, the government's fiscal position could deteriorate and the Kenyan economy may be materially adversely affected.

Unanticipated changes in monetary policies in developed markets may cause capital outflows from emerging and frontier markets and generate a negative impact on emerging and frontier economies, such as Kenya.

Unanticipated changes in monetary policies in developed markets may cause capital outflows from emerging and frontier markets and generate a negative impact on emerging and frontier economies, such as Kenya. Of significance, short-term private capital flows, a large source of financing for Kenya's capital and financial account, may decline if developed markets scale back expansionism monetary policy measures. This would adversely affect the funding of Kenya's current account deficit. A portfolio shift to larger economies with increasing yields could lead to a depreciation of the Kenyan shilling and increase exchange rate volatility. Higher volatility in the exchange rate could bring uncertainty in the currency market. Faced with uncertainty, investors tend to postpone making investment decisions, which could lead to less investment in the economy and have a material adverse effect on Kenya's economy.

China is Kenya's largest creditor and an adverse impact on the Chinese economy may impact the future ability of Kenya to increase its borrowings.

As at 30 June 2017, outstanding bilateral external debt due to China (excluding Chinese commercial banks) amounted to US$4.6 billion, making China Kenya's largest creditor. See "*Public Debt*". During 2017, various ministries and corporations in Kenya, such as the Ministry of Energy and Kenya Power and Lighting Co. Ltd. entered into a series of loans with Exim Bank of China, amounting to a total sum of approximately US$1.2 billion and CNY3.4 billion. Such loans mature between 2030 and 2040 and were used to fund certain infrastructure and electricity projects in Kenya.

Kenya's reliance on China for such a significant portion of its bilateral external debt and a key financing source to various infrastructure projects means that any disruption to China's economic stability could have an adverse effect on Kenya's ability to increase bilateral borrowings from the country in the future.

The impact of climate change, including the occurrence of floods and drought, has negatively affected Kenya in the past and may negatively affect it in the future.

Climate change is a threat to the Kenyan economy, the achievements of the sustainable developments goals and the Kenya Vision 2030. A global increase in the mean temperature is likely to lead to changed precipitation patterns, sea level rises and more frequent extreme weather events, such as prolonged droughts and flooding. Kenya's economy is dependent on climate sensitive sectors, for example agriculture, tourism and energy. A change in climate may have several consequences, including lower agriculture productivity, damage to coastal infrastructure, fragile ecosystems, impact on health and biodiversity, financial market disruption, lower GDP and altered migration matters.

Kenya has historically been affected by a variety of natural disasters, including floods and droughts. Natural disasters such as floods may lead to casualties, the destruction of crops and livestock, the outbreak of waterborne disease and the destruction of infrastructure, such as roads and bridges. Droughts may negatively affect the supply of agricultural commodities, the food supply in general and the generation of hydroelectric power. During 2012, Kenya experienced serious floods in certain areas which resulted in the destruction of infrastructure, crops and loss of human life and livestock. In addition, during the first quarter of 2012, some parts of Kenya also experienced drought conditions that resulted in reduced production of milk and tea. More recently, below average rainfall in 2016 led to a severe drought in Kenya, which led to more than doubling of the food insecure population in the country. The price of staple foods, such as maize, rose substantially while water sources dried up. In February 2017, President Kenyatta declared the drought a national disaster, having affected 23 out of 47 counties, and committed US$105 million in response. According to UNICEF, it was estimated that 2.7 million people in Kenya needed relief assistance in 2017 as a result of the drought. Furthermore, activity in the agriculture, forestry and fishing sector in 2016 was depressed compared to the performance recorded in 2015 owing to unfavourable weather conditions especially during the second part of the year when the country experienced a near failure of short rains. As a result, growth in the agriculture sector was impacted with a growth rate of 1.3 per cent. and 3.1 per cent. in the second and third quarters of 2017, respectively, in comparison to growth of 7.0 per cent. and 3.8 per cent. in the second and third quarters of 2016, respectively. Food shortages as a result of the drought increased food prices, causing inflation to rise above government targets in the first half of the year, with month-on-month inflation as high as 11.7 per cent. in May 2017.

Expenditures associated with natural disaster relief efforts may adversely affect Kenya's budgetary position and, as a result, may impair Kenya's ability to service the Notes. In addition, because agriculture, forestry and fishing accounts for a significant portion of Kenya's nominal GDP (32.6 per cent. of nominal GDP in 2016 and 30.4 per cent in 2015), Kenya's economy is particularly vulnerable to natural disasters such as floods and drought. Although Kenya has taken measures to reduce the impact of climate change, such as the establishment of the National Treasury as the National Designated Authority for Green Climate Fund and establishing structures to enable the private sector to support government initiatives in financing mitigation and adaption actions through the issuance of green bonds, any natural disasters or other effects associated with climate change could have a material adverse effect on the Kenyan economy.

The United Nations ("**UN**") has classified Kenya as a water scarce country. Although progress was made under the second MTP, with urban water supply coverage increasing from 65.4 per cent. in 2013/14 to 68.3 per cent.in 2015/16 and rural water supply coverage increasing from 48.8 per cent. to 50.2 per cent. over the same period, there are further improvements to be made. In recognition of the importance of sustainable management of water resources, the government has initiated reforms in the sector including, among others, the rehabilitation and protection of Kenya's five areas of the greater rainfall; review of six catchment area management strategies; construction of 50 sand dams and/sub-surface dams along seasonal rivers especially in arid and semi-arid land; mapping of shared water resources of the country; and development of a national water allocation plan. In 2016, the government enacted the Water Act 2016 with a focus on improving water storage, strengthening regulation, creating viable water utilities and improving sector planning. Kenya could face water shortages, however, if planned reforms are not implemented. Such water shortages could have an impact on the agriculture and forestry products sector of the economy including the important exports of tea and horticulture, potentially leading to trade and current account imbalances. Any shortage of water in Kenya could have a material adverse effect on Kenya's economy and its level of economic growth.

Power shortages, over-dependence on hydropower and high energy costs may negatively impact economic growth.

In spite of investments in the power sector in recent years, lack of reliable electricity supply remains a serious impediment to Kenya's economic growth and development. Total installed electricity generation in 2017 was approximately 2,336 MW. Insufficient power generation, aging or insufficient infrastructure, high initial investment costs, inadequate funding and weak distribution networks result in occasional power outages, inadequate generation and transmission capacity, high transmission and distribution losses and power rationing, particularly during the dry season. Droughts also have impacted electricity generation as Kenya depends on hydropower generation for much of its power generation capacity (approximately 35 per cent. of total power generation in 2016). During severe droughts, electricity generation is switched from hydropower to more expensive thermal generation.

The government has identified the improvement of electricity generation, transmission and distribution infrastructure as a critical element in meeting economic growth and development objectives and is targeting universal access to electricity by 2020, from 70 per cent. in December 2017. No assurances can be given that Kenya will be able to improve the power sector effectively, or that the improvements will not cost significantly more than estimates. While the government intends to develop the transmission network to minimise transmission distances and losses, it may not be able to adequately finance these initiatives to achieve its targets, or meet socio-economic and environmental sustainability concerns. Failure to address adequately the significant deficiencies in Kenya's power generation, transmission and distribution infrastructure could lead to lower GDP growth and reduce the country's ability to attract investment, thereby causing a material adverse effect on Kenya's economy.

Health risks could adversely affect Kenya's economy.

HIV/AIDS, tuberculosis (which is exacerbated in the presence of HIV/AIDS) and malaria are major healthcare challenges in Kenya and other East African countries. According to estimates from the World Bank, national HIV prevalence of adults aged 15-49 years declined from 5.8 per cent. in 2013 to 5.4 per cent. in 2016. The total number of persons living with HIV is estimated to be in the region of 1.6 million.

While nationwide malaria prevalence has decreased from 11 per cent. in 2010 to 8 per cent. in 2015, about 28 million Kenyans live in malaria endemic regions of the former provinces of Western, Nyanza and the Coast, with a majority of them under the age of 15. According to the Kenya Malaria Indicator Survey 2015 carried out by the Ministry of Health Malaria, malaria prevalence among children aged 6 months to 14 years in the endemic region along Lake Victoria was 27% in 2015, although it has decreased from 38% in 2010.

In 2014, an outbreak of Ebola spread rapidly in West Africa, particularly in Guinea, Liberia and Sierra Leone. Although no Ebola outbreaks have been reported in Kenya, the government issued an Ebola alert in May 2017 following an outbreak of the disease in the Democratic Republic of Congo. While the government has taken steps to prepare for any possible outbreak, if Ebola resurfaces in West Africa or spreads to East Africa or Kenya, costs in treating victims of the disease as well as associated travel and trade restrictions and disruptions to commercial activity may adversely impact Kenya's economy. There can be no assurance that the high prevalence rate of HIV/AIDS, tuberculosis and malaria or other diseases or the possible spread of Ebola in Kenya will not have a material adverse effect on the economy of Kenya and its ability to service its debt, including the Notes.

Any significant depreciation of the Kenyan shilling against the US dollar or other major currencies might have a negative effect on Kenya's ability to repay its debt denominated in currencies other than the Kenyan shilling, including the amounts due under the Notes.

The Kenyan shilling experienced considerable volatility during 2015. The shilling depreciated against most of the selected major trading currencies in 2015. The shilling weakened against the euro, US dollar, pound sterling and Japanese yen by 1.5, 12.9, 7.7 and 12.8 per cent., respectively, in the year ended 31 December 2015. For the year ended 31 December 2016, the Kenya shilling depreciated against US dollar and Japanese Yen by 0.2 and 2.5 per cent., respectively. For the year ended 31 December 2016, the shilling appreciated against the euro and the pound sterling by 4.2 and 17.4 per cent, respectively. At 30 June 2017, 67.5 per cent. of the public external debt was denominated in US dollars, 17.2 per cent. was denominated in euros, 4.9 per cent. was denominated in Japanese yen and 3.2 per cent. was denominated in pound sterling. The shilling stood at KES101.73 to the US dollar at 23 February 2018. Any significant depreciation of the Kenyan shilling against the US dollar or other major currencies might have a material adverse effect on Kenya's ability to repay its debt denominated in currencies other than the Kenyan shilling, including the amounts due under the Notes.

Risks Relating to the Notes

Events in other emerging markets, including those in other African countries, may negatively affect the Notes.

Economic distress in any emerging market country may adversely affect prices of securities and the level of investment in other emerging market issuers as investors move their money to more stable, developed markets. Financial problems or an increase in the perceived risks associated with investing in emerging market economies could dampen foreign investment in Kenya, adversely affect the Kenyan economy or adversely affect the trading price of the Notes. Even if the Kenyan economy remains relatively stable, economic distress in other emerging market countries could adversely affect the trading price of the Notes and the availability of foreign funding sources for the government. Adverse developments in other countries in sub-Saharan Africa, in particular, may have a negative impact on Kenya if investors perceive risk that such developments will adversely affect Kenya or that similar adverse developments may occur in Kenya. Risks associated with sub-Saharan Africa include political uncertainty, civil unrest and conflict, corruption, the outbreak of diseases and poor infrastructure. Investors' perceptions of certain risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Kenya, including elements of the information provided in this Prospectus. See "*—The statistical information published by Kenya may differ from that produced by other sources and may be unreliable*".

The credit ratings of the Notes are subject to revision or withdrawal, either of which could adversely affect the trading price of the Notes.

The Notes are expected to be rated B+ by Fitch and B+ by S&P. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Other than pursuant to Article 16 of the Prospectus Directive, Kenya has no obligation to inform Noteholders of any revision, suspension, downgrade or withdrawal of its current or future sovereign credit ratings. A revision, suspension, downgrade or withdrawal at any time of a credit rating assigned to Kenya may adversely affect the market price of the Notes.

Fitch is not established in the European Union and has not applied for registration under the CRA Regulation. Ratings by Fitch have been endorsed by Fitch Ratings Ltd. in accordance with the CRA Regulation. Each of Fitch Ratings Ltd. and S&P is established in the European Union and registered under the CRA Regulation. In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit-rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances).

The liquidity of the Notes may be limited and trading prices may fluctuate.

The Notes have no established trading market. While application has been made to list the Notes on the Irish Stock Exchange and any one or more of the Joint Lead Managers may make a market in the Notes, they are not obliged to do so and may discontinue any market making, if commenced, at any time without notice. There can be no assurance that a secondary market will develop for the Notes or, if a secondary market does develop, that it will continue. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering prices, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of Kenya.

Fluctuations in exchange rates and interest rates may adversely affect the value of the Notes.

The Issuer will pay principal and interest on the Notes in US dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than US dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the US dollar would decrease the Investor's Currency-equivalent yield on the Notes, the Investor's Currency equivalent value of the principal payable on the Notes and the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities (including where the investor is domiciled) may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal. In addition, investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Definitive Notes not denominated in an integral multiple of US$200,000 or its equivalent may be illiquid and difficult to trade.

The Notes have denominations consisting of a minimum of US$200,000 plus integral multiples of US$1,000 in excess thereof. It is possible that the Notes may be traded in amounts that are not integral multiples of US$200,000. In such a case, a holder who, as a result of trading such amounts, holds an amount which is less than US$200,000 in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of US$200,000 such that its holding amounts to US$200,000. Further, a holder who, as a result of trading such amounts, holds an amount which is less than US$200,000 in his account with the relevant clearing system at the relevant time may not receive a Certificate in respect of such holding (should Certificates be printed) and would need to purchase a principal amount of Notes at or in excess of US$200,000 such that its holding amounts to US$200,000.

If Certificates are issued, holders should be aware that Certificates which have a denomination that is not an integral multiple of US$200,000 may be illiquid and more difficult to trade than Notes denominated in an integral multiple of US$200,000.

The terms of the 2028 Notes and the 2048 Notes may be modified, waived or substituted without the consent of all the holders of the 2028 Notes or the 2048 Notes (as the case may be).

The Terms and Conditions of the 2028 Notes and the 2048 Notes contain provisions for convening meetings of holders of the 2028 Notes or the 2048 Notes (as the case may be) to consider matters affecting their interests and for the passing of written resolutions of holders without the need for a meeting. Such provisions are commonly referred to as “collective action clauses”. The provisions permit defined majorities to bind all holders of the 2028 Notes or the 2048 Notes (as the case may be) including any such Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and any such Noteholders who voted in a manner contrary to the majority.

In addition, the Terms and Conditions of the 2028 Notes and the 2048 Notes permit “cross-series modifications” to be made to more than one series of debt securities, provided that each affected series of debt securities also contains a cross-series modification provision. Under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Terms and Conditions), such cross-series modification may be made to more than one series of debt securities with the approval of the applicable percentage of the aggregate principal amount of the outstanding debt securities of all affected series and without requiring the approval of a particular percentage of the holders of any individual affected series of debt securities.

There is therefore a risk that the terms of the 2028 Notes and the 2048 Notes may be modified in circumstances where the holders of debt securities approving the modification may be holders of different series of debt securities and the majority of Noteholders would not necessarily have approved such modification. In addition, there is a risk that the provisions allowing for aggregation across multiple series of debt securities may make the Notes less attractive to purchasers in the secondary market and adversely affect the market value of the Notes in circumstances where such modification or a proposal for such modification is expected to be made by the Issuer.

The Terms and Conditions of the 2028 Notes and the 2048 Notes also provide that the Notes, their respective terms and conditions and the provisions of the relevant Agency Agreement (as defined in the Terms and Conditions) may be amended without the consent of the Noteholders for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained therein or in any other manner which is, in the sole opinion of the Issuer, not materially prejudicial to the interests of the Noteholders.

Kenya is a sovereign state and, accordingly, it may be difficult to obtain or enforce judgments or arbitral awards against it.

Kenya is a sovereign state and has waived only certain immunities and has not submitted to the jurisdiction of any court outside Kenya, but instead it has agreed to resolve disputes by arbitration in accordance with rules and procedures of the LCIA. As a result, a LCIA arbitration proceeding is the exclusive forum in which a holder may assert a claim against Kenya. In addition, it may not be possible for investors to effect service of process upon Kenya within their own jurisdiction, obtain jurisdiction over Kenya in their own jurisdiction or enforce against Kenya judgments or arbitral awards obtained in their own jurisdiction. See “*Enforcement of Civil Liabilities*” and Condition 16(b) (Arbitration).

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Terms and Conditions of the 2028 Notes and the 2048 Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

USE OF PROCEEDS

Kenya expects the net proceeds of the issue of the Notes, before expenses, to amount to approximately US$1,999,600,000 which it intends to use for financing development expenditures and to refinance part of its obligations outstanding under certain syndicated loan agreements. See "*Plan of Distribution*".

REPUBLIC OF KENYA

Location and Geography

Kenya occupies a land area of 581,309 square kilometres on the equator and is bordered by the Indian Ocean to the south east, Tanzania to the south, Uganda to the west, South Sudan to the north west, Ethiopia to the north and Somalia to the north east. Kenya has an estimated population of approximately 45.4 million, as of 2016. The last population census was carried out in 2009 (the "**2009 Census**"), with the next census planned for 2019. The Republic of Kenya is divided into 47 semi-autonomous counties that are headed by Governors who were elected in the first general election under the Constitution in March 2013. Nairobi is the largest city and the capital of the country.

Kenya has a warm and humid climate along its Indian Ocean coastline, with wildlife-rich savannah grasslands inland towards the capital. Nairobi has a cool climate that gets colder approaching Mount Kenya. Further inland there is a warm and humid climate around Lake Victoria and temperate forested and hilly areas in the western region. The north-eastern regions along the border with Somalia and Ethiopia are arid and semi-arid areas with near-desert landscapes. Lake Victoria, the world's second largest fresh-water lake and the world's largest tropical lake, is situated to the southwest; Kenya, Uganda and Tanzania share its border.

The "long rains" season occurs from March to June. The "short rains" season occurs from October to December. The rainfall is sometimes heavy and often falls in the afternoons and evenings. The temperature remains high throughout these months of tropical rain. The hottest period is February and March, leading into the season of the long rains, and the coldest is in July and August.

Kiswahili and English are both official languages in Kenya. Kiswahili is the national language.

Border Disputes

The Maritime Border with Somalia

On 6 May 2009, Kenya submitted to the UN Commission information on the limits of the continental shelf beyond 200 nautical miles from the baselines from which the breadth of the territorial sea is measured. The submission is intended to give Kenya the right to explore and exploit mineral resources on this additional territory under the Convention on the Law of the Sea. Kenya and Somalia are in discussion with regards to their respective submissions to the UN Commission. In addition, on 28 August 2014, Somalia instituted proceedings against Kenya before the ICJ with regard to the dispute concerning the location of the maritime boundary in the Indian Ocean between the two countries. Somalia requested the ICJ to determine the complete course of the single maritime boundary dividing all the maritime areas appertaining to Somalia and Kenya in the Indian Ocean and asked the ICJ to determine the precise geographical co-ordinates of the single maritime boundary in the Indian Ocean. On 16 October 2014, the President of the ICJ fixed the time limits for the filing of the initial pleadings. In February 2017, the ICJ dismissed Kenya's initial objection and ruled that the ICJ had authority to hear the full case. In December 2017, Kenya filed its counter memorial to Somalia's case. The ICJ is expected to provide direction on the next course of action in early 2018.

Migingo Island

Migingo is a 2,000-square-metre (half-acre) island in Lake Victoria. In 2008, both Kenya and Uganda claimed the island. The basis for the dispute revolves primarily around the lucrative fishing rights associated with the island, mostly for valuable Nile perch. In July 2009, the Ugandan government shifted its official position, stating that while Migingo Island was in fact Kenyan, much of the waters near it were Ugandan.

In April 2009, the Ugandan flag was lowered and Ugandan security personnel withdrew from the island. A joint re-demarcation line of the border was launched on 2 June 2009 to recover and to place survey markers on land, making delineation of the boundary on the lake more precise. The two countries have established a joint technical experts committee to demarcate the borderline along the island. The committee has held several meetings aimed at concluding the exercise. In August 2016, Kenya and Uganda announced a joint taskforce that will see police in the two countries patrol the disputed island and the entire common border.

Ilemi Triangle

The Ilemi Triangle is an area of disputed land in East Africa, measuring between 10,320 and 14,000 square kilometres (3,985 and 5,405 square miles). The territory borders Ethiopia, and both South Sudan and Kenya have claimed the territory. Since independence, Kenya, however, has had *de facto* control of the area.

History

Kenya was not a unified political entity prior to the last decade of the nineteenth century. In 1890, Britain established the East Africa Protectorate, which in 1920 became a crown colony by the name of Colony of Kenya. Organised resistance to colonial rule emerged in the 1920s, intensified in the 1940s, and became violent in 1952 following the formation of the Mau Mau Resistance movement. After nearly eight decades of British colonial rule, Kenya gained independence in 1963 and became a republic a year later. Jomo Kenyatta, an icon of the struggle for liberation, led Kenya as Prime Minister, and later as President, from independence in 1963 until his death in 1978, when President Daniel Moi took power in a constitutional succession. The country was a *de facto* one party state from 1969 until 1982 when the ruling Kenya African National Union ("**KANU**") made itself the sole legal party in Kenya. President arap Moi stepped down in December 2002 following fair and peaceful elections. Mwai Kibaki, running as the candidate of the multi-ethnic, united opposition group, the National Rainbow Coalition ("**NARC**"), defeated KANU candidate Uhuru Kenyatta (the son of founding President Jomo Kenyatta) and assumed the presidency following a campaign centred on an anti-corruption platform. Kibaki's NARC coalition splintered in 2005 over a constitutional review process. Government defectors joined with KANU to form a new opposition coalition, the Orange Democratic Movement ("**ODM**"), which defeated the government's draft constitution in a popular referendum in November 2005. President Kibaki's re-election in December 2007 brought charges of vote rigging from ODM candidate Raila Odinga, resulting in two months of violence in which an estimated 1,133 people died. African Union- sponsored mediation led by former UN Secretary General Kofi Annan in late February 2008 resulted in a power-sharing accord bringing Mr. Odinga into the government in the restored position of Prime Minister.

The power-sharing accord included a broad reform agenda, the centre piece of which was constitutional reform. In August 2010, Kenyans overwhelmingly adopted the Constitution in a national referendum. The Constitution introduced additional checks and balances, including a bill of rights for Kenyan citizens, and significant devolution of power and resources to 47 newly created counties. It also eliminated the position of Prime Minister following the first presidential election under the Constitution, which occurred on 4 March 2013. While allegations of irregularities in the voting process were made, the 2013 elections were not marred by violence. Uhuru Kenyatta, running against a field including Prime Minister Odinga, won in the first round by a close margin, and the newly constituted Supreme Court dismissed the opposition's appeal, and Mr. Kenyatta was sworn into office. Uhuru Kenyatta was re-elected as President in August 2017, but the vote was annulled by the Supreme Court, which cited irregularities in the vote. The Supreme Court ordered that a re-run of the election for President and Deputy President be held within 60 days of the successful petition. The October 2017 re-run was boycotted by the opposition, NASA, led by Raila Odinga, and turnout was significantly lower than in the August 2017 election. President Kenyatta was re-elected in the October 2017 re-run and the results were again challenged in the Supreme Court of Kenya. In November 2017, the Supreme Court ruled the petitions were without merit and declared that President Kenyatta had been validly re-elected as President, and he was subsequently sworn in as President of Kenya. See "*Risk Factors— Kenya's recent elections involved a high degree of volatility and any continuing levels of political uncertainty may adversely affect Kenya's capital markets, level of tourism and foreign investment, as well as Kenya's economy as a whole*".

Population

Kenya has an estimated population of approximately 48.5 million as of 2016, according to the World Bank. According to the 2009 Census, ethnic groups in the nation are represented as follows: Kikuyu (17 per cent.), Luhya (14 per cent.), Luo (10 per cent.), Kalenjin (13 per cent.), Kamba (10 per cent.), Kisii (6 per cent.), Meru (4 per cent.), other African (24 per cent.) and non-African (Asian, European and Arab) (less than 1 per cent.). According to the 2009 Census, the vast majority of Kenyans are Christian (83 per cent.), with 47.7 per cent. regarding themselves as Protestant and 23.5 per cent. as Roman Catholic, while other Kenyans are Muslim (11.2 per cent.), irreligious (2.4 per cent.) or have indigenous beliefs (1.7 per cent.).

According to the World Bank, population density is estimated at approximately 85.1 persons per square kilometre in 2016, with approximately 26.1 per cent. of the population living in urban areas. Nairobi, the capital of the country and its largest city, has an estimated population of 4.1 million.

The following table sets out selected comparative socioeconomic indicators for 2016 (unless otherwise indicated) for Kenya and for certain other countries in the region.

	Per capita GDP (in constant 2010 US$)	**Life Expectancy** (in years)(1)	**Adult Literacy Rate**(2)	**Doing Business Ranking**(3)	**Debt/GDP**(1) (% of GDP)
Zambia	1,627	52.7	83.0	85	62.8
Ghana	1,708	67.0	71.5	120	76.8
Kenya	1,143	64.3	78.7	80	52.6
Tanzania	867	62.6	77.9	137	35.2
Uganda	662	55.9	70.2	122	38.2
Rwanda	739	64.3	68.3	41	47.2
Burundi	218	60.9	61.6	164	40.9

Notes:
(1) 2017 data.
(2) 2010 data for Zambia and Ghana; 2012 data for Rwanda and Uganda; 2014 data for Kenya and Burundi and 2015 data for Tanzania.
(3) June 2017 data.
Source: World Bank Statistical Compendium; The World Factbook; Doing Business Report 2018.

Public Health

Kenya's public health policy is to achieve the highest attainable standard of health in a manner responsive to the needs of the population. Under the current health sector approach, the sector is comprised of the Ministry of Health and eight semi-autonomous government agencies, which provide the Ministry of Health with support in specialised health service delivery, medical research and training, procurement and distribution of drugs and financing through health insurance. The government has targeted universal health coverage as one of the priorities under the Big Four Plan in the next five years.

The Ministry of Health is primarily responsible for developing national policy, providing technical support, monitoring quality standards of performance of the county governments and community organisations, providing guidelines on tariffs and conducting studies required for administrative and management purposes.

Pursuant to the Constitution, most of the delivery of health services is provided by the counties, with further responsibilities at the county level being provided at a sub-county and community level. The one exception is the Ministry of Health, which retains national referral services, comprising of all secondary and tertiary referral facilities that provide specialised services. The county health services are primarily responsible for comprehensive in-patient diagnostics, medical surgical and rehabilitative care, including reproductive health services, specialised outpatient services and facilitating and managing referrals from the sub-county and community health level. The primary responsibilities at the sub-county level are disease prevention and health promotion, basic outpatient diagnostic, medial surgical and rehabilitative services, inpatient services for emergency patients waiting referral, patient observation and normal delivery services. County health services are funded from locally generated revenue, rather than from national grants. On average, counties allocated approximately 25 per cent. of their budgets to healthcare provisions in 2016/17.

The sub-county level institutions are also responsible for facilitating referrals from the community health level. The community health level institutions in the country, comprised of the community units, are primarily responsible for promotion of better health behaviours, recognition of signs and symptoms of conditions requiring referral and facilitation of community diagnostics, management and referrals to the higher levels.

The number of registered medical personal working in the public health system increased in recent years, from 121,578 in 2014 to 172,706 in 2016.

HIV/AIDS, Malaria and Tuberculosis

HIV/AIDS, tuberculosis and malaria are major healthcare challenges in Kenya and other East African countries. According to estimates from the World Bank, national HIV prevalence of adults aged 15-49 years declined from 5.8 per cent. in 2013 to 5.4 per cent. in 2016. The total number of persons living with HIV is estimated to be in the region of 1.6 million. Tuberculosis infections are mostly opportunistic infections relating to immune system suppression due to HIV. In 2016, there were 4,735 deaths due to tuberculosis compared to 10,183 deaths in 2015, a decrease of 53.5 per cent.

While nationwide malaria prevalence has decreased from 11 per cent. in 2010 to 8 per cent. in 2016, about 28 million Kenyans live in malaria endemic regions of the former provinces of Western, Nyanza and the Coast, with a majority of them under the age of 15. According to the Kenya Malaria Indicator Survey 2015 carried out by the Ministry of Health Malaria, malaria prevalence among children aged 6 months to 14 years in the endemic region along Lake Victoria was 27 per cent. in 2015, although it has decreased from 38 per cent. in 2010.

In 2016, there were approximately 16,000 deaths from malaria, a decrease of 22.7 per cent. from 20,691 deaths recorded in 2015.

The government has implemented specific strategies to address the prevention and treatment of HIV/AIDS, including provision of counselling and testing, provision of free antiretrovirals to those infected and increasing efforts to prevent stigmatisation and discrimination of those infected.

The government efforts on malaria include the development of a national malaria control strategy for 2018 to 2025, which focuses on the prevention and treatment of malaria, and outlines a strategic approach on the use of long-lasting insecticide-treated nets as a key measure in the prevention of malaria. The nets are distributed free of charge to vulnerable persons, including pregnant women and children below 1 year of age in malaria-endemic areas. In addition, the Ministry of Health supplies first line malaria medicines and rapid diagnostic tests kits and distributes them to all counties.

Ebola

In March 2014, the World Health Organisation (the "**WHO**") reported an outbreak of Ebola in Guinea, and the virus later spread to other West and Central African countries, including Liberia, Nigeria, Senegal and Sierra Leone. Ebola is a dangerous and contagious virus that often results in death, and the West Africa Ebola outbreak was the largest in history, affecting multiple countries in, and beyond, West Africa. According to the WHO, 28,616 suspected, probable, and confirmed cases with a total of 11,310 deaths were recorded in Guinea, Liberia, and Sierra Leone.

On 29 March 2016, the WHO lifted the Public Health Emergency of International Concern related to Ebola in West Africa. While there have been no confirmed cases of Ebola in Kenya, the government issued an Ebola alert in May 2017 following an outbreak of the disease in the Democratic Republic of Congo. Kenya has invested in significant training and equipment to combat any possible outbreak, and has recently strengthened screening and surveillance of persons travelling from or through the Democratic Republic of Congo.

Education

The education sector has as its overall goals increasing access to education and training, improving quality and relevance of education, reducing inequality as well as developing knowledge and skills in science, technology and innovation for global competitiveness. The education sector is comprised of the State Department for Basic Education, State Department for Universities, State Department for Vocational and Technical training and Teachers Service Commission, together with their affiliated agencies and institutions. The national government's role is in setting policy, allocating the national education budget and supervising and regulating the education system. Expenditures by the Ministry of Basic Education were KES63,038 million, and expenditures by the Teachers Service Commission were KES190,931 million for 2016/17.

Recent initiatives in the sector include enhancing IT integration in education at all levels, including the deployment of laptops to schools, development of digital content, building capacity of teachers and rolling out computer laboratory for primary schools throughout the country. Going forward, the government will focus on construction and improvement of infrastructure in learning institutions, enhancing educational grants, strengthening teacher supervision, and expanding industry lead vocational training and instituting paid-for internship programmes to facilitate the absorption of more young Kenyans into the job market.

Primary, Secondary and Higher Education

At present basic education covers eight years of primary education, four years of secondary education and four years of basic university degree. The table below provides information as to student enrolment in primary and secondary schools as at the dates indicated.

	As at 31 December		
	2014	**2015**	**2016**[(1)]
	(*thousands of students*)		
Primary school	9,951	10,090	10,269
Secondary school	2,332	2,559	2,721

Notes:
(1) Provisional.
Source: Ministry of Education, Science and Technology.

As at 31 December 2016, there were 30 public universities and three constituent university colleges and 37 private universities in Kenya.

The table below provides student enrolment in public and private universities for the periods provided.

	As at 30 June		
	2015	**2016**	**2017**[(1)]
	(*thousands of students*)		
Public Universities[(2)]	363,334	432,756	479,312
Private Universities	80,448	77,929	85,195
Total enrolment	**443,782**	**510,685**	**564,507**

Notes:
(1) Provisional.
(2) Includes information as to enrolment only as to the following universities: University of Nairobi, Kenyatta University, Moi University, Egerton University, Jomo Kenyatta University of Agriculture and Technology, Maseno University, Masinde Muliro University of Science and Technology, Kenya Polytechnic University and Mombasa Polytechnic University College.
Source: Ministry of Education, Science and Technology.

Political System

General

Kenya is a multi-party democratic state comprising the executive, the legislature, the judiciary and the devolved county governments.

The President, the Deputy President and the Cabinet constitute the executive branch of the Kenyan government. The President is the Head of State and government, the Commander in Chief of the Kenya Defence Forces and the chair of the National Security Council. The President is elected by registered voters in a national election for a five-year term and can only be re- elected for one additional term. The Deputy President is the principal assistant of the President and deputises the President in the execution of the President's functions. The Cabinet is comprised of the President, the Deputy President, the Attorney General, and the Cabinet Secretaries, of which there may be no less than 14 and no more than 22. The President nominates and, with the approval of the National Assembly, appoints Cabinet Secretaries. The President has nominated 22 Cabinet Secretaries, 9 of whom are new to the Cabinet and are currently being vetted by the National Assembly.

The legislature is composed of the Senate and the National Assembly.

There are 67 Senators. Forty-seven are elected by the registered voters in the 47 counties of Kenya, 16 women members are nominated by political parties according to their proportion of members in the Senate, four members (two men and two women) represent the youth and persons with disabilities and are elected on the basis of proportional representations by use of party lists. The Speaker is an *ex officio* member of the Senate. The Speaker is elected from candidates who are not Senators by the votes of two-thirds of all the Senators. If no candidate reaches the required number of votes, then a runoff election is held between the two candidates who receive the highest and next highest number of votes; however, if more than one candidate receives the highest number of votes, then only the candidates who receive the highest number of votes will participate in the runoff election. The candidate who receives the highest number of votes in the runoff election is declared the Speaker.

There are 349 members of the National Assembly. Each of the 290 constituencies elect a member to the National Assembly. Under the Constitution, there must be a women's representative Member of Parliament elected from each county, guaranteeing a minimum of 47 women members in the National Assembly. Twelve additional members are nominated by parliamentary political parties according to their proportion of members in the National Assembly. Similar to the Senate, the Speaker is an *ex officio* member of the National Assembly and is elected from candidates who are not members of the National Assembly. The procedure for election of the Speaker of the National Assembly is similar to the election of the Speaker of the Senate.

The political parties supporting President Kenyatta hold 194 out of the 349 seats in the National Assembly and 37 out the 67 of the seats in the Senate.

Since the occurrence of the 2007-2008 post-election violence, Kenya has made concerted efforts to put in place an institutional framework intended to facilitate peaceful transfer of power. The most notable measures that have been implemented are the following:

- the Constitution contains detailed provisions in respect of general election cycles and the requirement that election petitions be determined within six months after the declaration of results, establishes the Supreme Court of Kenya, whose mandate includes hearing and determining petitions arising out of a presidential election, and provides for the process of swearing in a newly elected President;
- the enactment of legislation containing provisions aimed at addressing concerns that might have contributed to the 2007 post-election violence as further detailed below;
- the establishment of various independent commissions whose mandates are to implement the provisions of the Constitution as further detailed below;
- undertaking extensive on-going judicial reforms to instil public confidence in the Kenyan judicial system, in particular the public vetting of judicial officers including Magistrates and Judges of Kenya's subordinate and superior courts, respectively; and

- the establishment of the Constitutional Implementation Oversight Committee, a select committee of Parliament established under the Constitution to oversee implementation of the Constitution.

As mentioned above, several independent commissions have been established under the Constitution respectively to entrench constitutionalism and respect for the rule of law and implement the devolved system of government. The independent commissions include:

- the National Cohesion and Integration Commission which, among other things, facilitates and promotes the elimination of all forms of discrimination, promotes arbitration, and other dispute resolution mechanisms, investigates complaints of ethnic or racial discrimination and makes recommendations to the Attorney-General, the Kenya National Commission on Human Rights or any other relevant authority on the remedial measures where such complaints are valid.

- the Kenya National Commission on Human Rights, which monitors, investigates and reports on the observance of human rights, investigates complaints about the alleged abuses of human rights and takes steps to secure appropriate redress where human rights have been violated;

- the Independent Electoral and Boundaries Commission, which supervises elections and referenda at the county and national government levels;

- the National Police Service Commission, whose role includes staffing of the National Police Service, observing due process and exercising disciplinary control over the members of the National Police Service; and

- the National Land Commission, whose functions include managing public land on behalf of the national and county governments, initiating investigations, on its own initiative or on a complaint, into present or historical land injustices and recommending appropriate redress.

In addition, a number of statutes have been enacted with the aim of fostering the peaceful transition and transfer of power, including the following:

- the Assumption of the Office of President Act, 2012 (the "**AOP Act**"), which came into force upon the announcement of the date of first elections in March 2013 under the Constitution and set out the procedure for the swearing in ceremony of the President and the Deputy President;

- the National Police Service Act, which among other provisions, provides for the recruitment, enlisting and training of police officers and the implementation of the ongoing police reforms, which involve, among other measures, the public vetting of senior officials serving in the National Police Service;

- the Land Act 2012 and the Land Registration Act, which were intended to address unequal distribution of land, one of the perceived causes of the 2007 post-election violence. The two statutes revise, consolidate and rationalise existing land ownership in accordance with the Constitutional principles aimed at ensuring equitable access to land, security of land rights, transparent and cost effective land administration, among others; and

- the Public Finance Management Act, which provides for the effective management of public finances by the national and county governments, the oversight responsibility of Parliament and County Assemblies and the different responsibilities of government entities.

Judicial System

The judiciary comprises three superior courts: the Supreme Court, the Court of Appeal, and the High Court.

The Supreme Court is the highest judicial organ consisting of the Chief Justice, the Deputy Chief Justice and five other judges. The Supreme Court has original jurisdiction to hear and determine disputes relating to the office of the President and appellate jurisdiction to hear and determine appeals from the Court of Appeal and any other court or tribunal as prescribed by national legislation.

The Court of Appeal consists of the number of judges, being not fewer than 12, as may be prescribed by an Act of Parliament. This court has jurisdiction to hear appeals from the High Court and any other court or tribunal as prescribed by an Act of Parliament.

The High Court consists of such number of judges prescribed by an Act of Parliament and has unlimited original jurisdiction in civil and criminal matters, jurisdiction to determine any infringements of the rights and freedoms under the bill of rights, to hear appeals from a decision of a tribunal appointed under the Constitution to consider the removal of a person from office and to hear any questions with respect to interpretation of the Constitution and supervisory jurisdiction over all other subordinate courts and any other persons, body or authority exercising judicial or quasi-judicial functions.

County Governments

The Constitution establishes 47 counties, each with its own county government. County governments consist of a county assembly and a county executive.

The county assembly is made up of members elected from different wards in the county, the number of special seat members necessary to ensure that no more than two thirds of the membership of the assembly are the same gender and the number of members of marginalised groups, including persons with disabilities and youth prescribed under an Act of Parliament. The speaker of the county assembly is an ex officio member and is elected by the county assembly from among persons who are not members of the county assembly.

The executive authority of the county is vested in and exercised by a county executive committee. The executive committee consists of the county governor, the deputy governor and members appointed by the county governor with the approval of the county assembly (from among persons who are not members of the assembly).

Voters in each county elect their governor. Each county governor nominates a candidate for deputy governor. The governor and the deputy governor shall not hold office for more than two terms.

Some of the provisions of the Constitution with regard to devolved governments are still in the process of being implemented. Since February 2012, the National Assembly has enacted a number of laws to implement devolution which together with the Constitution, provide a set of institutional arrangements for managing the transition to devolved county governments.

The 2010 Constitution and Devolution

After the 1997 general elections, Parliament passed the Constitution of Kenya Review Act (1997) (later amended by the Constitution of Kenya Review Act (2002)) which formed the legal groundwork for constitutional reforms. A constitutional review body was created to provide civic education, seek public input and draft a new constitution to be studied by a National Constitutional Conference. Voters initially rejected the draft constitution, in a referendum in 2005. Parliament approved the revised constitution in April 2010. The proposed constitution was approved by 67 per cent. of Kenyan voters in a referendum in August 2010 and became the Constitution. The Constitution introduced additional checks and balances to executive power, including a bill of rights for Kenyan citizens and significant devolution of power and resources to 47 newly created counties.

Audit Report

Article 229 of the Constitution requires the Auditor General to submit an audit report to Parliament within six months after the end of each fiscal year. The Auditor General prepares the initial draft of the audit report with the information that the ministries have made available to him at the time of submission, which is often incomplete at such time and, as a result, the Auditor General is unable to account for all public funds in the government accounts of the prior year. Consequently, the draft report submitted to Parliament typically has significant audit queries. The ministries continue to provide the required information and, at the time Parliament adopts the report, virtually all outstanding queries in the submitted report typically will have been addressed. If Parliament finds a weakness in internal controls, it makes a recommendation for improvement, and National Treasury is required to respond within six months through a memorandum which, if adopted by Parliament, concludes the audit. For the fiscal years 2010/11, 2011/12, 2012/13, 2013/14 and 2014/15 the audit reports are currently under review by the Public Accounts Committee of Parliament. For the fiscal year 2015/16, the Auditor General has submitted a report to Parliament.

Legal Proceedings

Anglo Leasing

In December 2003, the Department of Immigration contracted for a loan for the issuance of secure passports and the equipment to be used at Kenya's borders. Kenya's procurement laws were not followed and a company named "Anglo Leasing and Finance Company Ltd." was awarded the contract. Subsequent review revealed that there were 18 contracts similar to the one arranged by Anglo Leasing and Finance Company Ltd and these contracts have been collectively referred to as the "Anglo Leasing contracts." On 12 August 2004, the then Ministry of Finance suspended all payments pursuant to the 18 contracts pending further investigation. Investigations followed by the Ministry of Finance, the Public Accounts Committee of Parliament, the Controller and Auditor General. Additionally, PricewaterhouseCoopers, an independent auditor, was contracted to conduct a forensic audit and valuation of the Anglo Leasing contracts. The various reports concluded, among other things, that Kenyan's procurement laws were not followed, there was gross overpricing for goods and services, pre-financing payments were made, Kenya was paying interest on its own funds, in some cases, and there was evidence of corruption and abuse of office.

Of the 18 Anglo Leasing contracts, (i) four contracts with a value of KES18.9 billion were cancelled, and KES1 billion were recovered; (ii) three contracts with a value of KES6.8 billion have been completed and paid out; and (iii) eleven contracts with a value of KES30.6 billion were at various stages of completion. Of the eleven partially completed contracts, six have not been active, two have been settled directly with the parties, and two had final judgments totalling approximately US$14.8 million plus interest and costs entered against Kenya in courts in Switzerland and England. On 19 May 2014, Kenya paid a negotiated amount of US$16.4 million concerning these two judgments. The negotiated amount was due on 28 April 2014. The Attorney General of Kenya does not believe that the claimant creditors will seek further payments from Kenya, but, if they do, Kenya is prepared to resolve the matter. As for the eleventh contract, which involved a contract for the design, supply and installation of various electronic security equipment for the National Intelligence Service, the contractor terminated the contract in October 2013 and sent Kenya a claim for approximately KES3.05 billion. In May 2014, the President ordered an investigation by the EACC into the corruption allegations in connection with the Anglo Leasing contracts. The EACC finalised its investigations and proposed that criminal charges be brought against 13 individuals and three corporate entities.

Vanoil Energy Limited

On 24 September 2014, the Attorney General of Kenya received a notice of arbitration from Vanoil Energy Ltd. ("**Vanoil**") in connection with a dispute over production sharing contracts between the government and Vanoil's predecessor, Vangold Resources Ltd., related to Blocks 3A and 3B in Anza Basin in Garissa. Vanoil has that civil disturbances constituted a force majeure which extended the duration of the production sharing contracts. Vanoil has also claimed that the alleged failure by the government to resolve civil disturbances was a breach of the government's obligations under the production sharing contracts, including an obligation to provide Vanoil with access to the territory to enable Vanoil to fulfil its obligations under the production sharing contracts. In addition, Vanoil has alleged that the government's actions constituted deprivation of its property rights in the production sharing contracts. Vanoil has claimed damages equal to the alleged US$150 million market value of its rights in Blocks 3A and 3B in Anza Basin in Garissa. An arbitration tribunal has not yet been appointed and the claim is pending.

Konza Technology City

On 26 June 2014, Konza Ranching & Farming Cooperative Society Ltd brought a claim against the Attorney General of Kenya, Director of Physical Planning and others challenging the validity of the local physical development plan indofar as it applies to a 10 km buffer zone which delineates land within 10 km of the Konza Technology City. The Konza Technopolis Development Authority (the "**KoTDA**") has joined the legal action as an interested party. The Attorney General of Kenya and KoTDA have each filed a preliminary objection. The KoTDA believes that the courts will decide the matter in the defendants' favour. If Konza Ranching & Farming Cooperative Society Ltd does succeed, landowners in the 10 km buffer zone will not be required to comply with the local physical development plan. Such decision, however, will not affect the legality or suitability of Konza Technology City for its intended purposes.

In addition, on 5 September 2014, the government charged the former Permanent Secretary of the Ministry of Information, Communications and Technology and others for theft and abuse of office for their actions in connection with the acquisition of land for Konza Technology City. These criminal actions do not affect the government's legal ownership of land for Konza Technology City. See "*The Economy—Principal Sectors of the Economy— Information, Communication and Technology*".

Judgement for this matter is expected to be delivered by the High Court in Machakos on 22 February 2018.

Dan Duvell Alita versus the National Security Council and others

In January 2016, Dr. Dan Duvell Alita instituted legal proceedings on behalf of Kenyan fishermen and traders on Migingo Island against the Attorney General and the National Security Council. The petitioners allege that government security agencies breached their constitutional obligation by failing to protect them against harassment by Ugandan security forces. The fishermen and traders were allegedly harassed, arrested and deprived of their boats and fishing gear. The petitioner seeks compensation for the fishermen for breach of their constitutional rights. The matter is scheduled for hearing on 26 March 2018.

Mathew Okwanda & Another versus the Republic of Kenya and another

The petitioners' cause of action arose from the merging of the eastern province of Uganda with the British East Africa Protectorate. The petitioners are requesting the Court to allow the people of what used to be the eastern part of Uganda under the colonial rule to decide their political future under a referendum. They have sued the governments of Kenya, Uganda and Great Britain for stabilising the Abaluhya Kingdom, alleging that their land was placed under the Republic of Kenya by the British colony without their consent and are seeking reparation from the government of Great Britain. On 8 January 2018, the petitioners were directed to serve the governments of Uganda and Great Britain their pleadings.

Cortec Mining Kenya Limited, Cortec Pty Limited and Stirling Capital Limited versus the Republic of Kenya

In July 2013, while conducting a licensed mining activity in Kenya, Cortec Mining Kenya Limited ("**CMK**") announced a rare earth resource and updated niobium resource for the Mrima Hill project in Kenya, valued at KES200 billion. After the announcement, Kenya's Cabinet Secretary for Mining and the Environment purportedly cancelled CMK's mining licenses. CMK challenged the revocation of the mining licenses in the Kenyan courts. On 9 June 2017, the Court of Appeal upheld the revocation of the licenses. On 7 August 2017, CMK, Cortec (Pty) Limited and Stirling Capital Limited commenced arbitration against Kenya. The claimants assert that Kenya unlawfully expropriated their investments and breached the Bilateral Investment Treaty of the United Kingdom by failing to treat their investment fairly and equitably by unlawfully revoking their mining license. The matter was heard in January 2018 in Dubai, and parties have filed their post hearing memoranda.

WalAm Energy Inc.

WalAm Energy Inc. commenced proceedings against the government at the International Centre for Settlement of Investment Disputes following the cancellation of its geothermal prospecting license at Suswa. WalAm Energy Inc. is claiming KES 60 billion as compensation for the cancellation of the license. The government granted WilAm Energy Inc. exclusive rights to explore, drill for, extract, produce and dispose geothermal steam and other geothermal resources in the Suswa area for a period of thirty years. In October 2012, the government revoked the license, concluding that WalAm Energy Inc. had not performed its duties under the license and did not have capacity to undertake the works required. The matter will be heard in July 2018 in London.

Kinangop Wind farm Ltd

The arbitration proceedings arise from the alleged frustration of the contract by failure to grant way to Kinangop Wind Ltd. The value of the contract being contested by the parties is KES15 billion. The matter proceeded for hearing in London in December 2017 and a post hearing memorandum has been filed.

Anti-Corruption, Anti-Money Laundering and Combating Terrorism

Anti-Corruption and Money Laundering

Parliament has enacted several pieces of legislation dealing with corruption and money laundering, including the Anti-Corruption and Economic Crimes Act which provides for the prevention, investigation and punishment of corruption, economic crime and related offences and the Proceeds of Crime and Anti-Money Laundering Act 2009 (the "**Proceeds of Crime Act**") which establishes the offence of money laundering and introduces measures for combating the offence; the Ethics and Anti-corruption Commission Act 2011 creating an agency responsible for investigating corruption cases, tracing assets and recovery of illegally acquired public assets. On 28 March 2013, the Proceeds of Crime and Anti-Money Laundering Regulations, 2013 were issued by the Minister for Finance which provide for the due diligence and reporting requirements of certain reporting institutions licensed and regulated by Kenyan regulatory authorities. In 2017, the Proceeds of Crime Act was amended to enhance the Financial Reporting Centre's powers to impose civil monetary penalties and to take administrative action for non-compliance with the legislation, and the Asset Recovery Agency has also been strengthened by making it an autonomous institution with its own budget. In addition, amendments to the Companies Act to provide, amongst other things, the identification of beneficial owners, have also been passed.

Combating Terrorism

Kenya has from time to time experienced internal security concerns. For example, in September 2013, a terrorist attack occurred at the Westgate Mall in Nairobi. The Al-Shabaab group, an extremist militant group, claimed responsibility for the attack and resumed its threats of continued attacks, not only against Kenya but also against Western countries for their intervention in Somalia. Al-Shabaab claimed that the presence of Kenyan troops in southern Somalia as part of the peacekeeping forces of the African Union Mission in Somalia ("**AMISOM**") prompted the attack and announced that it would continue its attacks until Kenya withdrew its troops from Somalia. Al-Shabaab also claimed responsibility for carrying out an attack on 22 November 2014 on a bus in northern Kenya in which 28 people were killed, and have carried out further attacks in recent years. In April 2015, at least 147 people were killed and 79 injured in an attack by Al-Shabaab militants on the Garissa University in Kenya, and in 2017, Al-Shabaab was suspected of being behind attacks on civilians in Lamu and Mandera.

Since 2012, there have been numerous attacks involving grenades or explosive devices in Kenya. Between January 2012 and January 2014, a total of 27 improvised explosive device attacks occurred, causing the deaths of 128 people and injuring another 427. The attacks mostly occurred in the North Eastern, Nairobi and the Coast regions, targeting police stations and police vehicles, nightclubs and bars, churches, a mosque, a religious gathering, a downtown building consisting of small shops and a bus station. In addition to these attacks, Kenyan law enforcement authorities have also disrupted several suspected terrorist plots, including attempted car bombings in Nairobi and Mombasa. In June 2014, armed militants attacked the coastal town of Mpeketoni and nearby villages, killing at least 60 people. As a result of such incidents, the United Kingdom, the United States, France and Australia have, in the past, issued travel advisories advising their citizens to avoid or reconsider travel to certain areas within Kenya. Recently, some of these travel advisories have been revised or withdrawn. See "*Risk Factors— Kenya's recent elections involved a high degree of volatility and any continuing levels of political uncertainty may adversely affect Kenya's capital markets, level of tourism and foreign investment, as well as Kenya's economy as a whole*".

As at 30 November 2017, over 234,000 refugees lived in the Dadaab refugee complex in north east Kenya. Originally established in 1991 to house refugees from the Somali civil war, the Dadaab complex has elicited tension among the surrounding communities. Some have alleged that the existence of the settlement can compromise border security and has caused significant law and order problems within Kenya's territory. In November 2013, the Somali and Kenyan governments signed an agreement with the United Nations High Commission for Refugees to begin repatriating Somali refugees. All repatriations are done voluntarily, but any forced repatriation of Somali refugees, or even the perception of such repatriation, could potentially build resentment among affected individuals and enhance al-Shabaab's appeal and recruitment efforts in Kenya. Since signing the agreement, it is reported that over 70,000 refugees have been repatriated. There can also be no assurance that repatriated persons will not seek to return to Kenya. Continued concerns that the Dadaab camp is a ground for recruiting Islamist militants led to the government's proposal to close the camp. However, in February 2017, the High Court ruled that the Kenyan Interior Ministry acted beyond its powers in issuing a directive to close the camp. The Dadaab camp currently remains open.

In addition, the Mombasa Republican Council, a separatist organisation based at the coastal town of Mombasa, has demanded that Mombasa secede from the rest of the country. The Council was formed in 1999 to address perceived historical injustice against the indigenous people of the coast who do not own land. The government believes that members of Mombasa Republican Council could potentially be a recruiting ground for al-Shabaab.

Anti-Terrorism Measures

The Prevention of Terrorism Act 2012, as amended, provides the legal framework to fight terrorism and gave law enforcers more powers to investigate and combat terrorism. In 2016, the government launched the National Strategy on Countering Violent Extremism, aimed at fostering greater engagement with religious and civil society groups, enhancing inter-agency coordination in counter-terrorism strategies and strengthening security operations, surveillance and border controls.

International Relations

WTO Membership

Kenya has been a member of the World Trade Organisation (the "**WTO**") since 1 January 1995. In connection with Kenya's WTO membership, the government is committed to supporting the progressive elimination of export subsidies as well as the substantial reduction of trade-distorting domestic support, whilst ensuring that it retains the right to support its own producers. As part of Kenya's goal of ensuring its citizens have access to foreign goods and services that are not readily available in the country, the government is committed to engage in successive WTO Services negotiations to improve market access in partner WTO countries.

United Nations

Kenya has been a member of the UN since independence. Kenya recognises the vital role of the UN in establishing and maintaining international peace and security, as well as in sustainable development and democratisation. Kenya continues to contribute military, police and corrections personnel to UN peace keeping operations, mostly in Africa. Kenya is currently involved in peacekeeping operations involved in Somalia, Sudan, South Sudan, Sierra Leone and Liberia.

World Bank and IMF

Kenya has been a member of the World Bank and the IMF since 1964. See "*Public Debt—Relations with the IMF*" for more information on Kenya's relationship with the IMF.

EU Relations

Kenya participates in political, trade and co-operation relations with the EU through the "Cotonou Agreement", the revised draft of which the EU and 79 countries in Africa, the Caribbean and the Pacific (the "**ACP**") signed in March 2010. The agreement has the objective of reducing and eventually eradicating poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy. The agreement is designed to establish a comprehensive partnership, based on three complementary pillars: development cooperation, economic and trade cooperation, and the political dimension.

Regional Relations

African Union. Kenya is an active member of the African Union (the "**AU**"), the successor of the Organisation of African Unity, which formally launched in July 2002 at a meeting in South Africa of African heads of state. The AU is modelled on the EU and has plans for a parliament, a central bank, a single currency, a court of justice and an investment bank. These plans include the Pan-African Parliament, which was inaugurated in March 2004 and has since held a number of sessions, although it does not yet play a legislative role.

AMISOM. AMISOM is an active regional peace support mission set up by the Peace and Security Council of the African Union with the full support of the UN. The principal aim of the mission is to provide support for the Federal Government of Somalia in its efforts to stabilise the country and foster political dialogue and reconciliation. AMISOM is also mandated to facilitate the delivery of humanitarian aid and create necessary conditions for the reconstruction and sustainable development of Somalia. AMISOM staff come from a wide range of nations across Africa, although a large number of its troops come from five countries: Uganda, Burundi, Djibouti, Kenya and Sierra Leone. AMISOM was created with an initial six-month mandate though subsequent renewals of its mandate by the AU Peace and Security Council and the UN Security Council have been authorised. UN Security Council resolution 2372 renewed the mandate of the troops to 31 May 2018. The resolution also approved a reduction of the size of AMISOM uniformed personnel to 21,626 as it plans for a gradual handover of responsibilities to Somali security forces.

East African Community. Kenya is also an active member of the East African Community ("**EAC**"). The EAC is a regional intergovernmental organisation of the Republics of Burundi, Kenya, Rwanda and Uganda and the United Republic of Tanzania. The Treaty for Establishment of the East African Community was signed on 30 November 1999 and entered into force on 7 July 2000 following its ratification by the original three partner states—Kenya, Tanzania and Uganda. Rwanda and Burundi acceded to the treaty on 18 June 2007 and became full members on 1 July 2007. In 2016, South Sudan became the sixth member of the EAC. The EAC aims at widening and deepening co-operation among its members in, among others, political, economic and social fields for their mutual benefit. The EAC countries established a customs union in 2005 and a common market in 2010. The common market comprises over 173 million people across six member states with a total GDP of approximately US$163 billion (according to separate IMF estimates for each member state in 2017). The next phase of EAC integration contemplates monetary union and a political federation of the member states.

The EAC customs union has assisted with the imposition of uniform competition policy and laws, customs procedures and external tariffs on goods imported from third countries, supporting the region to advance its economic development and poverty reduction agenda. The customs union has also promoted cross-border investment and served to attract investment into the region. As an enlarged market with minimal customs clearance formalities, it is more attractive to investors than the smaller markets of individual nations. In addition, the customs union offers a more predictable economic environment for both investors and traders across the region, as the regionally administered Common External Tariff and trade policy tend to be more stable.

Benefits of the single market include common and coordinated policies that increase efficiency especially in those countries that are behind in instituting good policies. In addition, the common regulatory regime and frameworks of a single market ensure that best practice within the regional framework are not only instituted but are also observed.

On 30 November 2013, the protocol on monetary union was signed by the member states, establishing a target to have a unified currency by 2023. subsequently leading to creation of a regional central bank and single currency regime within the region. The benefits expected from the single currency include price harmonisation, elimination of exchange rate risk, economies of international reserves and overall reduction in transaction costs among the member countries.

Kenya has benefited from EAC integration, with trade in goods and services increasing since the launch of the customs union. In 2016, EAC member states (excluding South Sudan) accounted for 21.1 per cent. of Kenya's total exports, with Uganda as the leading destination within the EAC, accounting for approximately 51.1 per cent. of exports to the EAC.

In order to enhance trade within the EAC, member states have been addressing issues relating to movement of goods and services. Recently, the heads of state of Kenya, Uganda and Rwanda launched a project to revamp the existing railway from the port of Mombasa to Nairobi extending to Kampala, Uganda, which also is expected to have links to Kigali, Rwanda. The government has commenced building a new railway, road and pipeline as part of the Lamu Port-Southern Sudan-Ethiopia Transport ("**LAPSSET**") corridor project from Lamu, Kenya to South Sudan, which also is expected to have a connection to Ethiopia. The EAC member states expect these infrastructure projects to boost trade and economic integration among the members. The three member states also launched the single customs territory that saw the reduction of transit time for goods from Mombasa port to Kigali from 22 days to eight, and to Kampala from 18 days to five days.

Somalia and Ethiopia have expressed interest in joining the EAC.

COMESA. Kenya attaches great significance to COMESA, as it provides a market for its manufactured products. The COMESA region is a vibrant economic area and membership in the free trade area was launched in October 2000, and has since been a catalyst to increased trade and investment. The COMESA member states are Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

Currently, COMESA is the leading destination of Kenya's exports, constituting over 29.0 per cent. of total exports in 2016. Kenya's exports to COMESA increased by 5.4 per cent. from KES170.0 billion in 2014 to KES179.1 billion in 2015. In 2016, Kenya's exports to COMESA decreased by 4.9 per cent. from KES179.1 billion in 2015 to KES170.2 billion in 2016. Kenya's primary exports to COMESA include tea, cement, natural sodium carbonate, iron and steel bars and cigarettes. Kenya now hosts a number of COMESA institutions which include, the Monetary Institute, ZEP-RE (re-insurance company) and COMESA reference laboratory for plant health at the Kenya Plant Health Institute.

Within the framework of EAC and COMESA, Kenya has been negotiating the Tripartite, an umbrella of organisations consisting of three of Africa's regional economic communities, which are EAC, COMESA and South African Development Community ("**SADC**"). The first Tripartite summit was held on 22 October 2008 in Kampala, Uganda, and the heads of state conveyed in their communiqués a sense of urgency for the establishment of single free trade area covering the 26 countries of COMESA, EAC and SADC. The third Tripartite Summit was held in Sharm El Sheikh, Egypt, on 10 June 2015, in order to officially launch the Tripartite Free Trade Area ("**TFTA**"). The Tripartite Summit gave member states an initial deadline of June 2016 to conclude outstanding negotiations on rules of origin, trade remedies and tariff offers. However, the June 2016 deadline was not met and was postponed to April 2017, and subsequently to October 2017. As at the date of this Prospectus, the TFTA Agreement has been signed by 22 of the 26 member countries.

The objective of the Tripartite is to contribute to the broader objectives of the AU, namely accelerating economic integration of the continent and achieving sustainable economic development, thereby reducing poverty and improving the quality of life for the people of Eastern and Southern Africa. The Tripartite works towards harmonisation of the various regional integration programmes of its member regional economic communities. These regional integration programmes focus on expanding and integrating trade and include the establishment of a free trade area, a customs union, a monetary union, and a common market; as well as infrastructure development projects in transport, information, communication, technology and energy sectors. Kenya is expected to benefit from the Tripartite framework due to an increased market for goods and services as well as increased investments with member states.

Nile Water Agreement of 1929. The Nile Water Agreement of 1929 grants Egypt the majority share of the Nile River's waters. Under the treaty, Egypt is guaranteed access to 55.5 billion cubic metres of water out of a total of 84 billion cubic metres. To forestall any potential disputes, the Nile Basin Initiative was formally launched in February 1999 by the water ministers of nine countries that share the river—Egypt, Sudan, Ethiopia, Uganda, Kenya, Tanzania, Burundi, Rwanda and the Democratic Republic of Congo, with Eritrea as an observer. The Nile Basin Initiative is a partnership among the Nile riparian states that "seeks to develop the river in a cooperative manner, share substantial socioeconomic benefits, and promote regional peace and security". The Nile Basin Initiative has ten member states—Burundi, the Democratic Republic of Congo, Egypt, Ethiopia, Kenya, Rwanda, South Sudan, Sudan, Tanzania and Uganda. Eritrea is an observer.

Relations with Neighbouring Countries

South Sudan. South Sudan remains a country with special links to Kenya premised on cultural, social, political, economic and other strategic factors. Culturally, the border communities share languages and traditions. Kenya hosted many of South Sudan's refugees during its struggle for independence. However, when South Sudan achieved independence in 2005, some of the refugees returned to South Sudan. The foregoing factors have contributed to the close relations both between the governments and the people of the two countries.

Kenya also helped the negotiation processes between South Sudan and Sudan leading to the creation of South Sudan. This process included the signing of the Comprehensive Peace Agreement in Nairobi in January 2005. Following the independence of South Sudan, the two countries agreed on several initiatives aimed at strengthening and formalising relations. As a priority area, Kenya supported South Sudan in establishing its new government system. Kenya also strongly supports the African Union process led by the High Level Implementation Panel aimed at securing permanent and conclusive solutions to the pending issues between Sudan and South Sudan including, resolution over the disputed area of Abyei and the border dispute between South Sudan and Sudan.

When internal conflict broke out in South Sudan in December 2013, some South Sudanese refugees returned to Kenya. In January 2014, under an African Union initiative, Kenya was designated to receive political prisoners as a precondition to the cessation of hostilities between Sudan and South Sudan.

Kenya continues to support South Sudan in developing a stable, prosperous and peaceful state. Some Kenyan citizens currently reside and work in South Sudan. A new 1,800 kilometre railway and a road and pipeline under the LAPSSET project are expected to be built from Lamu, Kenya to South Sudan, which also will have a connection to Ethiopia, and mobilisation of funds are underway. See "*The Economy—Major Infrastructure Projects—Development of the Lamu Port-Southern Sudan-Ethiopia Transport Corridor*".

Additionally, given South Sudan's position as an immediate neighbour with Kenya and its ensuing participation in East African development projects, the government expects relations between the two countries to be strengthened in various strategic fields of national development.

Sudan. Kenya maintains diplomatic relations with Sudan and, as a COMESA member state, Kenya maintains an ordinary course trading relationship with Sudan and expects to continue to do so.

Somalia. Kenya has good relations with the Somalia Federal Government. The launch of the Joint Commission of Cooperation in June 2013 aims to boost bilateral ties as well as provide a platform for the economic and technical cooperation between Kenya and Somalia. Following the conflict in Somalia in October 2011, Kenya intervened to help stabilise, promote peace and reconciliation in the war torn country, which has contributed to good bilateral relations between the two countries. In addition, Kenya is involved in regional peace initiatives in Somalia and has contributed troops to the AMISOM peacekeeping forces in Somalia.

Uganda. Kenya has good relations with Uganda, Kenya's largest export destination. Exports to Uganda totalled US$671 million in 2014, US$670 million in 2015 and US$607 million in 2016. There is a large population of Kenyan students in Uganda.

Ethiopia. Kenya has good relations with Ethiopia. Kenya plans to import electricity from Ethiopia under the Eastern Electricity Highway Project, a project that aims to connect Ethiopia's electrical grid with Kenya's and allow Ethiopia to sell its surplus power to Kenya. In addition, the new railway, road and pipeline under the LAPSSET project expected to be built from Lamu, Kenya to South Sudan are also expected to have a connection to Ethiopia. The government has secured financing and the projects are ongoing. See "*The Economy—Major Infrastructure Projects— Development of the Lamu Port-Southern Sudan-Ethiopia Transport Corridor"*.

Tanzania. Kenya has good relations with Tanzania. Exports to Tanzania totalled US$472 million in 2014, US$329 million in 2015 and US$340 million in 2016. Imports from Tanzania totalled US$203 million in 2014, US$165 million in 2015 and US$125 million in 2016.

THE ECONOMY

Background and Economic History

Kenya is the largest economy in East Africa and is a regional financial and transportation hub. After independence, Kenya promoted rapid economic growth through public investment, encouraged smallholder agricultural production and provided incentives for private (often foreign) industrial investment.

Kenya has experienced continued growth in GDP over the last few years. Real GDP grew 5.4 per cent. in 2014, 5.7 per cent. in 2015 and 5.8 per cent. in 2016. Real GDP grew by 4.7 per cent. in the nine months ended 30 September 2017. The government attributes this growth largely to continued growth in the agriculture, construction and real estate sectors. The World Bank has forecasted Kenya's GDP growth to be 5.8 per cent. in 2018.

Vision 2030

In 2007, the government announced "Vision 2030" as its long-term plan for attaining middle income status as a nation by 2030. In line with Vision 2030, the government prepares successive MTPs that outline the policies, programmes and projects that the government intends to implement over a five year period. The first MTP covered the period from 2008 to 2012, with the second MTP covering the 2013 to 2017 period. The current MTP is the third MTP, which covers the 2018 to 2022 period.

The First MTP

In the initial year of the first MTP, a number of projects aimed at national healing and reconciliation following the post-election violence were implemented. Repair of damaged infrastructure, assistance to affected small scale businesses and resettlement of internally displaced persons were all undertaken in order to raise GDP growth (which fell to 1.5 per cent. in 2008) and to promote national reconciliation.

Up to the year 2012, progress recorded under the first MTP included the following:

- enrolment in early childhood education increased by 40 per cent. from 1.72 million in 2008 to 2.4 million;
- transition rate from primary to secondary education increased from 64 per cent. in 2008 to 77 per cent.;
- the number of students enrolled in university education increased by 103 per cent. from 118,239 in 2008 to 240,551;
- a total of 2,200 km of roads were constructed exceeding the MTP target of 1,500 km;
- three undersea submarine fibre optic networks linking Kenya to the global internet networks were completed including 5,500 km of terrestrial fibre optic network;
- total installed capacity for generation of electricity increased by 22 per cent.; and
- enactment of the Constitution.

The Second MTP

The government announced the second MTP of Vision 2030 in October 2013. The second MTP gave priority to devolution as specified in the Constitution and to more rapid socio-economic development with equity as a tool for building national unity. The second MTP also aimed to build on the successes of the first MTP, particularly in increasing the scale and pace of economic transformation through infrastructure development, and places strategic emphasis on priority sectors under the economic and social pillars of Vision 2030. Under the second MTP, transformation of the economy was focused on rapid economic growth on a stable macro-economic environment, modernisation of infrastructure, diversification and commercialisation of agriculture, food security, a higher contribution of manufacturing to GDP, wider access to African and global markets, wider access for Kenyans to better quality education and health care, job creation targeting unemployed youth, provision of better housing and provision of improved water sources and sanitation to Kenyan households.

The economic pillar in the second MTP focused on six priority sectors: tourism; agriculture, livestock and fisheries; trade; manufacturing; financial; information technology; and a recently added seventh priority sector, oil and other minerals.

The key aims under each of the priority sectors of second MTP included:

- Tourism: to turn Kenya into a top 10 long haul tourist destination in the world, by marketing new high- end tourist segments like business, cultural and ecological tourism, constructing new coastal and upcountry resort cities and opening more five-star hotels to improve the standards of tourist accommodation and facilities;
- Agriculture, livestock and fisheries: to increase irrigation in order to reduce the country's dependence on rain fed agriculture, mechanise agricultural production, revive cooperatives and farmers unions and subsidise farm inputs to raise productivity;
- Trade: to reinforce regional and international economic partnerships;
- Manufacturing: to increase the sector's contribution to Kenya's nominal GDP and foreign exchange earnings by establishing three special economic zones targeting manufacturing in Mombasa, Kisumu and Lamu, building clusters for meat and leather products, strengthening the dairy sector and developing industrial and SME parks that will provide linkages to other sectors such as agriculture and services;
- Financial: to enhance access, efficiency, and stability to financial markets to create a globally competitive financial sector that will create jobs and promote high levels of savings to finance Kenya's overall investment needs;
- Information technology: to enable universal access to ICT, develop digital content, promote e-government services and encourage the establishment of more ICT based industries; and
- Oil and other minerals: to develop the policy, legal and institutional framework for the exploitation and management of Kenya's natural resources, enact legislation for transparency and fair sharing of the revenue generated and erect safeguards to protect the environment.

Although the second MTP targeted achievement of 10 per cent. real GDP growth by 2017, the economy recorded growth rates of 5.4, 5.7 and 5.8 per cent. in 2014, 2015 and 2016, respectively. Among the reasons for lower than projected growth include security concerns which impacted investment and other key sectors such as tourism, a slowdown in the growth of the manufacturing sector as a result of cheaper imports of manufactured products and reduced share of Kenya's manufactured exports in the regional market, adverse weather patterns which affected growth of the agricultural sector, high bank lending rates and subsequent caps on interest rates and slow uptake of public-private partnership projects. Adverse global and market conditions, such as financial market volatility and falling commodity prices, also played a part in contributing to lower than projected GDP growth rates.

Other key achievements under the second MTP include:

- total installed capacity for generation of electric power increased by 38 per cent., from 1,690 MW in 2012 to 2,341 MW in 2016;
- significant progress on infrastructure projects, with the first phase of the Standard Gauge Railway line from Mombasa to Nairobi and the second container terminal at the port of Mombasa completed, as well as a total 1,304 km of new roads built;
- internet users increased by 125 per cent. from 16 million users in December 2012 to an estimated 36 million users in December 2015;

- achievements in the health sector, including improved access to safe drinking water from approximately 53 per cent. of the population in 2013/14 to 58 per cent. in 2015/16 and a decline in the infant mortality rate, from 52 to 39 deaths per 1,000 births; and

- a total of 74 oil exploration wells were drilled by 2015 under the second MTP, and 36 blocks were licensed to 18 international oil companies. In addition, the national petroleum data centre was established to enable archival and retrieval of exploration and production data;

The Third MTP

The government announced the third MTP of Vision 2030 in March 2017, covering the 2018 to 2022 period. The third MTP will carry forward and complete the programmes and projects initiated during the second MTP. It also aims to achieve high inclusive and broad based economic growth. A key objective of the third MTP is to include policies, programmes and projects aimed at meeting the Sustainable Development Goals, which replaced the Millennium Development Goals from January 2016.

Over the next four years, the government of Kenya aims to focus on the Big Four Plan to further strengthen the economy, progress industrialization and create jobs, thereby contributing towards the realisation of the Vision 2030. The Big Four Plan is built on the following four key pillars:

- growing the manufacturing sector's share of GDP to 15 per cent. by 2022, thereby furthering growth, creating jobs and reducing poverty;

- focusing on food security and nutrition to all Kenyans by 2022 by expanding food supply, reducing prices and supporting value addition;

- providing universal health coverage to all Kenyans; and

- providing at least 500,000 affordable new homes by 2022.

The government further plans to create an environment in which the private sector can thrive, supporting the micro, small and medium enterprises sector, fighting corruption, expanding infrastructure, implementing business regulatory reforms, expanding access to finance and government reforms. The government will create a High Speed Public Private Partnership Unit to engage the private sector to implement projects under the Big Four Plan. The government is committed to growing revenues while reducing non-priority expenditures. Expenditure priorities include expenditures in relation to employment, health coverage, food security and affordable housing and expenditures to other critical sectors, such as education, energy and infrastructure, will remain protected.

Key priorities of the third MTP include:

- to develop infrastructure and enable the environment to support the country's oil and gas and other mineral resources sector;

- to develop the maritime sector by enhancing technical cooperation, maritime spatial planning and integrated coastal zone management, protecting and regulating the marine ecosystem, enhancing the sustainable exploitation of agro based marine resources and developing fishing ports and associated infrastructure;

- to irrigate 1.3 million acres of land and increase value addition of agricultural products;

- to build domestic capacity and capabilities, especially in engineering and construction, through local and overseas training and cooperation and joint ventures with leading foreign construction and technology firms;

- to progressively achieve universal access to water and sanitation, by building approximately 200,000 additional water connections and 350,000 new sewer connections annually;

- to create sustainable employment opportunities and green jobs, build a skilled, adaptive and enterprising labour force, improve labour market efficiency through strengthening the labour administration system and promoting public-private partnerships in employment creation, as well as establishing more youth polytechnics and technical and vocational education and training institutions to impart the requisite technical skills; and

- to prevent corruption, improve governance and accountability, deepen public sector reforms, strengthen the capacity of county governments and coordination between national and county governments.

Among the emerging challenges, climate change impacts continue to exert negative effects on key sectors of the economy and may stunt long-term economic growth prospects as well as the ability to meet the targets set in Vision 2030. Priority will therefore be given to effectively mainstream and integrate climate change measures in the third MTP. The government has already taken steps towards developing key policy documents and legislation including the Climate Change Act (2016), National Climate Change Framework Policy, National Climate Change Action Plan and National Climate Change Response Strategy.

2014 Rebase of GDP

In September 2014, Kenya National Bureau of Statistics rebased its national accounts, changing the base year from 2001 to 2009, and revised the annual and quarterly national accounts statistics for the period 2006 to 2013. Kenya National Bureau of Statistics applied the System of National Accounts 2008 and the ISIC revision 4 system to compile the rebased GDP estimates. The System of National Accounts is the internationally agreed standard set of recommendations on how to compile measures of economic activity, and ISIC is the international standard for the classification of productive economic activities. This revision is the sixth time that Kenya has revised the national account statistics. The first revision was carried out in 1957 and subsequent revisions were carried out in 1967, 1976, 1985 and 2005. The UN Statistical Commission recommends that countries rebase every five years. Rebasing enables economic estimates to better understand the current structure of the economy and sectoral growth drivers and to better reflect the performance of the most important parts of the economy. For example, the rebasing in 2014 allowed the government to account for changes in production structure, relative product prices and products. These measures have led to changes in the size of GDP, growth rates, contributions by sector and related indicators that use GDP.

GDP

The following table sets out Kenya's nominal GDP by economic sector for the periods presented.

	Year ended 31 December			Nine months ended 30 September	
Industry	**2014**	**2015**	**2016**	**2016**	**2017[(1)]**
			(*KES millions*)		
Agriculture	1,482,840	1,900,965	2,334,147	1,911,519	2,379,127
Mining and quarrying	44,936	54,806	59,402	42,978	40,727
Manufacturing	537,999	589,597	657,950	503,277	529,383
Electricity and water supply	97,292	136,170	171,822	127,898	150,566
Construction	262,090	309,046	359,656	261,858	281,338
Wholesale and retail trade	431,985	473,119	520,483	387,347	444,523
Accommodation and restaurant	49,151	49,389	51,501	37,389	42,234
Transport and storage	462,457	518,043	563,684	405,416	436,107
Information and communication	65,592	60,485	68,853	48,156	54,523
Financial and insurance activities	366,764	423,540	504,688	366,946	382,883
Public administration	243,526	267,675	290,280	213,688	240,187
Professional, admin and support	113,059	119,703	127,776	93,557	100,618
Real estate	417,829	474,388	532,644	391,818	446,408
Education	279,543	308,424	312,971	238,820	255,078
Health	91,969	107,936	119,537	87,420	96,393
Other services	70,086	78,197	84,390	63,073	64,483
Financial Intermediation Services Indirectly Measured	(134,588)	(163,233)	(202,720)	(148,497)	(152,453)
All economic activities	**4,882,532**	**5,708,251**	**6,557,064**	**5,032,665**	**5,797,370**
Taxes on products	519,878	552,396	601,629	446,669	497,316
GDP at market prices	**5,402,410**	**6,260,646**	**7,158,694**	**5,479,333**	**6,294,686**

Notes:
(1) Provisional.
Source: Kenya National Bureau of Statistics.

The following table sets out each economic sector's contribution to Kenya's nominal GDP for the periods presented.

Industry	Year ended 31 December 2014	2015	2016	Nine months ended 30 September 2016	2017(1)
			(*per cent. contribution*)		
Agriculture	27.4	30.4	32.6	34.9	37.8
Mining and quarrying	0.8	0.9	0.8	0.8	0.6
Manufacturing	10.0	9.4	9.2	9.2	8.4
Electricity and water supply	1.8	2.2	2.4	2.3	2.4
Construction	4.9	4.9	5.0	4.8	4.5
Wholesale and retail trade	8.0	7.6	7.3	7.1	7.1
Accommodation and restaurant	0.9	0.8	0.7	0.7	0.7
Transport and storage	8.6	8.3	7.9	7.4	6.9
Information and communication	1.2	1.0	1.0	0.9	0.9
Financial and insurance activities	6.8	6.8	7.1	6.7	6.1
Public administration	4.5	4.3	4.1	3.9	3.8
Professional, admin and support	2.1	1.9	1.8	1.7	1.6
Real estate	7.7	7.6	7.4	7.2	7.1
Education	5.2	4.9	4.4	4.4	4.1
Health	1.7	1.7	1.7	1.6	1.5
Other services	1.3	1.2	1.2	1.2	1.0
Financial Intermediation Services Indirectly Measured	(2.5)	(2.6)	(2.8)	(2.7)	(2.4)
All economic activities	**90.4**	**91.2**	**91.6**	**91.8**	**92.1**
Taxes on products	9.6	8.8	8.4	8.2	7.9
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:
(1) Provisional.
Source: Kenya National Bureau of Statistics.

The following table sets out Kenya's real GDP by economic sector for the periods presented at constant 2009 prices.

Industry	Year ended 31 December 2014	2015	2016	Nine months ended 30 September 2016	2017(1)
			(*KES millions*)		
Agriculture	854,599	901,197	937,187	755,093	761,214
Mining and quarrying	37,235	41,854	45,827	34,332	36,780
Manufacturing	413,281	427,972	442,829	337,059	345,186
Electricity and water supply	92,287	100,153	107,242	81,534	85,912
Construction	185,696	211,430	230,983	168,993	180,621
Wholesale and retail trade	294,357	311,667	323,566	243,386	253,343
Accommodation and restaurant	43,657	43,086	48,803	33,856	37,993
Transport and storage	254,358	274,731	297,820	215,995	232,889
Information and communication	139,623	149,969	164,487	110,958	121,970
Financial and insurance activities	229,819	251,377	268,651	201,804	209,799
Public administration	149,556	157,740	166,069	125,455	132,926
Professional, admin and support	90,073	92,286	96,248	70,530	74,311
Real estate	311,148	333,537	362,724	269,061	294,023
Education	268,359	280,540	298,331	223,658	235,846
Health	68,728	72,912	77,160	56,801	59,334
Other services	49,905	51,827	53,986	40,402	41,172
Financial Intermediation Services Indirectly Measured	(96,763)	(109,821)	(113,092)	(84,635)	(85,590)
All economic activities	**3,385,921**	**3,592,457**	**3,808,822**	**2,884,284**	**3,017,728**
Taxes on products	456,111	469,085	490,265	359,337	377,990
GDP at market prices	**3,842,032**	**4,061,542**	**4,299,087**	**3,243,621**	**3,395,717**

Notes:
(1) Provisional.
Source: Kenya National Bureau of Statistics.

The following table sets out Kenya's real GDP growth by economic sector for the periods presented.

Industry	Year ended 31 December 2014	2015	2016	Nine months ended 30 September 2016	2017(1)
			(*per cent. change*)		
Agriculture	4.3	5.5	4.0	5.0	0.8
Mining and quarrying	14.9	12.4	9.5	8.9	7.1
Manufacturing	2.5	3.6	3.5	3.8	2.4
Electricity and water supply	6.1	8.5	7.1	7.9	5.4
Construction	13.1	13.9	9.2	8.4	6.9
Wholesale and retail trade	6.9	5.9	3.8	3.4	4.1
Accommodation and restaurant	(16.8)	(1.3)	13.3	12.9	12.2
Transport and storage	5.5	8.0	8.4	7.5	7.8
Information and communication	14.5	7.4	9.7	9.6	9.9
Financial and insurance activities	8.3	9.4	6.9	7.8	4.0
Public administration	5.6	5.5	5.3	5.8	6.0
Professional, admin and support	3.2	2.5	4.3	4.2	5.4
Real estate	5.6	7.2	8.8	8.5	9.3
Education	7.8	4.5	6.3	6.3	5.4
Health	(72.4)	6.1	5.8	6.3	4.5
Other services	4.2	3.9	4.2	4.6	1.9
Financial Intermediation Services Indirectly Measured	11.3	13.5	3.0	5.0	1.1
All economic activities	**5.6**	**6.1**	**6.0**	**6.1**	**4.6**
Taxes on products	3.4	2.8	4.5	2.7	5.2
GDP at market prices	**5.4**	**5.7**	**5.8**	**5.7**	**4.7**

Notes:
(1) Provisional.
Source: Kenya National Bureau of Statistics

Principal Sectors of the Economy

Agriculture

The agriculture sector was the largest contributor to the Kenyan economy in 2016. The four subsectors of the agriculture sector are crops and horticulture, livestock, agricultural and husbandry services, and forestry and logging. Real GDP in the agricultural and forestry sector grew by 5.5 per cent. in 2015 from KES854,599 million in 2014 to KES901,197 in 2015. The sector grew by a further 4.0 per cent. to KES937,187 million in 2016. In the nine months ended 30 September 2017, real GDP growth in the agriculture sector was 0.8 per cent., as compared to the nine months ended 30 September 2016.

The agriculture sector accounted for 27.4, 30.4 and 32.6 per cent. of nominal GDP in 2014, 2015 and 2016, respectively. For the nine months ended 30 September 2017, the sector accounted for 37.8 per cent. of nominal GDP, compared to 34.9 per cent. for the nine months ended 30 September 2016.

The following table sets out the agriculture sector’s output and input values at current and constant prices for the periods presented.

	Year ended 31 December 2014	2015	2016(1)
		(*KES millions*)	
Production At Current Prices			
Output at basic prices	1,639,530	2,087,384	2,566,348
Intermediate consumption	267,570	306,363	356,937
Value added at basic prices, gross	1,371,960	1,781,021	2,209,411
Production Constant Prices			
Output	983,176	1,046,190	1,096,297
Intermediate consumption	193,542	208,457	221,512
Value Added, Gross	789,634	837,733	874,785

Notes:
(1) Provisional
Source: Kenya National Bureau of Statistics

The following table sets out the value of recorded marketed production at current prices in the agricultural sector for the periods indicated.

	Year ended 31 December		
	2014	**2015**	**2016[(1)]**
		(*KES millions*)	
Cereals			
Maize	9,604.4	8,506.0	7,891.2
Wheat	7,618.0	8,198.2	8,028.1
Others	7,720.8	7,488.5	7,266.2
Total	**24,943.2**	**24,192.7**	**23,185.4**
Horticulture[(2)]			
Cut flowers	59,893.1	62,937.5	70,829.5
Vegetables	18,780.6	62,937.5	23,366.8
Fruits	5,410.6	6,561.8	7,317.3
Total	**84,084.3**	**90,438.8**	**101,513.5**
Temporary Industrial Crops			
Sugar-cane	20,294.5	22,397.1	23,917.2
Pyrethrum	61.1	51.0	37.9
Others	1,438.9	1,516.8	1,470.4
Total	**21,794.5**	**23,964.9**	**25,425.5**
Permanent Crops			
Coffee	16,634.4	12,074.7	16,192.3
Tea	84.854.6	118,391.2	116.547.3
Sisal	2,944.8	3,595.0	4,176.8
Total	**104,433.6**	**134,060.9**	**136,916.3**
Total crops	**235,255.7**	**272,657.4**	**287.040.8**
Livestock and Products			
Cattle and Calves	59,272.8	66,216.7	84,701.2
Dairy Produce	18,785.	21,205.4	23,020.1
Chicken and eggs	7,440.7	6,005.9	8,788.4
Others	12,490.7	7,416.7	8,489.3
Total	97,989.2	100,844.7	124,999.0
Grand total	**333,245.0**	**373,502.1**	**412,039.8**

Notes:
(1) Provisional.
(2) Data refers to fresh horticultural exports only.
Source: Kenya National Bureau of Statistics

The overall marketed production of the agriculture sector increased by 12.1 per cent. from KES333,245.0 million in 2014 to KES373,502.1 million in 2015, and further increased by 10.3 per cent. to KES412,039.8 million in 2016. Increased production during 2016 occurred in livestock and key crops like vegetables, coffee and sugar cane, while maize, wheat and tea, recorded slight declines in production. Marketed production of coffee decreased by 29.0 per cent. in 2013 due mostly to the decline in international coffee prices.

The value of marketed maize production decreased by 7.2 per cent. from KES8,506.0 million in 2015 to KES7,891.2 million in 2016, while the value of marketed wheat declined by 2.1 per cent. from KES8,198.2 million to KES8,028.1 million during the same period, as a result of lower marketed volumes resulting from the drought in the fourth quarter of 2016. Value of marketed sugar-cane increased by 6.7 per cent. in 2016, while that of marketed coffee increased by 33.9 per cent. Improved prices of sugarcane and coffee, coupled with increased marketed volumes for coffee resulted in the increased earnings. The marketed production of livestock and its products increased by 24.0 per cent. in 2016, with all subsectors recording growth.

As part of the Big Four Plan, the government is targeting food security and proper nutrition for all citizens by 2022. To achieve this, the government's strategy focuses on three broad area, namely, enhancing large scale production, boosting small farming productivity and reducing the cost of food. Some of the key measures in the agriculture and forestry sector include:

- place an additional 700,000 acres through public private partnerships to increase maize, potato and rice production;
- expand irrigation schemes and secure additional water towers and protect river ecosystems;
- enhance crop and livestock insurance to encourage small scale farming and protect farmers against climate-related risks;
- lease government-owned idle agricultural land;
- establish 1,000 SMEs focussed on food processing to improve value addition; and
- eliminate multiple taxation in the agricultural value chain across counties.

Manufacturing

The manufacturing sector was the second largest contributor to the economy in 2016. In terms of employment generation, the government estimates that the sector employed approximately 300,800 persons in 2016, an increase of 1.8 per cent. from 2015. Real GDP in the manufacturing sector grew by 3.6 per cent. from KES413,281 million in 2014 to KES427,972 million in 2015 and grew a further 3.5 per cent. to KES442,829 million in 2016. In the nine months ended 30 September 2017, real GDP growth in the manufacturing sector was 2.4 per cent., as compared to the nine months ended 30 September 2016.

The manufacturing sector accounted for 10.0, 9.4 and 9.2 per cent. of nominal GDP in 2014, 2015 and 2016, respectively. The sector accounted for 9.2 and 8.4 per cent. of nominal GDP in the nine months ended 30 September 2016 and 2017, respectively.

The following table sets out the quantum index of manufacturing production using 2009 as the base year (Base 2009 = 100).

	At 31 December		
	2014	**2015**	**2016(1)**
Meat and meat products	108.3	118.3	131.2
Processed and preserved fish	86.7	67.8	61.0
Prepared and preserved fruits and vegetables	100.9	103.6	112.7
Vegetables and animal oils and fats	128.2	133.6	135.5
Dairy products	156.8	169.7	175.1
Grain mill products	148.5	159.7	165.4
Bakery products	152.3	164.6	163.1
Sugar	108.2	115.3	116.5
Cocoa, chocolate and sugar confectionery	137.4	166.3	173.9
Food products MPC	136.2	121.5	139.4
Animal feeds	132.2	138.2	140.7
Total food products	**132.5**	**134.5**	**143.2**
Beverages	110.8	138.7	146.4
Tobacco products	144.0	137.6	115.4
Beverages and tobacco	**116.5**	**138.5**	**141.1**
Textiles	113.9	129.9	130.3
Wearing apparel	172.9	196.8	230.6
Leather and related products	118.6	103.5	111.2
Wood and products wood and cork except furniture	132.4	138.5	121.9
Paper and paper products	140.1	140.3	152.6
Printing and reproduction of recorded media	99.3	99.2	99.2
Refined petroleum products	0.0	0.0	0.0
Chemical and chemical products	125.3	134.6	136.5
Pharmaceuticals products	295.9	362.8	416.0
Rubber products	93.1	78.4	59.3
Plastic products	123.6	140.9	152.8
Rubber and plastics products	**118.6**	**130.7**	**137.6**
Other non-metallic mineral products	156.1	169.9	179.5
Basic Metals	152.7	150.9	169.7
Fabricated metal products except machinery and equipment	175.1	163.8	147.8
Electrical equipment	145.1	154.6	159.9
Machinery and equipment n.e.c	77.1	42.6	37.7
Motor vehicles, trailers and semi-trailers	161.4	171.0	125.2
Manufacture of furniture	211.0	258.5	259.8
Other manufacturing M.P.C	174.6	210.1	211.8
Repair and installation of machinery and equipment	117.8	122.0	122.0
Total Manufacturing	**139.0**	**146.5**	**153.7**

Notes:
(1) Provisional
Source: Kenya National Bureau of Statistics

The overall manufacturing quantum index increased by 4.9 per cent. in 2016, compared to 5.4 per cent. in 2015. In 2016, sectors that improved included meat and meat products, prepared and preserved fruits and vegetables, wearing apparel, pharmaceutical products, and basic metals which grew by 10.9, 8.8, 17.2, 14.7 and 12.5 per cent., respectively. However, there was a decline of 10.0 per cent. processed and preserved fish, a decline of 16.2 per cent. in tobacco products and a decline of 24.4 per cent. in rubber products and a 26.7 per cent. decline in motor vehicles, trailers and semi-trailers production.

Export Processing Zones (each, an "**EPZ**") are specific areas that the government establishes to promote, attract and facilitate investment in industrial and commercial exports. The zones enjoy incentives such as exemptions from certain taxes and business regulations. The number of enterprises operating under the EPZ increased from 89 in 2015 to 91 in 2016. During 2016, the number of gazetted zones increased to 65 from 56 in 2014, with only three zones being public while the others are owned and operated privately.

The value of sales from the EPZ enterprises increased to KES68.7 billion in 2016 from KES64.9 billion in 2015. The value of exports from the EPZ increased from KES60.9 billion in 2015 to KES63.1 billion in 2016. Domestic sales (including sales to duty free shops and agencies) accounted for 8.1 per cent. of the total sales in 2016 at KES5.6 billion. During 2016, local purchases of goods and services increased to KES10.3 billion from KES8.8 billion recorded in 2015.

Wholesale and Retail Trade

The wholesale and retail trade sector was the fifth largest contributor to the economy in 2016. This sector includes wholesale and retail sales (i.e., sale without transformation of any type of goods and the rendering of services incidental to the sale of these goods, including maintenance and repairs of motor vehicles and motorcycles). Wholesaling and retailing are the final steps in the distribution of goods.

Real GDP in the wholesale and retail trade sector grew by 5.9 per cent. from KES294,357 million in 2014 to KES311,667 million in 2015 and grew by a further 3.8 per cent. in 2016 to KES323,566 million. In the nine months ended 30 September 2017, real GDP growth in the wholesale and retail trade sector was 4.1 per cent., as compared to the nine months ended 30 September 2016.

The wholesale and retail trade sector accounted for 8.0, 7.6 and 7.3 per cent. of nominal GDP in 2014, 2015 and 2016, respectively. The sector accounted for 7.1 per cent. of nominal GDP in the nine months ended 30 September 2016 and 2017.

Transport and Storage

The transport and storage sector comprises land transport, air transport including support services and all other transport including postal and courier activities. The transport and storage sector was the third largest contributor to the economy in 2016.

Real GDP in the transport and storage sector grew by 8.0 per cent. from KES254,358 million in 2014 to KES274,731 million in 2015 and grew a further 8.4 per cent. to KES297,820 million in 2016. In the nine months ended 30 September 2017, real GDP growth in the transport and storage sector was 7.8 per cent., as compared to the nine months ended 30 September 2016.

The transport and storage sector accounted for 8.6, 8.3 and 7.9 per cent. of nominal GDP in 2014, 2015 and 2016, respectively. The sector accounted for 7.4 and 6.9 per cent. of nominal GDP in the nine months ended 30 September 2016 and 2017, respectively.

The following table sets out the value of output for various transport and storage subsectors for the periods presented.

	Year ended 31 December		
	2014	**2015**	**2016(1)**
		(*KES millions*)	
Road Transport	595,726	628,986	667,051
Railway Transport	5,357	6,282	5,662
Water Transport	49,840	55,712	58,807
Air Transport	139,912	146,896	156,185
Services Incidental to Transport	54,097	68,246	83,996
Pipeline Transport	21,030	22,210	22,982
Postal and Courier Services	27,179	27,925	28,185
Total	**893,141**	**956,257**	**1,022,868**

Notes:
(1) Provisional.
Source: Kenya National Bureau of Statistics

The transport and storage sector's total output value increased from KES893.1 billion in 2014 to KES956.3 billion in 2015 and increased to KES1,022.8 billion in 2016, representing a growth of 7.1 per cent. and 7.0 per cent. in 2015 and 2016, respectively. The road transport subsector accounted for 65.2 per cent. of the total value of output in 2016. The output value for road transport recorded growth of 6.1 per cent. in 2016 while the value of output for railway transport decreased by 10.0 per cent. In 2016, the value of output for air transport registered growth of 6.3 per cent. to KES156.2 billion compared to a growth of 5.0 per cent. in 2015. The value of output of water transport grew by 5.7 per cent. to stand at KES58.8 billion in 2016, while the value of output of pipeline transport grew by up 3.5 per cent. to KES23.0 billion in 2016. The output value of postal and courier services expanded marginally by 0.9 per cent. in 2016. The value of services incidental to transport increase by 23.1 per cent. in 2016.

Financial and Insurance Activities

The financial and insurance activities sector recorded the eighth highest rate of growth in the economy during 2016. The financial intermediation sector comprises institutions that carry out banking and similar activities, insurance and pension funds and auxiliary financial activities. Broad money supply (M3) grew by 3.6 per cent. in 2016 compared to 14.1 per cent. in 2015, which was attributed to increased credit to the private sector. The government estimates that the sector employs approximately 3.0 per cent. of the formal sector labour force in 2016.

Real GDP in the financial and insurance activities sector grew by 9.4 per cent. from KES229,819 million in 2014 to KES251,377 million in 2015 and grew a further 6.9 per cent. to KES268,651 million in 2016. In the nine months ended 30 September 2017, real GDP growth in the financial and insurance activities sector was 4.0 per cent., as compared to the nine months ended 30 September 2016.

The financial and insurance activities sector accounted for 6.8, 6.8 and 7.1 per cent. of nominal GDP in 2014, 2015 and 2016, respectively. The sector accounted for 6.7 and 6.1 per cent. of nominal GDP in the nine months ended 30 September 2016 and 2017, respectively.

Construction

The construction sector is the seventh largest contributor to the economy in 2016 and comprises the roads and public/private housing subsectors. The government estimates that the sector employs approximately 6.4 per cent. of the formal sector labour force in 2016.

Real GDP in the construction sector grew by 13.9 per cent. from KES185,696 million in 2014 to KES211,430 million in 2015 and grew a further 9.2 per cent. to KES230,983 million in 2016. In the nine months ended 30 September 2017, real GDP growth in the construction sector was 6.9 per cent., as compared to the nine months ended 30 September 2016.

The construction sector accounted for 4.9, 4.9 and 5.0 per cent. of nominal GDP in 2014, 2015 and 2016, respectively. The sector accounted for 4.8 and 4.5 per cent. of nominal GDP in the nine months ended 30 September 2016 and 2017, respectively.

Electricity and water supply

The electricity and water supply sector recorded the fifth highest rate of growth in the economy during 2016. The government attributes the growth in this sector to government investment and private investment by independent power producers.

Real GDP in the electricity and water supply sector grew by 8.5 per cent. from KES92,287 million in 2014 to KES100,153 million in 2015 and grew a further 7.1 per cent. to KES107,242 million in 2016. In the nine months ended 30 September 2017, real GDP growth in the electricity and water supply sector was 5.4 per cent., as compared to the nine months ended 30 September 2016.

The electricity and water supply sector accounted for 1.8, 2.2 and 2.4 per cent. of nominal GDP in 2014, 2015 and 2016, respectively. The sector accounted for 2.3 and 2.4 per cent. of nominal GDP in the nine months ended 30 September 2016 and 2017, respectively.

The following tables set out installed capacity and generation of electricity by producers for the periods indicated.

Installed Capacity MW(1)

	Hydro	**Thermal Oil**	**Geothermal**	**Wind**	**Co-generation**	**Total**
2014	818.3	751.3	573.4	26.3	26.0	**2,195.3**
2015	820.7	833.8	627.0	26.1	26.0	**2,333.6**
2016(2)	818.2	803.5	652.0	26.1	26.0	**2,325.8**

Notes:
(1) 1 megawatt = million watts = 1,000 kilowatts.
(2) Provisional.
Source: Kenya Power & Lighting Company Ltd./Kenya Electricity Generation Company Ltd.

Generation GWh(1)(2)

	Hydro	Thermal Oil				Geothermal	Co-generation	Wind	Imports	Total
		KenGen	IPP	EPP	Total					
2014	3,410.6	844.2	1,673.0	68.0	2,585.2	2,917.4	50.0	17.0	158.4	**9,138.6**
2015	3,463.3	393.4	954.2	64.5	1,412.1	4,520.7	0.0	59.7	58.8	**9,514.6**
2016(3)	3,959.9	539.4	905.3	26.2	1,470.9	4,484.2	0.0	56.4	86.3	**10,057.7**

Notes:
IPP: Independent Power Producers
EPP: Emergency Power Producers
(1) Includes generation for industrial establishment with generation capacity of over 100KVA plus emergency supply of 99 MW by contract.
(2) 1 gigawatt hour = 1,000,000 kilowatt hours.
(3) Provisional.
Source: Kenya Power & Lighting Company Ltd./Kenya Electricity Generation Company Ltd.

During 2016, total installed capacity of electricity contracted marginally by 0.3 per cent. to 2,325.8 MW in 2016 from 2,333.6 MW in 2015. However, total electricity generation expanded from 9,514.6 GWh in 2015 to 10,057.7 GWh in 2016, reflecting a growth of 5.7 per cent. Total domestic demand for electricity grew 5.5 per cent. from 7,415.4 GWh in 2014 to 7,826.4 GWh in 2015, and grew a further 2.9 per cent. to 8,053.2 GWh in 2016. The number of customers connected under the Rural Electrification Programme, a government program intended to increase connectivity of rural areas to the national grid, grew by 38.2 per cent. to 972,018 customers as at 30 June 2016.

Currently, there is limited cross-border power supply between Kenya and its neighbours Uganda, Tanzania and Ethiopia. There are several regional interconnectors under implementation, which will increase and facilitate the regional power trade. The lines are the 400kV Kenya to Tanzania interconnector, the 400kV Kenya to Uganda interconnector and the 500kV HVDC Kenya to Ethiopia interconnector.

The following table sets out demand and supply of electricity for the periods indicated.

	Year ended 31 December		
	2014	**2015**	**2016(1)**
		(*GWh*)	
Demand			
Domestic and Small Commercial	2,963.1	3,254.9	3,315.7
Large Medium (Commercial and Industrial)	3,891.4	4,017.8	4,146.3
Off-peak	33.7	25.7	31.8
Street Lighting	22.5	31.4	46.3
Rural Electrification	504.7	496.6	513.1
Total Domestic Demand	**7,415.4**	**7,826.4**	**8,053.2**
Exports to Uganda and Tanzania	30.8	46.7	39.1
Transmission losses(2) and unallocated demand	1,692.5	1,641.5	1,965.4
Total Demand = Total Supply(3)	**9,138.7**	**9,514.6**	**10,057.7**
of which imports from Uganda and Tanzania	158.4	58.8	86.3
Net generation	**8,980.3**	**9,455.8**	**9,971.4**

Notes:
(1) Provisional.
(2) Voltage losses in power transmission lines.
(3) Total supply equals total generation.
Source: Kenya National Bureau of Statistics

The following table sets out supply and demand of commercial energy by primary source for the periods indicated.

	Year ended 31 December		
	2014	2015	2016(2)
	(*'000 tonnes of oil equivalent*)		
Coal and Coke Consumption	**328.7**	**348.6**	**343.5**
Liquid Fuels			
Imports of crude oil	0.0	0.0	0.0
Net imports of petroleum	4,360.5	4,416.8	4,838.9
Stock changes and balancing item	(422.6)	321.7	205.3
Total Consumption of Liquid Fuels	**3,937.9**	**4,738.5**	**5,044.2**
Hydro and Geothermal Energy			
Local production of hydro power	293.3	297.8	340.5
Local production of geothermal power	250.9	388.7	385.6
Total Local Energy Production	**544.2**	**686.5**	**726.1**
Imports of hydro power	13.6	5.1	7.4
Total Consumption of Hydro and Geothermal Energy	**571.4**	**696.6**	**733.5**
Total Energy Consumption	**4,838.0**	**5,783.7**	**6,121.2**
Local Production As Percentage Of Total	11.2	11.9	11.9
Per Capita Consumption In Terms Of Kilograms Of Oil Equivalent	112.5	130.9	134.8

Notes:
(1) Formal sector only; fuel wood and charcoal are excluded.
(2) Provisional.
Source: Kenya National Bureau of Statistics

Information and Communication

The information and communications sector comprises telecommunications, publishing, broadcasting and other IT and information activities. The information and communications sector was the twelfth largest contributor to the economy in 2016.

Real GDP in the information and communications sector grew by 7.4 per cent. from KES139,623 million in 2014 to KES149,969 million in 2015 and grew a further 9.7 per cent. to KES164,487 million in 2016. In the nine months ended 30 September 2017, real GDP growth in the information and communications sector was 9.9 per cent., as compared to the nine months ended 30 September 2016.

The information and communications sector accounted for 1.2, 1.0 and 1.0 per cent. of nominal GDP in 2014, 2015 and 2016, respectively. The sector accounted for 0.9 per cent. of nominal GDP in the nine months ended 30 September 2016 and 2017, respectively.

The following table sets out information regarding land line and portable phone connections, international call traffic and mobile connections as at the dates indicated.

	As at 31 December		
	2014	2015	2016(1)
		(*in thousands*)	
Land Line and Portable Phone Telephony			
Land Line Capacity	340	75	179
Land Line and Portable Phone Connections			
Land Line Connections(2)	48	85	72.4
Portable Phone Connections(3)	132	0	0.4
Total Land Line and Portable Phone Connections	**180**	**85**	**72.8**
International Outgoing Traffic (Minutes)(4)	15,163	10,127	9,190
International Incoming Traffic (Minutes)(4)	12,102	9,008	8,670
Mobile Telephony			
Mobile Telephone Capacity	65,077	62,800	71,600
Mobile Telephone Connections	33,633	37,716	3 8,982
Mobile Money Transfer Service Subscribers	26,023	26,753	31,997

Notes:
(1) Provisional.
(2) As at 30 June of the provided year.
(3) Includes local loop operators, the portable phone connections were decommissioned in 2015.
(4) Land lines.
Source: Communications Commission of Kenya and Kenya National Bureau of Statistics

In 2015, Telkom Kenya decommissioned the fixed wireless network due to the obsolete technology, expensive maintenance cost and high competition from other telephone technologies. Consequently, subscribers under Code Division Multiple Access (CDMA) network were migrated to the company's mobile network. This resulted in a decline of fixed landline capacity from 340,000 subscribers in 2014 to 75,000 in 2015. Total land line connections declined in 2016, despite an increase in fixed line capacity as a result of the recommissioning of fixed network services during the period. The decline in outgoing and incoming fixed international voice traffic in 2015 and 2016 is partly due to the reduction in land line connections.

Following the liberalisation of the telecommunications sector in the late 1990s, there are now many participants in the sector providing satellite based broadband access. In particular, the mobile telephony providers have introduced internet access products, including mobile phone banking. Mobile phone based financial transactions commenced in 2007, with the introduction by Safaricom of MPESA, a mobile-phone based money transfer and micro financing service. The mobile telephony market recorded an increased market penetration rate from 78.3 per cent. in 2014 to 85.4 per cent. in 2015 and 85.9 per cent. in 2016. In 2017, 418.4 million mobile phone customers carried out 1,543.2 million transactions valued at KES3,638.5 billion.

The CBK regulates all mobile phone based banking products offered by banks, pursuant to the National Payment System Act 2011 (Cap. 493E) and the National Payment System Regulations 2014, to ensure that effective, transparent and adequate governance arrangements and anti-money laundering protections are in place.

Information, Communication and Technology

The government recognises ICT as a foundation for economic development and as a means of reducing the cost of doing business, creating job opportunities and enhancing efficiency in service delivery. In light of this, over the last four years, the government has implemented a number of initiatives to enhance the use of ICT including the expansion of National Optic Fibre Backbone infrastructure across the counties in order to facilitate internet connectivity, recruiting and training ICT graduates under the Presidential Digital Talent Programme aimed at improving ICT skills among the youths to enhance their employability and leveraging ICT to improve government service delivery through initiatives to assist in county revenue collection, public service jobs applications, status tracking of identification and passports, digitised education content in schools, submission of tax returns, custom declaration, electronic reporting of corruption, and a business licensing e-registry. Integrated Financial Management Information System (an automated system used for public financial management that enhances budget planning, procurement process, financial data recording, tracking and information management).

As a result of these projects, demand for internet and data services continues to rise, with internet subscription increasing from 16.5 million subscribers in 2014 to 23.9 million in 2015 and to 26.7 million in 2016. These achievements have resulted in Kenya ranking first in Africa and 35th out of 114 countries worldwide in the open data barometer of the World Wide Web Foundation in 2016.

Going forward, the government will build on the progress made so far to improve ICT infrastructure and increase ICT skills and innovation in order to drive the attainment of The Big Four Plan. The strategy will focus on expanding ICT infrastructure connectivity by further roll out of the National Optic Fibre Backbone broadband, connecting all state departments to a unified government communications system and digitising government records, managing and improving cyber security and increasing youth ICT training and facilitating their absorption to the job market.

One of the major projects commenced under the second MTP is the development of the Konza Technology City that aims to position Kenya as the ICT hub of Africa. The government expects to develop the project in phases and the first phase includes construction of a BPO park, a science park, residential buildings, a data centre and part of the central business district. The first phase of implementation of Konza Technology City is underway with development of basic infrastructure including water supply, installation of electricity to the site and on-going construction of two sub-stations to guarantee adequate and stable power. The project is projected to generate approximately 17,000 jobs and provide homes for approximately 30,000 residents.

The government estimates the development of on-site infrastructure and sales pavilion, including roads, power, sewerage and railway to cost approximately US$760,000,000 over five years, of which it expects 10 per cent. to be funded by the national budget, through public private partnerships.

Tourism

Tourism is an important contributor to the economy. In terms of employment generation, the sector is estimated to employ an average of 3.2 per cent. of the labour force in the formal sector.

The following table sets out annual departing tourists by country of residence for the periods indicated.

	Year ended 31 December			
	2014	**2015**	**2016(1)**	**2016(1)**
Country of Residence		(*number in thousands*)		(*per cent. of total*)
Germany	116.1	93.3	95.2	7.9
United Kingdom	169.5	170.1	166.7	13.8
Switzerland	14.1	14.3	12.9	1.1
Italy	73.9	51.1	53.7	4.5
France	27.4	27.0	29.8	2.5
Scandinavia	69.0	39.5	42.1	3.5
Other Europe	91.5	85.5	92.5	7.7
Total Europe	**561.6**	**480.7**	**492.8**	**40.9**
United States	137.0	140.8	144.4	12.0
Canada	31.4	28.9	25.0	2.1
Total North America	**168.4**	**169.6**	**169.3**	**14.0**
Uganda	45.7	49.8	53.0	4.4
Tanzania	31.0	29.3	33.0	2.7
Other Africa	218.1	242.1	225.0	18.7
Total Africa	**294.9**	**321.1**	**311.1**	**25.8**
India	79.5	80.6	84.4	7.0
Japan	12.9	10.5	11.4	0.9
Israel	4.1	5.8	5.9	0.5
Other Asia	85.0	84.9	85.8	7.1
Total Asia	**181.5**	**181.9**	**187.5**	**15.6**
Australia and New Zealand	28.6	23.2	25.9	2.1
All other Countries	11.1	23.0	18.6	1.5
Total	**1,246.1**	**1,199.7**	**1,205.2**	**100.0**

Notes:

(1) Provisional.

Source: Kenya National Bureau of Statistics

The tourism sector contributes to the accommodation and restaurant activities, wholesale and retail trade and transport and storage sectors. Real GDP in the accommodation and restaurant sector contracted by 1.3 per cent. from KES43,657 million in 2014 to KES43,086 million in 2015 and grew by 13.3 per cent. to KES48,803 million in 2016. In the nine months ended 30 September 2017, real GDP in the accommodation and restaurant sector grew by 12.2 per cent., as compared to the nine months ended 30 September 2016.

The accommodation and restaurant sector accounted for 0.9, 0.8 and 0.7 per cent. of nominal GDP in 2014, 2015 and 2016, respectively. The sector accounted for 0.7 of nominal GDP in the nine months ended 30 September 2016 and 2017.

Following a general decline in tourism in 2014 and 2015 due to low bookings from international visitors as a result of security concerns, the government has taken remedial measures in order to mitigate the effects of these developments and promote tourism in Kenya, including promotion of local tourism, exemption of value added taxes to all travel agents, scrapping landing charges in Mombasa and Malindi as the main tourist destinations and providing budgetary reallocations to promote domestic tourism. See "*Risk Factors— Risks Relating to the Republic of Kenya— Kenya continues to be challenged by internal security issues as well as unfavourable media coverage which has had and may continue to have a negative impact on the economy, including the tourism industry*." Tourism in Kenya recovered slightly in 2016 and 2017, as a result of improvements in security and successful international and domestic marketing campaigns. Receipts in the tourism sector increased by 17.8 per cent. from KES84.6 billion in 2015 to KES99.7 billion in 2016, and international visitor arrivals, including tourist arrivals, which decreased from 1,350,400 in 2014 to 1,180,500 in 2015, increased to 1,339,700 in 2016.

The number of hotel bed-nights occupied increased by 9.7 per cent. from approximately 5,878,600 in 2015 to approximately 6,448,500 in 2016. The number of visitors to national parks and game reserves also increased from approximately 1,952,800 in 2015 to approximately 2,284,700 in 2016. Similarly, the number of visitors to museums, and other historical sites registered a 15.7 per cent. increase to stand at approximately 923,100 in 2016. In 2016, the number of local and international conferences held in Kenya increased by 17.4 and 4.1 per cent., respectively.

Oil and Gas

Between 2012 and 2014, several oil and gas discoveries were made by oil corporations in Kenya, including at the Sunbird 1, Sala 1 and Mbawa 1 exploration wells. On 15 January 2014, Tullow Oil plc announced oil discoveries at the Amosing-1 and Ewoi-1 exploration wells in Block 10BB onshore northern Kenya. As a result of these discoveries and prior discoveries at Ekales-1 and Agete-1, Tullow Oil plc updated its estimate of discovered resources in this basin to over 600 million barrels of oil.

Development of the oil and gas and other mineral resources sector progressed well during the second MTP. By 2015, a total of 74 oil exploration wells were drilled and 17 new exploration blocks were created. A total of 36 blocks have been licensed to 18 international oil companies. The government estimates Kenya's oil and natural gas reserves to be equivalent to between 235 and 1,228 million barrels. However, Kenya's oil basins are still in the exploration stage and Kenya has not yet begun oil production. It is unclear whether such oil production would be commercially viable.

Seeking prospects, exploring for and developing oil reserves involves a high degree of operational and financial risk. The actual costs of seeking prospects, drilling, completing and operating wells may exceed Tullow Oil plc's budgeted costs and can increase significantly when drilling costs rise due to a tightening in the supply of various types of oil field equipment and related services. Prospects may be unsuccessful for many reasons, including geological conditions, weather, cost overruns, equipment shortages and mechanical difficulties. Exploratory wells bear a much greater risk of loss than development wells. Moreover, the successful drilling of an oil well does not necessarily result in a profit on investment. A variety of factors, both geological and market-related, can cause a well to become uneconomic or only marginally economic. Initial costs associated with identifying prospects and drilling wells require significant additional exploration and development, regulatory approval and commitments of resources prior to commercial development.

Kenya stopped its licensing of new open blocks of petroleum exploration to allow time for the on-going review of the legal and regulatory framework of oil and gas operations in the country. The government plans to propose a different licensing process under new energy legislation that would be more competitive and use bidding rounds instead of a first-come, first serve approach under the current framework. In order to facilitate development of the oil and gas sector, the government has drafted a new Petroleum Exploration and Production Bill which will soon be enacted into law. In addition, the Mining Act 2016 has replaced the old mining legislation and is aligned with the provisions of the Constitution and with the industry international best practices.

Role of the State in the Economy; Privatisation

General

State corporations comprise both commercial and non-commercial entities. Among commercial state corporations are corporations that have a "public goods" mandate, such as the Kenya Broadcasting Corporation and Kenya Ferry Services Limited, for which the government is required to meet full cost using budgetary resources approved by the National Assembly. Non-commercial state corporations are specialised agencies that act as implementing agencies of the government that deliver public projects and programmes, including Vision 2030 flagship projects. Commercial state corporations do not, in general, depend on central government funds to meet their operations, except in cases where: (i) the corporation is required to carry out social (non-commercial) programmes/activities on behalf of the government or (ii) the corporation is unable to sustain itself on account of persistent poor performance. Some commercial state corporations are key implementing agencies for purposes of major governmental infrastructure projects and therefore receive central government budgetary resources for these projects. The government from time to time also provides guarantees on their behalf for purposes of raising funds to finance projects of national importance.

To meet their recurrent and development budgetary requirements, non-commercial state corporations rely on internally generated revenue and/or central government funding. In any given year, however, these corporations post surpluses or deficits. The corporations either retain these surpluses or remit whole, or part of it, to the central government. According to the State Corporations Act and the PFMA, state corporations may contract commercial debts on the strength of their balance sheets with the approval of the Cabinet Secretaries of the relevant line ministry and with the approval of the National Treasury. In accordance with the PFMA, the government may provide guarantees to borrow provided that the proceeds of the loan will be utilised for capital expenditure, the guarantee is approved by the National Assembly and the loan will be accommodated within the approved national debt ceiling.

The following table sets out information regarding the significant state corporations' mandate, government ownership and summary financial information.

Name	Mandate	As at and for the year ended 30 June 2016[(1)] Government Shareholdings	Assets	Liabilities	Profits/ (Losses)
		(per cent.)	*(in KES millions)*		
Kenya Electricity Generating Company	Power generation and sale of electricity	70%	367,248	194,506	6,743
Kenya Pipeline Company	To provide efficient, reliable, safe and cost effective means of transporting petroleum products from Mombasa to the hinterland and to market, process, treat, deal in petroleum products and other products and goods.	100%	93,200	19,210	8,409
Kenya Power and Lighting Company	Transmission, distribution and retail of electricity	51%	297,542	231,924	7,556
Geothermal Development Company	To fast track development of geothermal resource which is indigenous, abundant, affordable, reliable and environmentally- friendly source of electricity.	100%	63,496	63,088	287
Consolidated Bank of Kenya	To provide flexible financial solutions that support customers to achieve success	51%	14,573	12,966	(211)
Kenya Reinsurance Corporation Limited	Mandated to provide reinsurance services for most classes of business.	60%	38,493	14,361	3,287
National Housing Corporation	To play a principal role in the implementation of the government's Housing Policies and Programmes and provision of affordable housing.	100%	11,741	1,248	213
East African Portland Cement	To manufacture cement for infrastructure development in the East African region.	25.3%	27,842	9,895	4,146
Kenya Tourist Development Corporation	Facilitating and providing affordable development funding and advisory services for long-term investments in Kenya's tourism sector.	100%	4,814	157	(19)
Industrial and Commercial Development Corporation	To promote economic growth and industrial development through provision of affordable credit.	100%	22,314	1,100	580
Kenya Airports Authority	To construct, operate and maintain aerodromes and other related facilities.	100%	69,252	18,251	2,359
Kenya Ports Authority	To maintain, operate, improve and regulate all scheduled sea ports situated along Kenya's coastline.	100%	150,473	31,052	6,634
Kenya Railways Corporation	Provide effective railway services and promote, facilitate and participate in railway networks developments	100%	305,964	252,573	513

Notes:

(1) For the Consolidated Bank of Kenya and Kenya Reinsurance Corporation Limited, figures are as at and for the year ended 31 December 2016. For the National Housing Corporation, figures are as at and for the year ended 31 March 2016.

Source: Department of Government Investments & Public Enterprises

State-Owned Financial Institutions

The government owns a substantial majority of the capital stock of several financial institutions such as the Development Bank of Kenya, the National Bank of Kenya and the Consolidated Bank of Kenya, although it intends to decrease its participation in the financial system over the medium term, providing assistance only to specific sectors of the Kenyan economy.

Under the parastatal reform programme, ten parastatals were transferred to the Agriculture and Food Authority ("**AFA**"), following the enactment of the AFA Act 2013. The AFA now performs the functions of the ten parastatals, and during the transition in order to enable the transfer of the functions, assets, and liabilities of those institutions their accounts have been frozen.

The government is currently reviewing the parastatal sector for reforms, which could include privatisation of state owned corporations and mergers of certain state corporations. The government is considering classifying state corporations as commercial and non-commercial, separate institutions overseeing each class of corporations. A proposal provides that the government establish Government Investment Corporation to serve as a holding company for commercial state corporations.

Major Infrastructure Projects

In recent years, Kenya has focused on the development of faster and cheaper means of transport, which it views as critical for the expansion of economic for employment and the competitiveness of the economy. It has, among other things, expanded and modernised the Kisumu International Airport and selected airstrips countrywide and began such process on the Jomo Kenyatta International Airport, expanded and modernised Mombasa Port and developed Berth No.19, upgraded the commuter rail core system with the completion of JKIA Commuter Rail Phase I and the construction of a railway station at Syokimau, completed the second phase of construction of the standard gauge railway from Mombasa to Nairobi, embarked on the second phase of construction of the standard gauge railway from Nairobi to Naivasha and is continuing to construct new roads and rehabilitate and reconstruct existing roads. In addition, in 2017, more than 6.1 million Kenyans had been connected to electricity, compared to 2.3 million connected in 2013.

Expansion of Railway Transport

The railway design and its current state of repair limits its capacity and delivery speed and cannot therefore meet future demand for rail transport in the country and the region. The government believes that Uganda and the Democratic Republic of the Congo need a fast and dependable means of access to the part of Mombassa that can facilitate trade and industrial development. In view of expected local and international demand for reliable transport, the government has commenced the development of a standard gauge railway line between Mombasa through Nairobi to Malaba with connectivity to Kisumu, Uganda and Rwanda. With the construction of the standard gauge railway line from Mombasa to Malaba, the government expects rail transport to handle 50 per cent. of the freight cargo throughput, thus easing the pressure on roads, lowering the cost of doing business and enhancing trade and regional integration in East Africa.

The government plans for construction of the new railway to take place in three phases. Phase I, which involved the construction of a 495 kilometre line from Mombasa to Nairobi, was completed and commissioned on 31 May 2017 and Kenya Electricity Transmission Company has recently signed a contract with China Electric Power Equipment and Technology Company for the electrification of this section of the railway. Phase II involves the construction of the Nairobi to Malaba to Kisumu line which is divided into three phases as follows, phase 2A (120 km) Nairobi to Naivasha, Phase 2B (262 km) Naivasha to Narok to Bomet to Nyamira (which includes a new Kisumu Port) and Phase 2C (107 km) Kisumu to Yala to Mumias to Malaba. The plans for the construction of phase 2A have been finalised and commercial contracts and financing agreements have been signed. The commercial contract in relation to phase 2B has been signed and is awaiting funding. Phase III of the project involves the construction of the Malaba to Kampala, Uganda to Kigali, Rwanda line for which feasibility and preliminary designs are also being undertaken. The government expects the remaining phases of the project to be completed by 2021, at a cost of approximately US$13 billion. In addition, in December 2017 President Kenyatta launched the Inland Container Terminal in Nairobi to support the standard gauge railway project.

In February 2014, the Committee on Transport, Public Works and Housing completed a report on the standard gauge railway project and found that there were no improprieties under the Public Procurement and Disposal Act in the procurement process. The committee accepted an interpretation that the procurement was a government to government procurement and therefore did not require a competitive bid process under the Public Procurement and Disposal Act. Prior to the report, the Attorney General had issued an opinion on April 2014 that did not agree with the interpretation of the procurement as a "government to government" procurement. The Public Investments Committee from Parliament also completed their report on 29 April 2014 and concluded that the project had complied with the procurement laws.

The Lamu Port Southern Sudan Ethiopia Transport Corridor.

The LAPSSET corridor project is another major transport and infrastructure project of the government. The objective of the project is to open up access to northern Kenya, provide a reliable transport corridor for Ethiopia and Southern Sudan, promote trade between regions and enhance socio economic activity along the corridor and open up new tourist destinations by initiating development of resort cities. In January 2015, the project was awarded the status of a high-impact development project regionally under the Presidential Infrastructure Championship Initiative of the AU. The project includes the following components:

- a standard gauge railway line;
- a new road network;
- an oil pipeline, crude oil pipeline and refined oil pipeline from Lamu to Juba and Ethiopia;
- an oil refinery at Lamu with capacity of 120,000 barrels per day;
- a modern oil terminal at Lamu port to facilitate tanker loading and offloading;
- a refined petroleum products pipeline from Lamu connecting to the existing Mombasa Kampala pipeline;
- international airports at Lamu, Isiolo and Lokichoggio;
- a free port at Lamu (Manda Bay) including a total of 32 berths to handle container, conventional and bulk cargo vessels;
- Lamu port management building, Lamu port police station and staff housing, as well as a dispensary and club house;
- three resort cities in Lamu (at Manda Bay), Isiolo and on the shores of Lake Turkana; and
- 1,420km 220 KV double circuit electricity transmission line along the LAPSSET corridor.

Construction of the first three berths at Lamu commenced in October 2016 and is expected to be completed in December 2020. The government has awarded consultancy services contracts for construction of roads from Lamu to Garissa and Garissa to Isiolo. Construction of a 505 kilometre road from Marsabit and from Moyale was completed in 2016.

Fundraising efforts are underway for the construction of the 1,800 kilometre Lamu South Sudan and Ethiopia Railway and the Lamu and Lake Turkana airports. The government expects the cost of the projects to reach KES1.6 trillion (US$18.1 billion). The government anticipates that funding for the various components will be made through a public-private partnership of government and one or more private sector companies.

Improvement of Shipping and Maritime Facilities.

The government hopes to implement a programme to build port capacity of 50 million tonnes and transform Kenya into a maritime hub by facilitating trans-shipment of cargo at the port of Mombasa. In order to achieve this goal, the government plans to improve port efficiency, construct a second container terminal at the Mombasa port, provide new handling facilities at the Mombasa port, develop Dongo Kundu Free Trade Port and modernise ferry services to increase passenger capacity per year.

Phase I was completed in February 2016 and the terminal became fully operational since April 2016. The second terminal is expected to have a capacity of 1.2 million twenty foot equivalent units.

Detailed designs and the tender process for phase II have been completed. The government expects the construction of the second terminal to be completed by 2021. The KES38.0 billion (US$350 million) project is being funded by a JPY 26.7 billion loan from the Japan International Cooperation Agency.

Increasing Electricity Availability through Power Generation.

The government plans to improve the energy infrastructure network and promote development and use of renewable energy sources to create a reliable, adequate and cost effective energy supply regime to support industrial take off for economic growth. One of the key projects prioritised for implementation is the development of an additional 3,085 MW of geothermal energy at Olkaria, Menengai and Silali Bogoria. The government expects the cost of the project to reach KES753.9 billion (US$8.7 billion) and expects construction to be completed during 2018. The government anticipates that funding will be made through a public–private partnership of government, development partners and one or more private sector companies.

Other key projects are the development of multi-purpose dams such as the High Grand Falls dam (700 MW), the Magwagwa dam (120 MW), the Arror dam (60 MW) and the Nandi Forest dam (50 MW). The government expects the cost of the project to reach KES1.4 trillion (US$16.8 billion) and expects construction to be completed during 2018. The government anticipates that funding will be made through a public–private partnership of government, development partners and one or more private sector companies.

The government also plans to upgrade and expand the national power transmission and distribution network to improve supply and reliability, reduce losses and connect two million new customers. The government aims to connect 6,304 public facilities, including electrifying 2,600 main public facilities (trading centres, secondary schools, health centres and dispensaries) and other facilities such as primary schools, tea buying centres, water supply systems and places of worship, among others. The government's target is for universal access to electricity by 2020, from 70 per cent. in December 2017.

There are also several regional interconnectors under implementation, to increase and facilitate the regional power trade. The lines are the 400kV Kenya to Tanzania interconnector, the 400kV Kenya to Uganda interconnector and the 500kV HVDC Kenya to Ethiopia interconnector.

Replacement of the Mombasa Nairobi Pipeline

In March 2014 the Kenyan Pipeline Company Ltd. ("**KPC**") began the procurement process for the replacement of the Mombasa to Nairobi multi product pipeline, due to extensive corrosion damage and metal loss throughout the entire pipeline, making it no longer economical to repair. The new proposed pipeline will replace the old pipeline entirely, thus ensuring continued uninterrupted supply of petroleum products while construction occurs. The government expects the project to be financed through KPC internally generated funds and external borrowing. The loan limit for the project is set in a range of US$400 million to US$500 million. In July 2014, KPC signed a contract for the replacement of the pipeline with Zakhem International Construction Co. Ltd.

Airport Expansion

Jomo Kenyatta International Airport ("**JKIA**") is Kenya's largest aviation facility, and the busiest airport in east and central Africa. It serves as a transit hub for major airlines as well as the gateway for visitors to other airports in Africa. The airport also serves as a major cargo centre for both inbound and outbound goods.

JKIA has recently been expanded by the addition of two terminal buildings and the refurbishment and expansion of existing terminal buildings. Passenger capacity has increased significantly, and recently, JKIA achieved category one status, which now enables direct flights to operate between Nairobi and the United States. Kenya Airways has announced the launch of its direct flights from Nairobi to New York in October 2018.

The government has also announced the planned construction of a 4.9-km second runway, including connecting taxiways, additional parking stands for aircraft, and an air rescue firefighting unit. The second runway will support more air traffic and facilitate increased tourism and business travel and expedite a two-way cargo traffic, as well as achieving the strategic objective of making the airport a regional hub. It is expected that the new runway will increase the existing annual service volume by approximately 13 per cent.

The government continues to develop several airstrips to enhance connectivity within Kenya and its neighbouring countries, including the rehabilitation and expansion of Lokichoggio Airport, Ikanga Voi Airstrip, Kabunde Airport, Suneka Airstrip, Wajir Airport, Manda Airport and Nanyuki Airstrip.

Crude Oil Pipeline

In 2017, Kenya signed an agreement with a consortium comprising of Tullow Oil, Africa Oil and A.P. Moller-Maersk for a feasibility study on a proposed pipeline to transport crude oil from the country's oilfields to Lamu. Kenya discovered commercial oil reserves in its Lokichar basin in the country's northwest in 2012.

The pipeline is estimated to run 820 km between Lokichar and Lamu on Kenya's coast. The consortium has indicated that survey work on the pipeline was already being carried out and the consortium would likely make a final investment decision on its Kenya project in 2019.

Nairobi-Mombasa Expressway

The Kenya National Highways Authority has selected a construction company to build a new high-speed expressway between Mombasa and Nairobi. The new 473km route will vastly improve the connectivity, efficiency and safety of road transport between Nairobi and Mombasa and will reduce the journey time from over 10 hours to under four hours. The expressway will serve as a central part of Kenya's national transport system, helping to promote trade and development in Kenya and further into landlocked Uganda, Rwanda and Burundi. This project will complement the new standard gauge railway in government's plan to transform the 450km Nairobi-Mombasa corridor into a vibrant and continuous economic zone.

Employment and Wages

The total number of people employed outside small scale agriculture and pastoralist activities increased by 5.2 per cent. from 15.2 million in 2015 to 16.0 million in 2016. The increase was mostly due to increases in the manufacturing and construction sectors, as a result of continued government efforts in the implementation of infrastructure and energy flagship projects under Vision 2030. Wage employment in the formal sector registered growth of 3.1 per cent. in 2016, compared to an increase of 4.5 per cent. in 2015. The number of self-employed and unpaid family workers engaged in the formal sector increased by 7.5 per cent. in 2016 compared to an increase of 19.6 per cent. in 2015. The government estimates that the informal sector created 747,300 new jobs in 2016 compared to 716,400 jobs created in 2015. The informal sector constituted 89.7 per cent. of all the new jobs created in 2016. The government only estimates the national unemployment rate at the time of the national census. The last census was in 2009, at which time the government estimated total unemployment at 9.7 per cent.

Average nominal earnings per employee increased by 5.9 per cent. in 2016, compared to an increase of 10.1 per cent. in 2015. Real average earnings increased by 0.1 per cent. in 2016, compared to an increase of 2.9 per cent. the previous year.

The following table sets out certain employment data as at the dates indicated.

	As at 30 June		
	2014	**2015**	**2016[(1)]**
		(*in thousands*)	
Modern Establishments—Urban and Rural Areas			
Wage employees	2,370.2	2,478.0	2,554.3
Self-employed and unpaid family workers	103.0	123.2	132.5
Informal sector[(2)]	11,846.0	12,562.4	13,309.7
Total	**14,319.2**	**15,163.6**	**15,996.5**

Notes:

(1) Provisional.

(2) Estimated

Source: Kenya National Bureau of Statistics

The following table sets out wage employment in the formal sector by industry and sector for the periods presented.

	Year ended 31 December		
	2014	2015	2016[(1)]
		(*in thousands*)	
Private Sector:			
Agriculture, forestry and fishing	290.6	294.0	294.5
Mining and quarrying	12.2	13.8	14.6
Manufacturing	261.3	269.0	274.3
Electricity, gas, steam and air conditioning supply	0.9	0.9	1.0
Water supply, sewerage and waste management and remediation activities	1.4	1.4	1.6
Construction	125.4	140.2	155.0
Wholesale and retail trade and repair of motor vehicles and motorcycles	218.9	230.7	238.5
Transport and storage	62.1	64.8	67.8
Accommodation and food service activities	71.7	74.7	75.9
Information and communication	97.3	103.8	108.7
Financial and insurance activities	58.1	62.7	65.0
Real estate activities	3.9	4.0	4.1
Professional, scientific and technical activities	60.7	62.6	64.8
Administrative and support service activities	4.9	5.2	5.4
Education	166.8	189.1	196.9
Human health and social work activities	85.2	91.3	95.7
Arts, entertainment and recreation	4.3	4.5	4.6
Other service activities	30.5	31.7	33.2
Activities of households as employers; undifferentiated goods	112.1	114.1	114.4
Activities of extraterritorial organisations and bodies	1.1	1.1	1.2
Total private sector	**1,669.4**	**1,759.6**	**1,817.2**
Public Sector			
Agriculture, forestry and fishing	42.7	42.9	42.2
Mining and quarrying	0.6	0.6	0.6
Manufacturing	26.1	26.5	26.6
Electricity, gas, steam and air conditioning supply	14.4	16.0	16.3
Water supply, sewerage and waste management and remediation activities	9.0	10.1	11.1
Construction	7.7	7.9	8.0
Wholesale and retail trade and repair of motor vehicles and motorcycles	1.3	1.3	1.3
Transport and storage	17.6	17.8	17.9
Accommodation and food service activities	1.4	1.4	1.5
Information and communication	1.8	1.9	1.9
Financial and insurance activities	9.4	10.6	10.6
Professional, scientific and technical activities	5.9	5.9	5.9
Public administration and defence; compulsory social security	227.0	222.0	231.3
Education	302.4	318.3	327.7
Human health and social work activities	31.1	32.7	31.9
Arts, entertainment and recreation	2.4	2.5	2.4
Total public sector	**700.8**	**718.4**	**737.1**
Total wage employment	**2,370.2**	**2,478.0**	**2,554.3**

Notes:
(1) Provisional
Source: Kenya National Bureau of Statistics

During 2016, the share of private sector employment in the formal sector increased marginally from 71.0 per cent. in 2015 to 71.1 per cent. in 2016. Employment in this sector grew by 5.4 per cent. in 2015 and 3.3 per cent. in 2016.

In 2016, the leading activities providing wage employment in the private sector were agriculture, forestry and fishing, manufacturing and wholesale and retail trade and repair of motor vehicles, accounting for 16.2, 15.1 and 13.1 per cent. of total private sector employment, respectively. The water supply, sewerage, waste management and remediation activities industry registered the highest growth in employment in 2016, posting an increase of 14.3 per cent., followed by electricity, gas, steam and air conditioning supply at 11.1 per cent. and construction at 10.6 per cent. The government attributes this growth to continued government efforts in implementation of infrastructure and energy flagship projects under Vision 2030.

Employment in the public sector registered growth of 2.6 per cent. in 2016 compared to a 2.5 per cent. growth in 2015. While most economic activities in the public sector registered positive growth in employment or stayed at the same level as the previous year, employment in the agriculture, forestry and fishing, human, health and social work and arts, entertainment and recreation industries decreased. Employment in water supply, sewerage and waste management and remediation activities recorded growth of 9.9 per cent., the accommodation and food services sector grew by 7.1 per cent., and public administration and defence rose by 4.2 per cent.

The government defines the informal sector to include all small-scale activities that are semi-organised, unregulated and use low and simple technologies while employing few persons. The majority of the small businesses such as retailers, street vendors and other service providers fall in the informal sector. The sector has also expanded to cover areas such as manufacturing and information and communications. The informal sector plays a central role in the economy as a source of employment opportunities for the youthful population and persons exiting from the formal sector of the economy. The sector also plays a vital role in the economic development of the country by increasing competition, fostering innovation, besides generating employment. The inter-linkages between the informal sector and the formal sector including government are also crucial in fostering growth in the sector. The government expects to build on the current tax and revenue reform movement to seal tax loopholes, broaden the tax base to ensure equity in the tax system, review and modernise existing tax legislation, enhance capacity of tax administration including widening the tax brackets to include the informal sector.

An estimated 12.5 million persons were engaged in informal sector economic activities in 2015, an increase of approximately 6.1 per cent. from 2014. An estimated 13.3 million persons were engaged in informal sector economic activities in 2016, an increase of approximately 6.0 per cent. from 2015.

The following table sets out the estimated distribution of the informal sector by industry for the periods presented.

	Year ended 31 December		
	2014	**2015**	**2016[(1)]**
		(*in thousands*)	
Manufacturing	2,364.9	2,545.3	2,710.2
Construction	307.3	320.6	337.1
Wholesale and Retail Trade, Hotels and Restaurants	7,120.4	7,510.9	7,946.7
Transport and Communications[(2)]	369.5	392.6	417.2
Community, Social and Personal Services	1,152.1	1,219.5	1,293.4
Others	531.8	573.5	605.1
Total	**11,846.0**	**12,562.5**	**13,309.7**

Notes:
(1) Provisional.
(2) Includes mainly support services to transport activity.
Source: Kenya National Bureau of Statistics

The manufacturing and transport and communications activities registered the highest growths of 6.5 per cent. and 6.3 per cent., respectively, in terms of employment in the informal sector in 2016. Informal sector workers in wholesale and retail trade, hotels and restaurants accounted for 60.0 per cent. of all workers in the sector. The second largest employer was manufacturing which accounted for 20.0 per cent. of the informal sector labour force.

Minimum Wage

The Salaries and Remuneration Commission ("**SRC**") is established by the Constitution and the Salaries & Remuneration Commission Act, 2011. The mandate of the SRC is to set and regularly review the remuneration and benefits of state officers, realign and restore harmony and equity in the public service remuneration structure and banding system. In performing its functions, the commission is expected to ensure that the total public compensation bill is fiscally sustainable, ensure that the public services are able to attract and retain the skills required to execute their functions, recognise productivity and performance, and transparency and fairness.

The government has had an active minimum wage setting policy since Kenya's independence in 1963. Minimum wages apply to all salaried employees who are at least 18 and work in the formal sector. However, the minimum wages do not apply to the skilled and professional personnel.

On average, the monthly basic minimum wages for the agricultural industry increased by 12.0 per cent. from KES6,503 in 2014 to KES7,284 in 2015. In 2016, the government did not raise the minimum wage.

The average monthly basic minimum wages in Nairobi, Mombasa and Kisumu cities increased from KES15,357 in 2014 to KES17,200 in 2015. For other municipalities, average basic minimum monthly wages increased from KES14,267 in 2014 to KES15,980 in 2015. Similarly, the average basic minimum monthly wages in all other towns rose from KES12,136 in 2014 to KES13,593 in 2015.

The following table sets out the average monthly basic minimum wage for the agricultural sector.

	Year ended 31 December		
	2014	**2015**	**2016[(1)]**
Type of Employee		(*KES*)	
Unskilled employees	4,854	5,437	5,437
Stockman, herdsman and watchman	5,606	6,279	6,279
Skilled And Semi-Skilled Employees:			
House servant or cook	5,542	6,207	6,207
Farm foreman	8,757	9,808	9,808
Farm clerk	8,757	9,808	9,808
Section foreman	5,669	6,350	6,350
Farm artisan	5,802	6,498	6,498
Tractor driver	6,153	6,891	6,891
Combine harvester driver	6,778	7,592	7,592
Lorry driver or car driver	7,113	7,967	7,967
Average	**6,503**	**7,284**	**7,284**

Notes:
(1) Provisional.
Source: Ministry of Labour & Human Resource Development

The following table sets out the average monthly basic minimum wages in urban areas for the periods presented.

	Nairobi, Mombasa & Kisumu Cities			All Municipalities and Mavoko, Ruiru & Limuru Town Councils			All other towns		
				Year ended 30 June					
	2014	**2015**	**2016[(2)]**	**2014**	**2015**	**2016[(2)]**	**2014**	**2015**	**2016[(2)]**
Occupation					(*KES*)				
General labourer	9,781	10,955	10,955	9,024	10,107	10,107	5,218	5,844	5,844
Miner, stone cutter, turnboy, waiter, cook	10,564	11,831	11,831	9,372	10,497	10,497	6,029	6,753	6,753
Night watchman	10,912	12,221	12,221	10,116	11,330	11,330	6,224	6,970	6,970
Machine attendant	11,086	12,416	12,416	10,316	11,554	11,554	8,361	9,365	9,365
Machinist	12,655	14,174	14,174	11,839	13,259	13,259	9,679	10,841	10,841
Plywood machine operator	13,202	14,786	14,786	12,184	13,646	13,646	10,071	11,280	11,280
Pattern designer	15,065	16,872	16,872	13,773	15,425	15,425	11,743	13,153	13,153
Tailor, driver (medium vehicle)	16,603	18,595	18,595	15,259	17,091	17,091	13,606	15,239	15,239
Dyer, crawler, tractor driver, salesman	18,329	20,529	20,529	17,102	19,154	19,154	15,435	17,287	17,287
Saw doctor, caretaker (building)	20,284	22,718	22,718	18,940	21,213	21,213	17,645	19,762	19,762
Cashier, driver (heavy commercial)	22,071	24,720	24,720	20,770	23,262	23,262	19,474	21,811	21,811
Artisan (ungraded)	13,202	14,786	14,786	12,184	13,646	13,646	10,071	11,280	11,280
Artisan Grade III	16,603	18,595	18,595	15,259	17,091	17,091	13,581	15,210	15,210
Artisan Grade II	17,932	20,084	20,084	17,102	19,154	19,154	15,435	17,287	17,287
Artisan Grade I	22,071	24,720	24,720	20,770	23,262	23,262	19,474	21,811	21,811
AVERAGE	**15,357**	**17,200**	**17,200**	**14,267**	**15,980**	**15,980**	**12,136**	**13,593**	**13,593**

Notes:
(1) Excludes housing allowance.
(2) Provisional.
Source: Ministry of Labour & Human Resource Development

Social Security

The National Social Security Fund ("**NSSF**") provides social security protection to workers in the formal and informal sectors and in the private and government sectors. Both the number of registered employers and employees has increased in line with general employment rates. There are more male than female registered employees.

In December 2013, the National Social Security Fund Act 2013 (the "**Act**") transformed the NSSF from a provident fund, which fund a limited number of lump sum benefits, into a social security scheme paying retirement pensions as well as additional benefits such as invalidity and funeral grants. The Act also increased contribution rates by members and employers significantly from the prior capped amount of KES400.0 to a total of 12.0 per cent. of a member's pensionable earnings. In June 2014, certain trade unions brought legal action against NSSF alleging that certain provisions of the Act, including those related to mandatory contributions to NSSF are inconsistent with the Constitution. The judiciary has not appointed judges to hear and decide on the matter and the government has put on hold implementation of provisions in dispute. NSSF is implementing the provisions of the Act other than those in dispute.

The Act divides a member's contributions into Tier I and Tier II. Tier I is based on emoluments up to the average minimum wage, while Tier II is based on emoluments above this level. Tier I contributions must be paid into the NSSF, whereas an employer can "opt out" of the NSSF and make Tier II contributions to another retirement benefits scheme, subject to fulfilling certain requirements. In determining pensionable earnings, the Act sets an upper limit at the average national wage in the first year but rising to four times the average national wage in the fifth year. Annual contributions increased by 78.3 per cent. in 2015 and 9.6 per cent. in 2016, and benefits increased by 7.3 per cent. in 2015 and 1.0 per cent. in 2016.

The following table sets out details of registered employers, registered employees, annual contributions and benefits to members of the NSSF.

	Year ended 31 December		
	2014	**2015**	**2016[(1)]**
Registered Employers (in thousands)	93.3	111.1	140.8
Registered Employees (in thousands)	3,980.5	4,388.7	4,804.3
Male	2,975.4	3,234.0	3,491.5
Female	1,005.1	1,154.7	1,312.8
Annual contribution (KES millions)	6,587.9	11,749.0	12,875.0
Annual benefits paid (KES millions)	2,881.3	3,091.0	3,121.0

Notes:
(1) Provisional
Source: National Social Security Fund

The Social Protection Fund was established to minimise vulnerability across gender lines, reduce excessive inequality and disparities between social strata and to mitigate any distinction and exclusion. The government increased the funding allocated to the Social Protection Fund for Older Persons from KES5.5 billion in 2014/15 to KES8.0 billion in 2015/16, due to an increase in the number of beneficiary households during the period.

The Social Protection Fund for Orphans and Vulnerable Children ("**OVC**") started in 2004 in response to the strong need to protect and assist the highly vulnerable children and also to strengthen the capacity of the households to protect and care for OVC within their families and communities. The fund is currently directed to the poor households taking care of OVC through the department of children's services. The funding allocated for OVC increased from KES5,957.6 million in 2014/15 to KES9,746.3 million in 2015/16. The direct cash disbursement increased from KES6,131.3 million in 2014/15 to KES8,439.6 million in 2015/16. The increased allocation and direct cash disbursements were attributed to increased capital transfers and an increase in the number of targeted households.

The following table sets out the funds allocated for social protection by the national government.

	Social Protection Fund for Older Persons		Social Protection Fund for OVC	
	Allocation	**Direct Cash Disbursement**	**Allocation**	**Direct Cash Disbursement**
	(*KES millions*)			
2012/13	1,519.2	1,478.0	1,081.4	1,030.3
2013/14	3,168.0	2,919.0	4,763.1	4,524.9
2014/15	5,501.5	5,243.9	5,957.6	6,131.3
2015/16	7,966.3	7,445.3	9,746.3	8,439.6

Notes:

Source: Department of Gender and Social Development/Ministry of Labour and East African Community Affairs

Balance of Payments and Foreign Trade

Balance of Payments

The balance of payments records the value of the transactions carried out between a country's residents and the rest of the world. The balance of payments is composed of:

- The current account, which includes:
  - net exports of goods and services (the difference in value of exports minus imports);
  - net financial and investment income; and
  - net transfers; and
- The capital and financial accounts, which comprise the difference between financial capital inflows and financial capital outflows.

The following table sets forth Kenya's balance of payments for the periods indicated.

Item	2014/15	2015/16	2016/17(1)
		US$ millions	
Overall Balance	**(1,176)**	**(1,109)**	**(413)**
Current account	**(5,905)**	**(3,122)**	**(4,645)**
Goods: Exports (fob)	5,822	6,090	5,746
Goods: Imports (fob)	17,158	13,543	15,031
Services: Credit	4,863	4,601	4,539
Services: Debit	2,474	3,058	3,015
Balance on goods and services	(8,947)	(5,910)	(7,761)
Primary Income: Credit	308	462	463
Primary Income: Debit	775	1,114	1,004
Balance on goods, services and primary income	(9,414)	(6,562)	(8,302)
Secondary Income: Credit	3,574	3,499	3,705
Of which: Remittances	1,492	1,647	1,759
Secondary Income: Debit	65	59	48
Capital Account	**223**	**277**	**183**
Financial Account	**(5,550)**	**(3,822)**	**(6,486)**

Notes:
(1) Provisional
Source: Central Bank of Kenya

The following table sets forth a breakdown of Kenya's current account balance for 2015/16 and 2016/17 and the percentage change.

Item	2015/16	2016/17(1)	% Change
Current Account	**(3,122)**	**(4,645)**	**48.8**
Goods	**(7,453)**	**(9,286)**	**24.6**
Exports (fob)	**6,090**	**5,746**	**(5.7)**
Of which: Coffee	215	241	11.8
Tea	1,336	1,268	(5.0)
Horticulture	834	805	(3.6)
Oil products	55	56	1.4
Manufactured Goods	476	409	(14.1)
Raw Materials	445	528	18.8
Chemicals and Related Products	456	397	(13.0)
Miscellaneous Man. Articles	591	568	(3.8
Re-exports	821	677	(17.6)
Other	861	797	(7.4)
Imports (fob)	**13,543**	**15,031**	**11.0**
Of which: Oil	2,159	2,429	12.5
Chemicals	2,236	2,282	2.0
Manufactured Goods	2,520	2,589	2.8
Machinery & Transport Equipment	4,972	4,749	(4.5)
Machinery	2,929	3,197	9.2
Transport equipment	2,043	1,552	(24.0)
Other	1,553	2,278	46.7
Of which: Food	1,087	1,492	37.3
Services	**1,543**	**1,524**	**(1.2)**
Transport Services (net)	**708**	**502**	**(29.1)**
Credit	1,885	1,449	(23.1)
Debit	1,177	947	(19.6)
Travel Services (net)	**511**	**881**	**72.5**
Credit	722	1,065	47.5
Debit	212	184	(12.9)
Other Services (net)	**325**	**141**	**(56.5)**
Primary Income	**(651)**	**(540)**	**(17.0)**
Credit	462	463	0.2
Debit	1,114	1,004	(9.9)
Secondary Income	**3,440**	**3,657**	**6.3**
Credit	3,499	3,705	5.9
Debit	59	48	(18.8)

Notes:
(1) Provisional
Source: Central Bank of Kenya

Current Account

The current account deficit was US$5.9 billion in 2014/15, or 9.6 per cent. of nominal 2015 GDP. The current account deficit decreased by 47.1 per cent. to US$3.1 billion in 2015/16, or 4.5 per cent. of nominal 2016 GDP, predominantly due to lower international oil prices, improved tea and horticulture exports, strong remittance inflows and a recovery of tourism. The value of exports increased by 4.6 per cent. from US$5.8 billion in 2014/15 to US$6.1 billion in 2015/16, while the value of imports decreased by 21.1 per cent. from US$17.2 billion to US$13.5 billion in the same period.

In 2016/17, the current account deficit increased by 48.8 per cent. to US$4.6 billion, as a result of an increase in payments for imports and a decline in earnings from exports. The value of imports increased by 11.0 per cent. from US$13.5 billion in 2015/16 to US$15.1 billion in 2016/17, while the value of exports decreased by 5.7 per cent. from US$6.1 billion to US$5.7 billion in the same period.

The following table sets out information on the balance of trade for the periods presented.

Balance of Trade

	Year ended 31 December		
	2014	2015	2016(1)
		(KES millions)	
EXPORTS (f.o.b.)			
Exports	460,572	499,708	506,548
Re-exports	76,664	81,337	71,519

	Year ended 31 December		
	2014	2015	2016[(1)]
Total	**537,236**	**581,045**	**578,067**
Imports (c.i.f.):			
Commercial	1,599,619	1,540,731	1 ,389,731
Government	18,702	36,826	42,014
Total	1,618,321	1,577,577	1,431,745
Balance of Trade	(1,081,085)	(966,512)	(853,678)
Total Trade	**2,155,557**	**2,158,602**	**2,009,812**
Cover Ratio[(2)] (in percentage)	33.2	36.8	40.4

Notes:
(1) Provisional
(2) Cover ratio is the ratio of exports to imports.
Source: Kenya National Bureau of Statistics/Kenya Revenue Authority

In 2016, the value of exports decreased by 0.5 per cent. while the value of imports decreased by 9.2 per cent. The value of re-exports decreased by 12.1 per cent. The trade deficit decreased by 11.7 per cent. from KES966,512 billion in 2015 to KES853,678 billion in 2016. The export/import cover ratio increased from 36.8 per cent. in 2015 to 40.4 per cent. in 2016.

Remittances from the Kenyan diaspora are a major contributor to Kenya's economic growth and development. In 2015/16, remittances increased by 10.4 per cent. from US$1.5 billion in 2014/15 to US$1.6 billion in 2015/16. In 2016/17, remittances increased by 6.8 per cent. to US$1.8 billion. Diaspora remittances, along with tourism, tea and horticulture are among Kenya's leading foreign exchange earners.

Directions of Foreign Trade

Exports

The largest share of Kenya's exports are destined for other African countries, accounting for 41.7 per cent. and 40.7 per cent. of total exports in 2015 and 2016, respectively. Within Africa, Uganda is Kenya's predominant trade partner, accounting for 28.3 per cent. and 26.6 per cent. of total African exports in 2015 and 2016, respectively. In 2016, exports to Africa decreased by 2.8 per cent. In the nine months ended 30 September 2017, the total value of exports to Africa was KES166.4 billion, a decrease of 6.9 per cent. compared to the nine months ended 30 September 2016.

Exports to Europe accounted for 25.1 per cent. and 24.5 per cent. of total exports value in 2015 and 2016, respectively. In 2016, the total value of exports to Europe declined by 3.0 per cent. as a result of a 3.7 per cent. decline in exports to the EU. Within the EU, the Netherlands and the United Kingdom accounted for 35.8 per cent. and 31.0 per cent. of exports to the EU, respectively, in 2016. In the nine months ended 30 September 2017, the total value of exports to Europe was KES111.4 billion, an increase of 2.8 per cent. compared to the nine months ended 30 September 2016.

Exports to Asia accounted for 24.3 per cent of the total value of exports in 2016. Total exports to Asia increased by 7.5 per cent. in 2016, with exports to the Middle East increasing by 11.8 per cent. and exports to the Far East increasing by 5.2 per cent. In the nine months ended 30 September 2017, the total value of exports to Asia was KES117.0 billion, an increase of 8.5 per cent. compared to the nine months ended 30 September 2016.

The following table sets out the value of total exports by destination for the periods presented.

Exports	Year ended 31 December			Nine months ended 30 September	
	2014	2015	2016	2016	2017[1]
			(*KES millions*)		
Europe					
Western Europe					
European Union					
Belgium	6,730	4,540	5,395	4,161	5,066
Finland	1,514	1,973	1,412	1,054	899
France	5,689	6,074	6,412	4,731	6,240
Germany	10,786	12,508	11,864	9,104	9,047

Italy	6,960	5,248	3,734	2,945	2,445
Netherlands	40,614	42,041	43,492	33,457	32,901
Spain	2,627	3,239	2,302	1,799	2,178
Sweden	2,731	2,510	3,067	2,324	2,225
United Kingdom	35,868	40,668	37,581	28,960	28,735
Poland	1,847	2,263	1,804	1,279	1,642
Other	4,591	4,867	4,205	2,996	3,741
Total European Union	**119,958**	**125,932**	**121,268**	**92,811**	**95,119**
Other Western Europe	8,080	8,527	9,632	7,484	6,810
Total Western Europe	**128,038**	**134,460**	**130,898**	**100,293**	**101,929**
Eastern Europe					
Russia Federation	7,124	8,065	6,995	5,335	6,302
Kazakhstan	3,267	2,855	3,027	2,275	2,422
Other	536	565	612	446	759
Total Eastern Europe	**10,927**	**11,484**	**10,634**	**8,055**	**9,484**
Total Europe	**138,965**	**145,944**	**141,534**	**108,350**	**111,413**
America					
United States	38,290	40,725	43,355	32,289	36,375
Canada	1,690	2,289	5,729	4,046	2,799
Other	5,684	7,575	6,497	5,340	2,834
Total America	**45,664**	**50,589**	**55,579**	**41,673**	**42,009**
Africa					
South Africa	5,936	4,338	4,149	3,364	2,097
Rwanda	14,441	17,950	17,616	13,102	12,998
Egypt	17,509	20,166	20,618	17,024	12,805
Tanzania	42,725	33,663	34,914	26,530	20,749
Uganda	60,783	68,574	62,523	46,754	46,397
Burundi	7,849	6,595	7,259	5,620	5,828
Somalia	13,202	15,210	17,932	12,532	15,275
Ethiopia	6,919	7,154	8,052	6,511	5,306
Sudan	6,241	5,967	5,360	4,045	4,347
South Sudan	19,823	17,065	16,335	12,283	13,033
Democratic Republic of Congo	21,052	20,673	20,127	14,965	14,079
Zambia	6,668	5,909	5,183	3,977	2,805
Other	18,215	18,921	15,367	12,033	10,636
Total Africa	**241,363**	**242,187**	**235,437**	**178,740**	**166,357**
Asia					
Middle East:					
Iran	2,283	1,152	1,757	1,262	1,196
Israel	1,337	1,449	1,063	877	538
Jordan	309	853	1,059	801	1,246
Saudi Arabia	4,879	5,551	6,727	5,204	5,191
United Arab Emirates	20,198	29,239	30,975	24,536	18,515
Yemen Arab Republic	4,356	4,023	4,802	3,772	4,603
Other	2,445	2,941	4,141	3,097	4,919
Total Middle East	**35,806**	**45,207**	**50,524**	**39,549**	**36,209**
Far East					
China	6,597	8,471	10,060	6,890	8,144
India	8,753	8,954	11,919	10,096	4,507
Indonesia	885	1,323	933	615	867
Japan	3,526	4,054	4,071	2,898	3,193
South Korea	2,532	1,734	1,869	1,555	1,974
Pakistan	22,022	35,250	40,254	27,634	46,440
Singapore	1,169	1,404	357	291	262
Afghanistan	10,373	14,502	10,685	10,309	2,742
Thailand	1,657	2,071	1,727	1,121	3,434
Other	6,700	7,782	8,132	6,823	9,224
Total Far East	**64,212**	**85,545**	**90,011**	**68,234**	**80,788**
Total Asia	**100,018**	**130,752**	**140,536**	**107,784**	**116,997**
Australia & Oceania					
Australia	3,029	2,313	2,204	1,791	1,823
Other	436	1,089	1,242	257	1,051
Total Australia & Oceania	**3,465**	**3,402**	**3,446**	**2,048**	**2,873**
All Other Countries	1,166	800	1,044	749	787
Aircraft and Ships Stores	6,595	7,372	1,104	954	779
Total All Other Counties n.e.s	7,761	8,172	2,148	1,703	1,566
Total Exports	**537,236**	**581,045**	**578,679**	**440,297**	**441,216**

Notes:
(1) Provisional
Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

Imports

The majority of Kenya's imports originate from Asia. In 2016, imports from the Far East and the Middle East accounted for 51.2 per cent. and 13.1 per cent. of total imports, respectively. Within Asia, India and China, accounted for 21.5 per cent. and 35.3per cent., respectively, of the total value of Asian imports in 2016. Imports from India decreased by 18.6 per cent. in 2016, while imports from China increased by 5.2 per cent.

In 2016, the value of imports from Europe accounted for 17.8 per cent. of the total imports value. In 2016, imports from the United Kingdom and the Netherlands decreased by 21.8 per cent. and 19.6 per cent., respectively.

Other African countries accounted for 9.8 per cent. of total imports in 2016. The value of imports from Africa decreased by 6.0 per cent. in 2016, with the value of imports from South Africa decreasing by 18.7 per cent.

The value of imports from the United States decreased by 25.3 per cent. in 2015 and by 62.0 per cent. in 2016.

The following table sets out the value of total imports by country of origin for the periods presented.

	Year ended 31 December			Nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017(1)**
			(*KES millions*)		
Europe					
Western Europe					
European Union					
Belgium	13,159	14,966	13,497	10,419	10,996
Finland	3,840	5,415	3,339	2,791	1,631
France	22,447	21,066	21,534	16,651	21,529
Germany	47,409	47,381	43,357	33,253	33,133
Italy	19,946	22,722	23,739	16,834	17,801
Netherlands	18,792	20,527	16,510	11,889	15,099
Spain	12,516	11,376	11,024	9,030	7,824
Sweden	6,233	6,364	5,844	4,621	4,945
United Kingdom	47,037	42,970	33,586	24,554	22,202
Denmark	4,223	4,097	4,251	3,152	2,731
Ireland	5,689	7,525	6,949	5,305	2,482
Czech Republic	1,959	1,929	3,300	2,727	3,947
Austria	2,635	2,680	2,708	2,083	1,671
Poland	4,720	8,643	6,022	4,888	4,636
Hungary	1,449	2,565	2,494	2,029	991
Other	13,363	12,494	14,409	12,100	5,663
Total European Union	**225,416**	**232,720**	**212,560**	**162,323**	**157,308**
Other Western Europe	20,235	27,112	23,846	18,695	21,156
Total Western Europe	**245,651**	**259,832**	**236,405**	**181,018**	**178,464**
Eastern Europe					
Russia Federation	23,118	28,583	24,260	18,508	25,546
Ukraine	15,008	6,118	3,819	2,848	7,307
Other	2,168	1,059	1,433	1,404	699
Total Eastern Europe	**40,294**	**35,759**	**29,513**	**22,760**	**33,552**
Total Europe	**285,945**	**295,592**	**265,454**	**203,314**	**212,016**
America					
United States	168,720	126,041	47,862	37,939	44,030
Canada	7,886	7,754	7,817	6,075	7,784
Brazil	6,094	6,968	4,370	3,101	23,418
Other	4,775	5,294	5,207	3,861	26,255
Total America	**187,476**	**146,056**	**65,258**	**50,977**	**101,487**
Africa					
South Africa	63,893	61,311	49,857	36,718	48,216
Tanzania	18,364	16,906	12,807	9,611	11,959
Uganda	17,549	22,284	19,276	12,297	24,564
Swaziland	5,594	7,162	6,398	4,022	8,320
Mauritius	2,794	2,713	5,174	3,706	5,370

Rwanda	716	790	774	593	1,191
Zambia	4,380	3,895	4,200	3,338	4,649
Other	32,851	34,037	41,690	29,454	39,944
Total Africa	**146,141**	**149,097**	**140,177**	**99,739**	**144,214**
Asia					
Middle East:					
Iran	3,788	3,808	6,134	4,156	9,518
Israel	5,659	10,410	5,027	4,044	4,608
Jordan	789	945	806	518	2,144
Saudi Arabia	56,565	55,306	69,259	46,500	79,721
United Arab Emirates	103,255	90,573	91,611	70,248	100,985
Bahrain	41,367	5,759	8,095	3,740	6,852
Oman	10,518	5,942	5,698	5,081	4,665
Other	6,028	5,775	8,186	4,163	3,108
Total Middle East	**227,969**	**178,517**	**194,818**	**138,452**	**211,602**
Far East					
China	248,648	320,816	337,459	248,679	301,601
India	264,536	252,523	205,527	154,376	130,253
Indonesia	48,598	45,939	45,372	34,307	44,839
Japan	86,554	88,239	82,425	62,998	60,290
South Korea	29,105	18,822	14,271	10,691	12,794
Pakistan	18,020	18,347	18,175	12,072	20,206
Singapore	14,624	9,612	6,795	5,443	3,800
Taiwan	15,541	12,391	12,297	9,191	9,696
Malaysia	11,066	10,556	12,321	9,170	11,502
Thailand	12,527	12,913	12,060	9,336	17,309
Other	12,984	12,976	15,405	12,370	10,332
Total Far East	**762,204**	**803,133**	**762,107**	**568,631**	**622,622**
Total Asia	**990,173**	**981,650**	**956,926**	**707,084**	**834,224**
Australia & Oceania					
Australia	7,069	4,032	2,878	2,294	4,265
Other	431	787	1,181	958	727
Total Australia & Oceania	**7,500**	**4,820**	**4,059**	**3,252**	**4,992**
All Other Countries plus aircrafts and shipstores	1,086	342	252	234	195
Total Imports	**1,618,321**	**1,577,557**	**1,487,284**	**1,064,601**	**1,297,127**

Notes:
(1) Provisional
Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

Content of Foreign Trade

The primary contributors to foreign exchange are as follows: (a) exports (tea, coffee, horticulture produce, manufactured goods, etc.), (b) tourism, (c) international organisation/aid agencies; (d) foreign investments (foreign direct investment, portfolio investments, etc.); (e) loans and grants and (f) remittances.

Tea was the leading commodity foreign exchange, accounting for 24.6 per cent. of total export earnings in 2015 and 2016. Export earnings from tea increased by 30.9 per cent. from KES94.0 billion in 2014 to KES123.0 billion in 2015, and further increased by 1.2 per cent. to KES124.5 billion in 2016. This is attributed partly to a 14.1 per cent. increase in the volume of exported tea, from 420,527 tonnes in 2015 to 479,969 tonnes in 2016.

Kenya's second largest export is horticulture exports, accounting for 20.2 per cent. and 21.7 per cent. of total export earnings in 2015 and 2016, respectively. Export earnings from horticulture increased by 4.0 per cent. from KES97.1 billion in 2014 to KES101.0 billion in 2015, and further increased by 9.3 per cent. to KES110.3 billion in 2016. This is attributed partly to a 13.2 per cent. increase in the volume of exported horticulture, from 443,076 tonnes in 2015 to 501,573 tonnes in 2016.

Petroleum products and industrial machinery are Kenya's principal imports, collectively accounting for 27.0 per cent. and 30.6 per cent. of the total import value in 2015 and 2016, respectively. The value of imported petroleum products decreased by 14.4 per cent. from KES214.7 billion in 2015 to KES183.9 billion in 2016 while the value of imported industrial machinery increased by 19.8 per cent. from KES211.7 billion in 2015 to KES253.6 billion in 2016.

The following tables set out the value of principal exports and imports for the periods presented.

	Year ended 31 December			Nine months ended 30 September	
	2014[1]	2015[1]	2016	2016	2017[2]
			(*KES millions*)		
Exports					
Tea	93,996	123,025	124,496	95,014	107,756
Horticulture	97,105	100,963	110,337	83,657	84,975
Coffee, unroasted	19,913	20,580	21,372	16,940	19,991
Articles of apparel and clothing accessories	28,948	28,226	30,742	23,077	24,454
Titanium ores and concentrates	7,282	9,420	11,043	7,876	9,863
Tobacco and tobacco manufactures	16,827	15,757	14,573	10,574	10,481
Medicinal and pharmaceutical products	8,296	11,199	13,191	10,496	8,400
Iron and steel	13,443	12,290	13,214	9,593	8,751
Essential oils	10,854	9,822	9,177	6,834	7,807
Organic & inorganic chemicals	n/a	n/a	9,525	7,335	7,352
Articles, n.e.s., of plastics	10,995	11,174	9,907	7,226	7,099
Soda ash	7,832	6,247	5,435	4,198	5,172
Edible products and preparations	2,637	4,048	4,335	3,431	4,452
Petroleum products	n/a	n/a	4,537	3,503	3,738
Textile fibres and their waste	n/a	n/a	4,976	3,887	3,504
Industrial machinery	n/a	n/a	11,280	9,300	4,146
Sugar confectionery	5,345	5,475	4,905	3,896	3,828
Leather	7,597	6,222	4,606	3,554	3,786
Paper and paperboard and articles of paper or paperboard	4,406	4,773	4,565	3,491	3,338
Salt	3,881	4,694	4,337	3,270	3,040
Printed matter	4,271	6,363	5,230	3,761	4,387
Textile yarn, fabrics and related products	n/a	n/a	4,495	3,518	2,778
Plastics in primary & non-primary forms	n/a	n/a	3,722	2,852	2,759
Cement	7,541	7,721	4,359	3,477	2,511
Animal and vegetable oils	6,003	4,650	6,083	4,479	3,394
Electrical machinery and apparatus	2,025	2,022	6,285	5,812	1,029
Total	**359,197**	**394,671**	**435,009**	**331,042**	**342,589**
All other items	101,375	105,037	72,315	53,436	55,064
Grand Total	**460,572**	**499,708**	**507,325**	**384,479**	**397,654**

Notes:
(1) Data for certain specific products is unavailable for this period, where indicated as “n/a”.
(2) Provisional
Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

	Year ended 31 December			Nine months ended 30 September	
	2014(1)	2015(1)	2016	2016	2017(2)
			(*KES millions*)		
Imports					
Industrial machinery	256,672	211,724	253,583	192,161	187,305
Petroleum products	292,643	214,695	183,946	131,992	167,368
Sugars, molasses and honey	12,009	15,503	21,732	13,497	53,851
Road motor vehicles	101,792	117,637	85,910	64,123	60,868
Iron and steel	75,526	88,153	75,470	59,214	64,219
Animal and vegetable oils	50,044	47,038	53,285	41,527	51,138
Maize(raw)	9,308	8,306	3,636	3,079	28,249
Medicinal and pharmaceutical products	52,088	61,513	60,483	43,717	42,080
Plastics in primary & non-primary forms	60,217	62,724	59,325	44,675	46,717
Textile yarn,fabrics,made-up articles n.e.s and related products	n/a	n/a	35,182	25,865	30,481
Wheat, unmilled	33,831	35,663	28,883	22,666	29,677
Chemical fertilizers	19,331	23,468	23,063	21,020	24,807
Paper and paperboard	29,948	29,316	26,229	19,364	20,710
Telecommunications equipment and parts	23,622	29,444	28,712	22,086	27,354
Organic & inorganic chemicals	21,856	22,560	22,678	16,921	18,733
Rice	15,305	13,370	14,200	9,653	21,872
Electrical machinery and apparatus	n/a	n/a	27,726	20,741	17,681
Essential oils	18,445	20,901	19,414	13,430	15,118
Miscellaneous chemical products	12,958	14,417	14,068	11,104	12,172
Non-ferrous metals	14,704	14,672	14,353	10,177	13,227
Printed matter	4,822	5,060	5,709	3,790	6,621
Aircraft, associated equipment and parts thereof	129,589	83,094	7,777	6,415	10,126
Rubber tyres, interchangeable tyre treads, tyre flaps and inner tubes	12,406	13,343	14,275	10,830	10,699
Quality control instruments and apparatus	12,110	9,651	9,593	6,681	9,348
Second - hand clothing	8,815	10,151	12,876	9,383	9,807
Liquefied propane and butane	10,834	7,879	7,894	5,623	8,645
Insecticides and fungicides	10,797	11,335	11,381	9,032	8,886
Automatic data processing machines and units thereof	9,720	11,212	18,968	9,949	23,066
Articles of apparel and clothing accessories	n/a	n/a	7,328	4,815	9,191
Structures and parts of structures, n.e.s., of iron, steel or aluminum	11,211	14,338	17,151	13,624	9,908
Edible products and preparations	7,463	10,646	12,461	8,888	9,386
Tobacco and tobacco manufactures	n/a	n/a	5,416	3,072	2,735
Made-up articles, wholly or chiefly of textile materials	n/a	n/a	6,220	4,324	6,713
Manufactures of base metal	8,459	10,967	11,919	9,141	6,571
Furniture and parts thereof; bedding, mattresses and similar furnishings	6,325	7,161	7,138	5,118	5,874
Parts and accessories of motor vehicles	8,105	9,674	9,099	6,648	6,784
Motorcycles and cycles fitted with an auxiliary motor	8,002	10,177	8,247	5,770	9,292
Articles, n.e.s., of plastics	6,846	8,556	7,812	5,757	6,110
Agricultural machinery and tractors	7,925	8,664	8,918	6,508	6,907
Pigments, paints, varnishes and related materials	6,369	6,872	7,080	5,091	5,661
Cement clinkers	6,563	9,548	8,357	5,739	5,680
Textile fibres and their waste	5,792	6,623	6,366	4,995	4,205
Textile yarn	4,421	4,332	4,137	3,047	2,879
Wire products: nails screws, nuts, etc.	n/a	n/a	9,869	8,563	3,885
Footwear	n/a	n/a	4,431	3,046	3,015
Glassware	n/a	n/a	3,783	2,618	2,587
Prefabricated buildings	6,702	7,000	4,641	3,401	3,259
Total	**1,393,575**	**1,297,387**	**1,252,645**	**930,772**	**1,104,199**
All other items	224,746	280,170	179,480	133,829	192,929
Grand Total	**1,618,321**	**1,577,557**	**1,432,126**	**1,064,601**	**1,297,127**

Notes:
(1) Data for certain specific products is unavailable for this period, where indicated as “n/a”.
(2) Provisional
Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

The following tables set out the quantities of principal exports and imports for the periods presented.

	Year ended 31 December			Nine months ended 30 September	
	2014[(1)]	2015[(1)]	2016	2016[(1)]	2017[(1) (2)]
			(*in tonnes*)		
Exports					
Sugar confectionery	28,986	29,988	28,907	22,882	23,834
Coffee, unroasted	47,438	43,600	45,304	35,373	35,976
Tea	456,492	420,527	479,969	369,779	342,319
Horticulture	434,950	443,076	501,573	n/a	n/a
Tobacco and tobacco manufactures	21,016	15,961	18,166	11,075	17,332
Textile fibres and their waste	n/a	n/a	25,668	20,035	19,360
Salt	269,111	303,452	306,323	228,418	239,765
Titanium ores and concentrates	360,525	493,201	614,610	437,084	384,340
Animal and vegetable oils	49,375	37,357	61,960	45,832	27,366
Soda ash	396,095	272,520	258,789	198,252	251,540
Medicinal and pharmaceutical products	13,285	13,095	13,380	10,026	10,582
Essential oils	87,779	78,356	82,143	61,585	69,425
Plastics in primary & non-primary forms	n/a	n/a	21,276	16,170	17,906
Leather	26,213	23,329	21,656	16,895	18,392
Paper and paperboard and articles of paper or paperboard	34,043	33,208	57,241	50,666	21,105
Cement	720,465	681,665	420,156	328,885	276,862
Iron and steel	137,561	124,190	139,467	101,077	80,573
Printed matter	9,006	6,854	6,763	4,988	3,555
Articles of plastics	58,488	52,629	47,381	33,809	34,763

Notes:
(1) Data for certain specific products is unavailable for this period, where indicated as "n/a".
(2) Provisional
Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

	Year ended 31 December			Nine months ended 30 September	
	2014[(1)]	2015[(1)]	2016	2016	2017[(1)]
			(*in tonnes, unless otherwise stated*)		
Imports					
Wheat, unmilled	1,225,690	1,421,785	1,362,309	1,061,393	1,315,231
Rice	459,165	442,736	508,000	369,789	499,604
Maize(raw)	458,940	480,124	148,557	126,068	951,223
Sugars, molasses and honey	228,834	286,732	377,335	251,223	965,898
Tobacco and tobacco manufactures	n/a	n/a	19,144	10,699	9,118
Textile fibres and their waste	20,051	21,459	21,453	16,136	15,422
Second - hand clothing	106,974	110,659	131,962	95,987	102,713
Liquefied propane and butane	111,933	129,395	167,057	120,830	149,840
Animal and vegetable oils	622,343	683,490	750,513	598,810	627,973
Pigments, paints, varnishes and related materials	28,932	34,410	38,005	28,822	32,056
Medicinal and pharmaceutical products	20,713	24,954	25,880	18,453	19,743
Essential oils	55,425	55,321	56,049	41,319	45,293
Chemical fertilizers	496,057	568,600	671,781	605,810	719,654
Plastics in primary & non-primary forms	400,188	455,432	469,455	355,060	350,154
Insecticides and fungicides	15,232	15,342	16,782	13,327	11,601
Miscellaneous chemical products	38,880	52,804	49,766	39,476	37,578
Rubber tyres, interchangeable tyre treads, tyre laps and inner tubes (*number*)	n/a	n/a	7,757,170	5,987,223	5,659,567
Paper and paperboard	351,174	331,136	324,591	237,623	248,933
Textile yarn	22,814	21,734	23,572	17,238	14,685
Made-up articles, wholly or chiefly of textile materials	n/a	n/a	23,943	17,670	22,680
Cement clinkers	1,307,225	1,973,231	2,001,225	1,365,329	1,312,602
Glassware	n/a	n/a	60,544	40,342	43,840
Iron and steel	1,196,273	1,530,606	1,443,876	1,138,237	1,094,716
Non-ferrous metals	53,315	51,010	51,397	38,689	37,230
Structures and parts of structures, n.e.s., of iron, steel or aluminum	66,405	95,065	103,993	86,841	52,964
Wire products: nails screws, nuts, etc			64,676	53,118	30,509
Manufactures of base metal	32,747	66,069	60,272	45,997	31,068

Automatic data processing machines and units thereof (*number*)	n/a	n/a	1,025,356	373,785	1,150,947
Road motor vehicles (*number*)	103,517	109,781	85,083	59,700	65,249
Motorcycles and cycles fitted with an auxiliary motor (*number*)	n/a	n/a	145,935	100,425	163,883
Prefabricated buildings	27,280	30,010	18,206	13,121	14,812
Footwear (*000' pairs*)	n/a	n/a	24,443	15,494	13,747
Printed matter	10,218	13,318	18,120	11,338	6,128
Articles of plastics	49,786	46,138	50,667	38,008	9,808,293

Notes:
(1) Data for certain specific products is unavailable for this period, where indicated as "n/a".
(2) Provisional
Source: Kenya National Bureau of Statistics and Kenya Revenue Authority

Capital and Financial Account

The capital and financial account registered a deficit of US$3.5 billion in 2015/16, compared to a deficit of US$5.3 billion in 2014/15. The decrease in the deficit in 2015/16 was primarily due to an increase in net foreign direct investment and net portfolio investment inflows. The capital and financial account deficit increased by 44.4 per cent. to US$6.3 billion in 2016/17, primarily due to decreased inflows of foreign direct investment and portfolio investment.

The following table sets out the balance on the capital and financial account for the periods indicated.

	2015/16	2016/17
	(US$ millions)	
Capital Account	**277**	**183**
Credit	277	183
Debit	-	-
Financial Account	**(3,822)**	**(6,486)**
Direct Investment		
Assets	178	227
Liabilities	(522)	(362)
Portfolio Investment		
Assets	139	647
Liabilities	(44)	(29)
Other Investment		
Assets	35	226
Liabilities	(3,609)	(7,195)

The following table sets out information on foreign investor net cash inflow activity in the equity market according to the Nairobi Securities Exchange for the periods indicated.

	Year ended 31 December			
	2014	2015	2016	2017
	(KES millions)			
January	(876)	(273)	(533)	1,608
February	(1,505)	201	281	435
March	(399)	(3,085)	(1,334)	(55)
April	1,409	(67)	80	433
May	(2,578)	(2,030)	196	(1,888)
June	2,586	(447)	100	(813)
July	142	(1,127)	974	(2,054)
August	3,253	1,183	3,703	(3,268)
September	(850)	6,500	1,343	(5,799)
October	(1,208)	889	(125)	486
November	2,535	829	459	(450)
December	1,021	1	615	(218)
Net Cash Inflow	**3,530**	**916**	**5,759**	**(11,583)**

Source: Capital Markets Authority

The government plans to implement the following objectives in order to increase foreign investment in Kenya:

- expand energy sources to provide reliable energy to industries at competitive rates;
- improve Kenya's investment climate by simplifying processes;
- finalise commercial laws aimed at increasing efficiency in business and investment in the country;
- improve investor facilitation by creating "one-stop shops" for information;
- prioritise and effectively carry out the necessary institutional reforms to improve governance;
- maintain and expand existing infrastructure; and
- enhance internal security.

Foreign Reserves

Foreign reserves increased by 5.4 per cent. from KES704.4 billion (US$7.8 billion) as at 31 December 2014 to KES742.8 billion (US$7.3 billion) as at 31 December 2015. As at 30 June 2016, foreign reserves increased to KES818.3 billion (US$8.1 billion). The increase is primarily attributable to market operations by the CBK out-weighing government payments in the first half of 2016. As at December 2016, foreign reserves decreased to KES736.48 billion (US$7.2 billion), before increasing to KES854.9 billion (US$8.2 billion) as at 30 June 2017. This increase is largely due to the receipt of a syndicated loan of US$1.4 billion in addition to usual CBK operations and government payments.

CBK reserves increased from KES702.6 billion (US$7.8 billion) as at 31 December 2014 to KES740.7 billion (US$7.2 billion) as at 31 December 2015. CBK reserves decreased to KES734.5 billion (US$7.1 billion) as at 31 December 2016, before increasing to KES852.9 billion (US$8.2 billion) as at 30 June 2017.

The reserve position in the IMF increased from KES1,743 million (US$19.2 million) as at 31 December 2014 to KES1,936 million (US$18.9 million) as at 31 December 2015, and decreased to KES1,843 million (US$18.0 billion) as at 31 December 2016. As at 30 June 2017, the reserve position in the IMF stood at KES1,930 million (US$18.6 million). The Special Drawing Rights ("**SDRs**") increased from KES1,179 million (US$13.0 million) as at 31 December 2014 to KES1,489 million as at 31 December 2015 and further to KES3,747 million as at 31 December 2016. As at 30 June 2017, SDRs stood at KES1,877 million. The decrease in SDRs is attributed to loan payments made to the IMF.

The following table sets out international reserves held by the CBK and the central government as at the dates indicated.

As at end of	Central Bank of Kenya			Central Government			Total International Reserves[1]
	SDRs	Foreign Exchange (cash + gold)	Total	Reserve Position in IMF	Deposits with Crown Agents	Total	
				(*KES millions*)			
2014							
January	1,954	557,314	559,268	1,756	119	1,875	**561,143**
February	1,953	559,221	561,174	1,775	120	1,896	**563,070**
March	1,959	558,830	560,789	1,776	120	1,896	**562,685**
April	1,741	569,941	571,682	1,789	122	1,911	**573,593**
May	692	557,716	558,409	1,798	123	1,920	**560,329**
June	692	561,491	562,184	1,803	124	1,927	**564,111**
July	17	587,836	587,853	1,785	124	1,909	**589,762**
August	3,368	582,804	586,172	1,782	122	1,905	**588,076**
September	3,334	666,581	669,602	1,758	121	1,879	**671,481**
October	2,818	648,747	651,564	1,754	119	1,873	**653,438**
November	2,313	640,113	642,426	1,753	118	1,871	**644,297**
December	1,179	701,390	702,569	1,743	118	1,861	**704,430**
2015							
January	513	682,582	683,095	1,692	115	1,805	**684,900**
February	3,411	688,455	691,866	1,767	119	1,888	**693,754**
March	3,370	680,534	683,904	1,805	114	1,930	**685,835**
April	2,991	678,626	681,618	1,842	122	1,972	**683,589**
May	2,562	684,202	686,763	1,899	125	2,032	**688,795**
June	4,385	678,775	683,159	1,936	129	2,070	**685,229**
July	4,528	677,608	682,136	1,936	133	2,070	**684,206**
August	4,618	683,498	688,116	1,936	134	2,070	**690,185**
September	4,670	659,106	663,776	1,936	133	2,070	**665,846**
October	3,946	715,338	719,284	1,936	130	2,070	**721,354**
November	3,373	702,327	705,700	1,936	128	2,070	**707,770**
December	1,489	739,257	740,746	1,936	126	2,070	**742,816**
2016							
January	2,049	734,346	736,395	1,875	122	1,997	**738,392**
February	2,024	744,106	746,130	1,865	118	1,983	**748,114**
March	1,958	769,025	770,983	1,896	121	2,017	**773,000**
April	1,429	785,325	786,754	1,904	123	2,027	**788,781**
May	3,853	779,935	783,789	1,875	123	1,998	**785,786**
June	1,923	814,419	816,342	1,878	114	1,992	**818,334**
July	1,914	801,097	803,011	1,876	111	1,987	**804,998**
August	4,044	790,845	794,889	1,876	111	1,987	**796,876**
September	4,028	796,847	800,875	1,877	110	1,987	**802,862**
October	3,438	784,913	788,351	1,851	103	1,954	**790,305**
November	2,886	757,420	760,306	1,831	106	1,937	**762,243**
December	3,747	730,784	734,531	1,843	104	1,947	**736,479**
2017							
January	2,322	745,918	748,240	1,890	93	1,983	**750,223**
February	1,374	740,303	741,677	1,872	107	1,979	**743,657**
March	1,199	819,596	820,794	1,870	107	1,978	**822,772**
April	680	876,945	877,624	1,894	111	2,005	**879,629**
May	118	870,437	870,555	1,910	111	2,021	**872,576**
June	1,877	851,017	852,894	1,930	112	2,043	**854,937**

Notes:
(1) International reserves are a subset of foreign assets which are readily available for meeting external financial needs
Source: Central Bank of Kenya

Foreign Exchange

Kenya follows a floating exchange regime. The CBK allows the exchange rate to move in line with the fundamentals in the economy and has a policy to only intervene in the foreign exchange market if there is excess volatility in the trading level of the local currency that hampers proper functioning of the market.

The Kenyan shilling weakened against the US dollar and Japanese Yen by 0.2 and 2.5 per cent., respectively, in 2016. However, the Kenyan shilling strengthened against the euro and the pound sterling by 4.2 and 17.4 per cent. in 2016.

In 2017, the Kenyan shilling was generally steady against the dollar, depreciating only by 0.7 per cent. The steadiness of the Kenyan shilling can be attributed to the Central Bank's efforts to stem volatility occurring as a result of the extended elections and the droughts occurring in Kenya, but is also a result of the weakening US dollar. The shilling depreciated by 10.6 per cent. against the pound sterling, 15.1 per cent. against the Euro and 5.1 per cent. against the Japanese Yen as the three currencies strengthened against the dollar in the global currency markets.

The table below sets out selected end of period mean exchange rates for the Kenyan shilling, computed as a simple average of the daily average buying and selling rates.

	As at 31 December			
	2014	2015	2016	2017[(1)]
1 Euro	110.17	111.78	107.06	123.28
1 US dollar	90.60	102.31	102.49	103.23
1 Pound Sterling	140.95	151.80	125.42	138.75
100 Japanese Yen	75.30	84.97	87.06	91.48

(1) Provisional.
Source: Central Bank of Kenya

Trade Policy

Exports from Kenya enjoy preferential access to world markets under a number of special access and duty reduction programmes. As part of its trade policy, Kenya is signatory to a number of multilateral and bilateral trade agreements and is a beneficiary to trade enhancing schemes, including the United States' Africa Growth and Opportunity Act ("**AGOA**"), the economic partnership agreement between the EU and African, Caribbean and Pacific countries (the "**ACP EU Trade Agreement**") and the COMESA. Kenya is a member of the WTO which provides Kenya's export products access to more than 90 per cent. of world markets at "most favoured nation" treatment.

Regional Agreements

Kenya, as a member of the EAC, enjoys preferential tariff rates for exports and imports within the customs union.

Kenya is also a member of COMESA and thereby benefits from the adoption of more comprehensive trade liberation measures such as the complete elimination of tariff and non-tariff barriers to trade and elimination of customs duties.

Under the ACP EU Trade Agreement, exports from Kenya entering the EU are entitled to duty reductions and freedom from all quota restrictions. Trade preferences include duty free entry of all industrial products as well as a wide range of agricultural products including beef, fish, dairy products, cereals, fresh and processed fruits and vegetables.

Under the AGOA, Kenya qualifies for duty free access to the US market. Kenya's major products that qualify for export under AGOA include textiles, apparels and handicrafts. Kenya's exports to the United States under the AGOA increased from approximately KES40 billion in 2012 to KES57 billion in 2017.

Under the Generalised System of Preferences, a wide range of Kenya's manufactured products are entitled to preferential duty treatment in the United States, Japan, Canada, New Zealand, Australia, Switzerland, Norway, Sweden, Finland, Austria and other European countries. In addition, no quantitative restrictions are applicable to Kenyan exports on any of the 3,000 plus items currently eligible for GSP treatment.

Bilateral Trade Agreements

Kenya has signed bilateral trade agreements with several countries around the world. Some of the countries are already members of existing schemes offering market access/duty reduction preferences as explained above.

Kenya has concluded Avoidance of Double Taxation Agreements with the United Arab Emirates, the United Kingdom, Germany, India, Canada, Norway, Sweden, Denmark, Zambia, the Republic of Korea, the State of Qatar, the Republic of Iran, France and South Africa, and is currently negotiating a number of others with various countries.

Kenya has concluded Investment Promotion and Protection Agreements with France, Finland, Germany, Italy, Netherlands, Switzerland, China, Libya, Iran, Burundi and the United Kingdom, among others.

Export Promotion Council

The Export Promotion Council ("**EPC**") supports producers and exporters of goods and services through enhancing market access, value addition and dissemination of trade information. The EPC exposes the beneficiary firms to the opportunities availed through enhanced international visibility for their products and ease of transacting business.

Under the trade policy facilitation, the EPC advocates a trade policy environment that aids growth and development of Kenya's export sector. This was achieved through participation and contribution in several bilateral and multilateral trade negotiations policy forums, including EAC EU Economic Partnership Agreements, EAC/COMESA/SADC tripartite negotiations, the AGOA, the COMESA, and the EAC common market negotiations among others.

The EPC assists in identifying and expanding export opportunities for Kenya through market research and trade statistical analyses and organises and facilitates to participation of Kenya's exhibitors in international trade fairs and exhibitions, as well as providing trading to enhance exporters' skills and knowledge.

MONETARY AND FINANCIAL SYSTEM

Central Bank of Kenya

The Central Bank of Kenya Act of 1966 established the Central Bank of Kenya. The establishment of the CBK was a direct result of three East African states' desire to have independent monetary and financial policies. This led to the collapse of the East Africa Currency Board in the mid-1960s. Following the promulgation of the Constitution on 27 August 2010, the CBK was established as an autonomous institution under Article 231 of the Constitution. Under this Article, the CBK has the responsibility to formulate monetary policy, promote price stability, issue currency and perform any other functions conferred on it by an act of Parliament. The Central Bank of Kenya Act of 1966 limits the CBK's lending to the government to 5 per cent. of the government's audited revenue.

The functions and powers of the CBK are the following:

- to formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;
- to foster the liquidity, solvency and proper functioning of a stable market-based financial system;
- subject to the above, the CBK shall support the economic policy of the government, including its objectives for growth and employment;
- to formulate and implement foreign exchange policy;
- to hold and manage its foreign exchange reserves;
- to license and supervise authorised dealers;
- to formulate and implement such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems;
- to act as banker and adviser to, and as fiscal agent of the government; and
- to issue currency notes and coins.

Under the Central Bank of Kenya Act of 1966 (Cap. 491), the responsibility for determining the policy of the CBK, other than the formulation of monetary policy, is given to the Board of Directors. The board is comprised of 11 members consisting of the Chairperson, the Governor, the Principal Secretary to the National Treasury or his representative who must be a non-voting member, and eight other non-executive directors. The chairperson and directors are appointed by the President with the approval of Parliament and hold office for a period of four years but are eligible for re-appointment for one further term of four years. Persons eligible to be appointed to the board must be citizens of Kenya who are knowledgeable or experienced in monetary, financial, banking and economic matters or other disciplines relevant to the functions of the CBK.

The CBK operates from its head office in Nairobi and has branch offices in Mombasa, Kisumu and Eldoret. The CBK also runs currency centres in Nyeri, Nakuru and Meru. The CBK also has a major stake in the Kenya School of Monetary Studies which is headed by an executive director answerable to the Governor of the CBK.

The following table sets out the financial position of the CBK as at the dates indicated.

	At 30 June		
	2015	2016	2017
		(KES millions)	
Assets			
Balances due from banking institutions	591,962	696,004	735,548
Funds held with IMF	4,385	1,923	1,877
Securities and advances to banks	75	44,679	34,870
Loans and advances	2,333	2,566	2,575
Financial assets at fair value through profit or loss	113,006	133,253	134,777
Investments in securities	9	9	9
Other assets	4,531	4,285	10,566
Retirement benefit asset	4,668	7,776	8,197
Property and equipment	20,743	22,385	22,703
Intangible assets	494	207	52
Due from government of Kenya	63,163	69,762	24,449
Total assets	**805,369**	**982,849**	**975,623**
Liabilities			
Currency in circulation	222,178	234,751	253,787
Investments by banks	-	7,843	-
Deposits from banks and government	331,316	496,044	470,109
IMF	125,755	122,438	115,125
Other liabilities	4,467	4,780	2,559
Total liabilities	**683,736**	**865,856**	**841,580**
Equity and reserves			
Share Capital	5,000	5,000	5,000
General reserve fund	101,843	97,203	114,253
Asset revaluation reserve	14,790	14,790	14,790
Total liabilities and equity	**805,369**	**982,849**	**975,623**

Source: Central Bank of Kenya

Structure and Development of the Kenya Banking System

Commercial Banks and Mortgage Finance Institutions

Commercial banks and mortgage finance institutions are licensed and regulated pursuant to the provisions of the Banking Act (Cap. 488) and the Regulations and Prudential Guidelines issued thereunder. They are the dominant players in the Kenyan banking system.

As at 30 September 2017, there are 42 licensed commercial banks and one mortgage finance company. Out of the 43 institutions, 26 are locally owned and 17 are foreign owned. The locally owned financial institutions are comprised of three commercial banks whose majority shareholding is held by the government, namely the Consolidated Bank of Kenya (77.8 per cent. government owned), the Development Bank of Kenya (entirely government owned) and the National Bank of Kenya (70.6 per cent. government owned), 23 privately-owned commercial banks and one mortgage finance institution. Over the last two years, two commercial banks in the small peer category have been acquired by two locally owned institutions in the medium peer category.

The current minimum capital requirement is KES1 billion, with the minimum core capital and total capital ratios to risk weighted assets at 10.5 per cent. and 14.5 per cent., respectively, under the Central Bank of Kenya's Prudential Guideline on Capital Adequacy. To ensure full adherence with the Basel I Accord (International Convergence of Capital Measurement and Capital Standards; Basel Committee on Banking Supervision (July 1988)), capital charges for operational and market risk came into force on 1 January 2014. Banks are required to set aside specific capital charges for credit, market and operational risks.

In 2016 and 2017, the Kenyan banking sector went through a challenging period. The CBK has instituted reforms to entrench a culture of transparency and accountability in the banking sector, ensure stronger governance hierarchies and encourage effective business models. The CBK has also strengthened its supervisory capabilities through recruitment of additional staff with competencies in ICT and has reviewed its supervisory processes and procedures.

The government believes that the major risks affecting the Kenyan banking sector are credit risk, liquidity risk and cyber risk. Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the bank or if an obligor otherwise fails to perform as agreed. The rise in credit risk in the Kenyan banking sector can be seen in the 22.7 per cent. increase in non-performing loans in 2017 and is particularly heightened by the ongoing implementation of the ECL Model under IFRS 9. The CBK is addressing the deterioration in asset quality by enhancing provisioning for non-performing loans as well as strengthening the banking sector's credit underwriting standards. Liquidity risk is the risk that a bank may be unable to meet short term financial demands. The average liquidity position in the Kenyan banking sector reached 45.4 per cent. in September 2017, against a regulatory minimum of 20 per cent. Liquidity challenges were exacerbated by the placement of banks under receivership and liquidation in 2015 and 2016, particularly in regard to medium and small banks. Cyber risk is the risk of financial loss, disruption or damage to the reputation of an organisation from a failure of its information technology systems. The rollout of digital service platforms has made banks and other financial service providers vulnerable to cyber-attacks, data breaches, malware, ransomware, denial of service attacks and similar cyber threats. In recognition of this heightened risks, the CBK issued guidance to banking institutions in August 2017 on the management of cyber risks.

Microfinance Institutions

The Microfinance Act, 2006 and the Microfinance Regulations issued thereunder set out the legal, regulatory and supervisory framework for the microfinance industry in Kenya. The Microfinance Act took effect in 2008. As at 30 September 2017, there were 13 deposit taking microfinance institutions in Kenya. The CBK is in the process of reviewing the legal and regulatory framework governing the microfinance banking industry in Kenya.

Forex Bureaus and Money Remittance Providers

Forex bureaus were established and first licensed in January 1995 to foster competition in the foreign exchange market and to narrow the exchange rate spread in the market. As authorised dealers, forex bureaus conduct business and are regulated and supervised by the Central Bank of Kenya Act, chapter 491 of the Laws of Kenya and guidelines issued thereunder. As at 30 September 2017, there were 74 licensed forex bureaus across the country.

Money remittance providers were first licensed as standalone entities in 2013 to facilitate regulation of international remittances in Kenya. As at 30 September 2017, there were 18 licensed money remittance providers in Kenya.

Credit Reference Bureaus

Credit reference bureaus complement the central role played by banks and other financial institutions in extending financial services within an economy. Credit reference bureaus help lenders make faster and more accurate credit decisions. They collect, manage and disseminate customer information to lenders within the framework of the Banking (Credit Reference Bureau) Regulations 2013 which governs the licensing, operation and supervision of Credit Reference Bureaus by the CBK. As at 30 September 2017, there were three licensed credit reference bureaus in Kenya.

Capital Adequacy Ratios

The table below sets out the two main capital adequacy ratios ("**CARs**") for the Kenyan banking sector.

	At 30 June			
	2014	**2015**	**2016**	**2017**
CAR Ratio(1)(2)				
Core Capital (tier 1) to Risk Weighted Assets	15.0%	15.7%	16.3%	16.8%
Total (Regulatory) Capital to Risk Weighted Assets	17.5%	18.9%	18.9%	19.6%

Notes:

(1) Ratios are based on Basel I Capital Accord standards.

(2) The current minimum capital requirement is KES1 billion with the minimum core capital and total capital ratios to risk weighted assets at 10.5 per cent. and 14.5 per cent., respectively.

Source: Central Bank of Kenya

Non-Performing Loans

The CBK classifies credit exposures of commercial banks in five categories according to their performance at a given point in time. These five categories are:

- Normal: loans performing in accordance with the contractual terms and which are up to date on repayments, and expected to continue in this condition.
- Watch: Loans which are generally past due by between 30 and 90 days.
- Substandard: Loans which are generally past due for more than 90 but less than 180 days.
- Doubtful: Loans which are generally past due for more than 180 but less than 360 days.
- Loss: Loans which are generally past due for 360 days or more.

Loans classified as sub-standard, doubtful and loss are considered as non-performing loans ("**NPL**").

The table below sets out the gross loans, non-performing loans and returns as at the dates indicated.

	As at 30 June			
	2014	**2015**	**2016**	**2017**
		(KES billions)		
Gross loans	1,784.2	2,167.0	2,267.3	2,366.1
Gross NPLs	101.6	123.9	191.2	234.5
Return on Assets (%)	3.7	3.3	3.5	2.8
Return on Equity (%)	30.9	28.3	33.8	22.3

Notes:
Source: Central Bank of Kenya

Monetary Policy Framework

The CBK's principal objective is the formulation and implementation of monetary policy directed at achieving and maintaining stability in the general level of prices (i.e., overall inflation) and the value of the Kenyan shilling against the major currencies. Currently, the CBK targets overall inflation at 5 per cent., with the allowable margin of 2.5 per cent. on either side, as prescribed by the National Treasury.

Monetary policy is the main tool used in the preservation of the value of the currency in an economy. It involves the control of liquidity circulating in an economy to levels consistent with growth and price objectives set by the government. The volume of liquidity in circulation influences the levels of interest rates, inflation and the relative value of the local currency against other currencies. It is the responsibility of the Monetary Policy Committee (the "**MPC**") to formulate the monetary policy of the CBK.

The membership of the MPC is as follows:

- the Governor, who is the chairman;
- the Deputy Governor, who is the deputy chairman;
- two members appointed by the Governor from the CBK, one being a person with executive responsibility within the CBK for monetary policy analysis and the other is a person with responsibility within the CBK for monetary policy operations;
- four external members who have knowledge, experience and expertise in matters relating to finance, banking, fiscal and monetary policy, who are appointed by the Cabinet Secretary for the National Treasury; and
- the Principal Secretary, National Treasury, or his designated alternate as representing the National Treasury. The National Treasury representative is a non-voting member of the committee.

Each external member of the Committee serves for a term of three years, which is renewable once. The MPC meets at least once every two months.

The CBK pursues its monetary policy objectives using the following instruments:

- Open market operations: Through open market operations, the CBK buys or sells securities in the secondary market in order to achieve a desired level of reserves. Alternatively, the CBK injects money into the economy through buying securities in exchange for money stock. As the law of supply and demand takes effect to determine the cost of credit (interest rates) in the money market, money stock adjusts itself to the desired level. This process influences availability of money in the economy.

- Foreign exchange market operations: The CBK can also inject or withdraw liquidity from the banking system by engaging in foreign exchange transactions. A sale of foreign exchange to banks withdraws liquidity from the system while the purchase of foreign exchange injects liquidity into the system. Participation by the CBK in the foreign exchange market is usually motivated by the need to acquire foreign exchange to service official debt, and to build-up its foreign exchange reserves in line with the statutory requirement.

- Discount window operations: The CBK, as lender of last resort, may provide secured short term loans to commercial banks on an overnight basis at punitive rates, thus restricting banks to seek funding in the market resorting to CBK funds only as a last solution. The discount rate is set by the CBK to reflect the monetary policy objectives.

- Cash reserves ratio: The cash reserves ratio is the proportion of commercial banks' deposits required by law to be held as non-interest bearing reserves at the CBK. The ratio is currently 5.25 per cent. of the total of a bank's domestic and foreign currency deposit liabilities. An increase in reserve requirements restricts commercial banks' ability to expand bank credit and the reverse is regarded as credit easing.

- Central bank rate: The Central Bank Rate (the "**CBR**") is the main instrument used to signal the direction of monetary policy stance and is reviewed and announced by the MPC at least every two months. Movements in the CBR are transmitted to changes in short-term interest rates. A reduction of the CBR signals an easing of monetary policy and a desire for market interest rates to move downwards.

In September 2016, the Banking (Amendment) Act, 2016 introduced capping of interest rates on credit facilities. The amendment was aimed at protecting borrowers from high interest rates, thus making loans more affordable. The Act sets the maximum lending rate at no more than 4 per cent. above the CBR, and the minimum interest rate granted on a deposit held in interest earning account to a minimum of 70 per cent. of the CBR. This cap partly contributed to a slowdown in private sector credit growth in 2017, as well as reduced profitability in the Kenyan banking sector, with return on assets and return on equity declining to 2.8 percent and 22.3 per cent., respectively, as at 30 June 2017, from 3.5 percent and 33.8 per cent. as at 30 June 2016.

Inflation and Interest Rates

In 2014, the MPC maintained the CBR at 8.5 per cent. The monetary policy measures contributed to the easing of inflationary pressure in 2014, achieving relative price stability with inflation rate remaining close to the 5.0 per cent. target. In response to rising inflation and the instability of the Kenyan shilling at the beginning of 2015, the CBK raised the CBR to 10.0 per cent. in June, and further to 11.5 per cent. in July. There was mixed performance in interest rates during 2015 as a result of these measures. The 91-day Treasury bill rate declined from 8.58 per cent. in December 2014 to 8.26 per cent. in June 2015, before rising to 9.81 per cent. by December 2015. Average lending rates on commercial banks' loans and advances rose to 18.30 per cent. in December 2015, from 15.99 per cent. in December 2014.

In the first half of 2016, the CBR remained at 11.5 per cent., but was subsequently revised downwards to 10.5 per cent. in June 2016, to support growth in the economy and to contain inflationary pressures amid fears of drought. The MPC revised the CBR to 10.0 per cent. in December 2016, in response to the interest rate cap introduced in September 2016, limiting commercial banks' lending rates at a maximum of 14 per cent. and deposit rates at a minimum of 7 per cent.

The 91 day Treasury bill rate dropped from 9.81 per cent. in December 2015 to 8.44 per cent. in December 2016 and to 8.01 in December 2017. The overall inflation stood at 4.50 per cent. in December 2017, compared to 6.35 per cent. in December 2016 and 8.01 per cent. in December 2015.

The following table sets out the nominal principal interest rates as at the end of the months indicated.

	2014		2015		2016		2017	
	June	December	June	December	June	December	June	December
Central Bank of Kenya								
91 day Treasury Bills Rate	9.81	8.58	8.26	9.81	7.25	8.44	8.42	8.01
Central Bank Rate	8.50	8.50	10.00	11.50	10.50	10.00	10.00	10.00
Repo rate	6.46	8.29	9.70	9.23	10.04	n/a(2)	n/a(2)	n/a(2)
Inter-bank rate	6.60	6.91	11.78	7.27	4.87	5.92	4.8	6.9
Commercial Banks(1)								
Average deposits	6.56	6.81	6.64	8.02	6.78	7.33	7.15	n/a(3)
Savings deposits	1.50	1.85	1.85	1.56	1.60	6.37	5.63	n/a(3)
Loan and Advances	16.36	15.99	16.06	18.30	18.18	13.66	13.66	n/a(3)
Overdraft	15.88	15.86	15.67	18.48	18.09	13.49	13.38	n/a(3)

Notes:
(1) Weighted average commercial bank interest rates.
(2) There were no repos in this period
(3) Figures not yet available
Source: Central Bank of Kenya

Average annual consumer price inflation rose from 5.7 per cent. in 2013 to 6.9 per cent. in 2014, before decelerating to 6.6 per cent. in 2015, 6.3 per cent. in 2016 and increasing to 8.0 per cent. in 2017. The modest increase in the rate of inflation in 2014 was attributed to increases in the cost of several food and non-food items which outweighed notable falls in the cost of electricity and petroleum products including petrol, diesel and kerosene. The easing of inflation in 2015 was largely due to reduced costs of petroleum products and tight monetary policies, while easing of inflation in 2016 was mostly due to significant slowdowns in prices of transportation, housing and utilities and communication. Annual average inflation in 2016 was contained within the CBK's target of ±5.0 per cent. However, inflation increased to above target in the first half of 2017, due to the drought that affected food prices. Inflationary pressures started to ease in the second half of 2017 as the weather situation improved and government measures to address the food shortages, such as allowing duty free imports of major food items and introducing a temporary subsidy on maize prices, took effect.

The following table sets out the consumer price index for the periods indicated.

	2013	2014	2015	2016	2017
January	135.62	145.40	153.43	165.37	176.93
February	136.59	145.95	154.14	165.06	179.98
March	137.96	146.61	155.86	165.92	182.98
April	139.28	148.20	158.70	167.07	186.24
May	139.52	149.70	159.98	167.99	187.64
June	139.59	149.91	160.46	169.76	185.39
July	139.87	150.60	160.57	170.84	183.60
August	140.29	152.02	160.90	170.97	184.72
September	142.82	152.24	161.33	171.56	183.66
October	142.75	151.92	162.13	172.62	182.50
November	143.14	151.85	162.97	173.85	182.08
December	143.85	152.51	164.72	175.18	183.05
Annual Average CPI	**132.53**	**140.11**	**149.74**	**159.60**	**169.68**
Average Inflation (per cent.)	**5.7%**	**6.9%**	**6.6%**	**6.3%**	**8.0%**

Notes:
(1) Base: February 2009 = 100.
Source: Kenya National Bureau of Statistics

Liquidity and Credit Aggregates

The following table sets out the deposit liabilities and liquid assets of commercial banks as at the end of each month indicated.

		Deposit Liabilities[1]	Liquid Assets[2]	Overall Liquidity Ratio[3]
		(KES millions)		(per cent.)
2014	December	2,327,188	1,050,496	45.1%
2015	December	2,661,140	1,162,557	43.7%
2016	January	2,623,169	1,114,107	42.5%
	February	2,643,795	1,141,911	43.2%
	March	2,687,099	1,192,283	44.4%
	April	2,716,021	1,220,616	44.9%
	May	2,719,805	1,237,481	45.5%
	June	2,758,217	1,268,498	46.0%
	July	2,738,510	1,257,294	45.9%
	August	2,759,364	1,288,902	46.7%
	September	2,811,369	1,331,856	47.4%
	October	2,791,197	1,304,176	46.7%
	November	2,796,894	1,321,600	47.3%
	December	2,771,711	1,269,312	45.8%
2017	January	2,774,513	1,269,254	45.7%
	February	2,774,513	1,275,379	46.0%
	March	2,857,127	1,321,215	46.2%
	April	2,929,283	1,373,858	46.9%
	May	2,949,869	1,401,673	47.5%
	June	2,971,434	1,429,483	48.1%

Notes:

(1) Total deposits net of balances due to banks, NBFI's, building societies and mortgage finance companies.

(2) Includes cash in till, deposits with local and foreign banks, and local and foreign securities held.

(3) Commercial banks' liquid assets as a percentage of deposit liabilities.

Source: Central Bank of Kenya

In 2016, net foreign assets of the banking system increased slightly by 0.8 per cent., from KES491.5 billion as at 31 December 2015 to KES495.2 billion as at 31 December 2016 with a further increase of 30.1 per cent. to KES644.1 billion as at 30 June 2017. Over the same period, net foreign assets of the CBK remained stable with a slight increase from KES621.4 billion as at 31 December 2015 to KES621.6 billion as at 31 December 2016 and 18.8 per cent. increase to KES738.3 billion as at 30 June 2017.

In 2016, domestic credit by the banking system increased by 6.4 per cent., compared to an increase of 20.8 per cent. in 2015 and 1.0 as at 30 June 2017. The decelerated growth in domestic credit growth is mainly a result of lower growth in credit to the private sector, with credit to private sector expanding by 4.9 per cent. in 2016 compared to 16.1 per cent. Credit in the private sector decreased by 0.7 per cent. to KES2,300.3 billion as at 30 June 2017. At 30 June 2017, lending to the private sector accounted for 76.6 per cent. of total lending, while lending to the central government accounted for 21.5 per cent. of total lending.

In 2016, growth in the broad money supply also slowed down, from 14.1 per cent. as at 31 December 2015 to 3.7 per cent. as at 31 December 2016. The lower annual growth rates of broad money supply and domestic credit were consistent with the developments in the financial sector and the monetary policy stance in 2016. Despite volatility in global financial markets partly due to uncertainty with respect to Brexit and political developments in the United States, the foreign exchange market was relatively stable in 2016. As at 30 June 2017, broad money supply increased by 6.2 per cent. to KES2,936.1 billion.

The following table sets out monetary and liquidity indicators for Kenya as at the dates indicated.

	As at 31 December			As at 30 June
	2014	2015	2016	2017
		(KES millions)		
Assets				
Net Foreign Assets	**479,654.45**	**491,460.80**	**495,164.52**	**644,125.90**
CBK / Government	588,796.03	621,379.28	621,581.90	738,343.79
Commercial Banks	(109,141.58)	(129,918.47)	(126,417.38)	(94,217.89)
Domestic Credit	**2,312,178.17**	**2,793,891.88**	**2,973,172.03**	**3,002,236.87**
Private	1,902,034.35	2,208,898.33	2,316,786.90	2,300,304.81
Government	379,316.25	525,094.47	592,770.18	646,239.52
Other Public	48,402.19	82,447.02	104,719.10	106,858.14
Of which interest in suspense on non-performing loans	17,574.63	22,547.94	41,104.14	51,165.59
Other items (net)	(455,441.71)	(618,651.75)	(703,829.78)	(710,253.05)
Net Domestic Assets	**1,856,736.46**	**2,175,240.13**	**2,269,342.25**	**2,291,983.83**
Liabilities				
Overall Liquidity (L)	**2,955,468.71**	**3,399,353.09**	**3,708,694.03**	**3,934,976.27**
Extended Broad Money (M3)	**2,336,390.91**	**2,666,700.93**	**2,764,506.77**	**2,936,109.73**
Foreign Currency Deposits	340,075.02	413,950.47	404,304.96	455,588.24
Broad Money (M2)	1,996,315.89	2,252,750.46	2,360,201.81	2,480,521.49
Money (M1)	**938,157.18**	**1,023,047.15**	**1,310,015.67**	**1,391,292.89**
Money (M0)	**173,504.58**	**191,250.71**	**209,891.42**	**207,113.53**
Currency in circulation	221,929.52	240,930.91	262,734.41	253,787.10
Cash in tills	(48,424.93)	(49,680.20)	(52,842.99)	(46,673.57)
Quasi Money	**1,058,158.71**	**1,229,703.32**	**1,050,186.14**	**1,089,228.60**

Source: Central Bank of Kenya

Narrow money supply (M1) grew by 28.1 per cent. from KES1,023.0 billion as at 31 December 2015 to KES1,310.0 billion as at 31 December 2016 and a further 6.2 per cent. to KES1,391.3 billion as at 30 June 2017. Broad money supply (M2) increased by 4.8 per cent. from KES2,252.8 billion as at 31 December 2015 to KES2,360.2 billion as at 31 December 2016 and a further 5.1 per cent. to KES2,480.5 as at 30 June 2017. The overall liquidity expanded by 9.1 per cent. in 2016 compared to 15.0 per cent. expansion recorded in 2015. The overall liquidity increased by 6.1 per cent. to KES3,935.0 billion as at 30 June 2017.

Securities Markets

Kenya has one stock exchange, the Nairobi Securities Exchange, which was established in 1954 and currently has 64 listed companies. The Capital Markets Authority of Kenya is the government regulator charged with licensing and regulating the capital markets in Kenya. It also approves public offers and listings of securities traded at the Nairobi Securities Exchange. The Capital Markets Authority was established in 1989 and approved the demutualisation of the Nairobi Securities Exchange and the initial public offering of its shares and subsequent listing of its shares on the Nairobi Securities Exchange in June 2014. The government of Kenya and the CMA Investor Compensation Fund each hold a 5.1 per cent. interest in the Nairobi Securities Exchange. In September 2014, the Nairobi Securities Exchange announced the conclusion of the initial public offering. The number of investment banks was 14 in 2016, while the number of stockbrokers and fund managers was 10 and 28, respectively. The number of custodians was 14 in 2016.

The following table sets out information on various capital markets indicators for the periods indicated.

	Year ended 31 December			
	2014	2015	2016	2017
Equities:				
Total No. of Shares Traded (millions)	8 ,233	6,812	5,809	7,065
Total No. of Transactions	548,991	406,632	300,183	283,258
Total Value of Shares Traded (KES billions)	216	209	147	172
NSE 20 Share Index (Base Jan1966=100)	5,113	4,040	3,186	3,712
End-Period Market Capitalisation (KES billions)	2,316	2,054	1,932	2,522
Fixed Income:				
Total Bond Turnover (KES billions)	506	305	433	436

Source: Kenya National Bureau of Statistics / Nairobi Securities Exchange

PUBLIC FINANCE

Budget Process

The Constitution provides that the national government must share equitably among the national and county governments all revenue that it raises. For every financial year, the equitable share of the revenue raised nationally that is allocated to the county governments shall not be less than fifteen per cent. of all the revenue the national government collects. This amount is calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly. County governments may however be given additional allocations from the national government's share of the revenue either conditionally or unconditionally.

At least two months before the end of each financial year, a Division of Revenue Bill is introduced in Parliament to divide revenue raised nationally between the national government and the county governments. Similarly, a County Allocation of Revenue Bill is introduced in Parliament that divides among the counties the revenue allocated to the county governments. Both these bills must be passed by the National Assembly and the Senate. However, the National Assembly has power under the Constitution to amend or veto the County Allocation of Revenue Bill that has been passed by the Senate by a resolution supported by two-thirds of the members of the National Assembly.

The Division of Revenue Bill and the County Allocation of Revenue Bill are submitted to Parliament by 15 February each financial year.

The revenue allocated to the national government must be dealt with through a process involving the introduction of budget estimates (proposals as to how the money should be spent) and then the annual Appropriation Bill (which authorises the executive to spend).

Three separate sets of "budget estimates" are submitted to the National Assembly. They are:

- the expenditure of the national government prepared by the National Treasury and submitted by the Cabinet Secretary for the National Treasury;
- the expenditure by the parliamentary service submitted by the Parliamentary Service Commission; and
- the expenditure by the judiciary submitted by the Chief Registrar of the judiciary.

The budget estimates prepared by the National Treasury incorporates estimates of the projects and programs provided for in the MTP.

The Constitution does not require estimates for the parliamentary service or the judiciary to be considered by the National Treasury before they are submitted to Parliament.

Before the National Assembly considers the estimates of revenue and expenditure, a committee of the National Assembly discusses and reviews the estimates and makes recommendations to the National Assembly.

In discussing and reviewing the estimates, the committee must seek representations from the public and the recommendations shall be taken into account when the committee makes its recommendations to the National Assembly.

When the estimates of the national government expenditure and the estimates of expenditure for the Judiciary and the Parliament have been approved by the National Assembly, they are included in an Appropriation Bill which is introduced into the National Assembly to authorise withdrawal from the Consolidated Fund of the money needed for the expenditure and appropriation of that money for purposes mentioned in the Appropriation Bill.

The budget estimates and Appropriation Bill are submitted to the National Assembly by 30 April in each financial year.

On the basis of the Division of Revenue Act passed by Parliament, each county government prepares and adopts its own budget and appropriation bill based on the revenue they raise themselves as well as their share of the revenue raised nationally that is divided among the counties in a County Allocation of Revenue Act.

In line with the Constitution, Section 15 of the Public Finance Management Act ("**PFMA**") sets out fiscal responsibility principles to ensure prudency and transparency in the management of public resources. The law provides that:

- over the medium term, a minimum of thirty per cent. of the national budget shall be allocated to development expenditure;
- the national government's expenditure on wages and benefits for its public officers must not exceed 35 per cent. of total national government revenue;
- over the medium term, the national government's borrowings should be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- the public debt should be maintained at a sustainable level;
- fiscal risks should be managed prudently; and
- a reasonable degree of predictability with respect to the level of tax rates and tax bases should be maintained, taking into account any tax reforms that may be made in the future.

In order to control the flow of cash between treasury and spending units and reduce the procedural bottlenecks encountered in the actual execution of budgets, the PFMA provides for the establishment of single treasury accounts for each of the national government and county governments through which payments of money should be made.

While county governments have a greater involvement in the budget process now than they had prior to the adoption of the Constitution as a result of devolution, the Constitution also provides the basis for a coherent public financial management legal framework. Under the Constitution, the Controller of Budget shall oversee the implementation of the budgets of the national and county governments by authorising withdrawals from public funds. In addition, the PFMA also provides that the County Fiscal Strategy Paper must align with the national objectives in the Budget Policy Statement. The County Fiscal Strategy Paper contains the broad strategic priorities and policy goals that will guide the county governments in their budgeting process. County governments rely on allocations from the national government to finance their budgets, with government allocations accounting for approximately 80 per cent. of county budgets in 2016/17. The county governments are responsible for their own budgets and are expected to prepare balanced budgets, with no deficit. If there are any such deficits, these are not subsumed by the national government and consequently do not impact the national debt obligation.

In addition, intergovernmental fora, which facilitate closer cooperation between the national and county governments such as the Intergovernmental Budget and Economic Council, the Intergovernmental Relations Summit and the Council of County Governors have been established. The Intergovernmental Budget and Economic Council is a forum for consultation on economic and financial matters. Moreover, the national government, in accordance with the requirements of the Constitution, has been supporting county governments by building their capacity in the management of public finances. The government is also working closely with the Salaries and Remuneration Commission, which is mandated to set and advise on salaries in the public sector, to devise a policy that will govern wage issues.

Taxation Policy

The overall aim of Kenya's tax policy is to move more to expenditure-based taxes that cover all sectors, including the informal sector. Between 2014 and 2016, the government simplified and modernised the VAT legislation and legislation relating to excise duty and tax procedure. Major changes to Kenya's tax policy were also introduced by the Finance Act 2017, including expanding the individual PAYE bands by 10 per cent., increasing personal relief by 10 per cent. and raising the taxes for betting, lottery, gaming and competition.

A review of the Income Tax Act is on-going and is targeted to be completed by mid-2018. These reforms are intended to modernise the tax legislation, simplify, as well as adopt the international best practice.

In an effort to boost domestic revenue mobilisation, the government is undertaking a combination of policy and administrative reforms to bolster revenue yields going forward. Some of the reforms to be undertaken include:

- roll out of the Integrated Customs Management System (ICMS) to improve efficiency clearance of goods, preventing undervaluation, mis-declarations and falsifications of import documents;
- implementation of the Regional Electronic Cargo Tracking (RECTS) to tackle transit diversion;
- enhance scanning activities to detect concealment;
- scaling-up on-going and routine activities such as Pre-Verification of Conformity (PVOC), benchmarking and auctions;
- data matching and use of third party data to enhance compliance.
- integration of iTax with IFMIS to ensure timely collection of withholding VAT and other withholding taxes;
- expansion of tax base by targeting the informal sector, betting, lotteries and gaming;
- pursue non-filers and increase focus on taxation of international transactions and transfer pricing; and
- enhance investigations and intelligence capacity to support revenue collection.

Revenues and Expenditures

In 2015/16, the government's fiscal deficit was 7.4 per cent. of GDP, a decrease from 8.4 per cent. of GDP in 2014/15. In absolute terms, however, the government's fiscal deficit increased primarily due to lower growth in government revenues compared to expenditures. The actual deficit in 2015/2016 was KES497.3 billion, or 25.4 per cent. lower than the target deficit included in the revised budget for the fiscal year. This was mainly the result of a shortfall of KES250.6 billion, or 12.3 per cent., in actual government expenditures, partially offset by lower than targeted actual revenues of KES67.3 billion, or 5.2 per cent. and below target actual grants of KES36.4 billion, or 55.2 per cent.

In 2016/17, the government's fiscal deficit was 8.9 per cent. of GDP, an increase from 7.4 per cent. of GDP in 2015/16. The government's fiscal deficit increased primarily due to lower growth in government revenues compared to expenditures, due to one-off expenditures as a result of the drought and the general election. The actual deficit in 2016/2017 was KES683.1 billion, or 16.0 per cent. lower than the target deficit included in the revised budget for the fiscal year. This was mainly the result of a shortfall of KES217.1 billion, or 9.3 per cent., in actual government expenditures, partially offset by below target actual revenues of KES54.8 billion, or 3.8 per cent. and below target grants of KES32.5 billion, or 55.3 per cent. The deficit was financed through net external financing of KES385.7 and net domestic financing of KES309.8 billion.

The following tables sets forth the fiscal accounts of the government for the periods indicated.

	2014/2015		2015/2016		2016/2017[(1)]	
	Actual	Target	Actual	Target	Actual	Target
			(KES millions)			
Total Revenue And Grants	**1,135,889**	**1,194,107**	**1,262,240**	**1,365,885**	**1,426,890**	**1,514,139**
Revenue	**1,107,772**	**1,128,769**	**1,232,644**	**1,299,912**	**1,400,578**	**1,455,355**
Ordinary Revenue	1,031,819	1,028,867	1,152,972	1,184,368	1,305,794	1,311,323
Import duty	74,048	72,917	79,188	83,628	89,943	89,220
Excise duty	115,872	113,105	139,540	137,175	165,474	170,258
Income tax	508,581	509,870	560,762	577,985	625,050	623,872
VAT	259,685	259,276	289,213	300,025	339,034	337,570
				21,580		
Investment Income - Others	14,031	16,403	19,253		28,524	28,322
Others	59,602	57,297	65,016	63,975	57,769	62,081
Appropriation-in-Aid	75,953	99,902	79,671	115,544	94,784	144,032
Grants	**28,117**	**65,338**	**29,597**	**65,973**	**26,312**	**58,784**
AMISOM Receipts	3,843	6,100	4,293	6,440	6,787	6,440
Projects Grants (Revenue)	6,916	13,658	7,866	17,025	9,485	18,745
Projects Grants (AIA)	16,098	44,320	16,275	41,165	9,632	32,677
Italian Debt Swap	527	527	499	500	-	500
County Health Facilities – DANIDA	734	734	664	844	408	422
Total Expenditure And Net Lending	**1,640,022**	**1,1860,783**	**1,781,945**	**2,032,509**	**2,109,976**	**2,327,033**
Recurrent Expenditure	**895,199**	**940,421**	**1,027,543**	**1,085,307**	**1,179,497**	**1,238,337**
Domestic Interest	139,615	136,221	172,857	174,120	212,865	181,789
Foreign Interest due	32,261	28,966	42,471	41,387	58,368	62,387
Pensions, salaries, allowances, and miscellaneous services.	37,508	39,444	53,401	56,129	63,958	65,091
Wages & Salaries	297,978	297,978	307,421	333,527	336,636	341,155
Defense and NSIS	93,723	97,911	113,666	112,498	130,194	129,914
O&M/Others	294,114	281,654	337,726	367,646	377,477	458,000
Development and Net Lending	**510,136**	**686,098**	**478,964**	**671,583**	**645,771**	**803,974**
Equalization Fund/1400	400	3,411	6,400	6,400	6,000	6,000
County Governments' Allocation	229,336	229,264	264,039	264,219	284,708	284,722
Contingencies Fund	4,951	5,000	5,000	5,000	-	-
Deficit Incl. Grant (Commitment Basis)	**(504,133)**	**(666,675)**	**(519,705)**	**(666,624)**	**(683,086)**	**(812,895)**
Deficit Excluding Grants (Commitment Basis)	**(532,250)**	**(732,014)**	**(549,301)**	**(732,597)**	**(709,398)**	**(871,678)**
Adjustment to cash basis	16,940	0	22,387	0	0	0
Deficit Including Grants (Cash Basis)	**(487,193)**	**(666,675)**	**(497,318)**	**(666,624)**	**(683,086)**	**(812,895)**
Financing	**471,479**	**666,675**	**474,570**	**666,624**	**697,255**	**812,895**
Net Foreign Financing	**217,479**	**301,307**	**269,924**	**419,010**	**385,745**	**463,850**
Disbursements	296,574	383,243	304,986	457,389	421,667	507,472
Commercial Financing	74,961	75,272	145,031	154,332	186,303	186,303
Project Loans AIA	64,393	129,741	55,369	115,499	86,322	146,832
Project Loans Revenue	30,310	49,398	43,654	61,119	30,908	42,340
Project Loans SGR AIA	123,456	123,456	52,357	118,226	111,367	124,643
Programme Loans	3,454	5,375	8,574	8,213	6,767	7,355
Debt Repayment – Principal	(79,095)	(81,936)	(35,062)	(38,379)	(35,922)	(43,622)
Other Domestic Financing	2,897	9,413	2,389	2,579	1,751	2,114
Net Domestic financing	**251,102**	**355,955**	**202,257**	**245,035**	**309,760**	**346,931**
Nominal GDP Estimate	**5,811,195**	**5,719,079**	**6,709,671**	**6,444,000**	**7,658,138**	**7,658,138**

Note:
(1) Provisional.
Source: National Treasury

Revenue and Grants

Ordinary revenue increased from KES1,031.8 billion in 2014/15 to KES1,153.0 billion in 2015/16 primarily due to increased income tax revenues. Ordinary revenue increased from KES1,153.0 billion in 2015/16 to KES 1,305.8 billion in 2016/17. The increase in ordinary revenues was primarily due to increased revenues from income tax and VAT.

Actual revenue in 2015/16 was KES1,232.6 billion, or 5.2 per cent., less than the target revenue included in the budget for the fiscal year. This was mainly the result of a reduction of KES31.4 billion, or 2.7 per cent., in actual ordinary revenue, which was due mainly to less than budgeted income tax and A-i-A revenues, and a reduction of KES36.4 billion, or 122.9 per cent., in actual revenue from grants, when compared to their respective targets included in the budget for this year.

Actual revenue in 2016/17 was KES1,400.6 billion, or 6.1 per cent., less than the target revenue included in the budget for the fiscal year. This was mainly the result of a reduction of KES49.2 billion, or 52.0 per cent., in A-i-A revenues.

The following table sets forth information regarding the composition of fiscal revenues as a percentage of total revenues and grants, for the periods indicated.

	2014/2015		2015/2016		2016/2017(1)	
	Actual	Target	Actual	Target	Actual	Target
Revenue	97.5%	94.5%	97.7%	95.2%	98.2%	96.1%
Ordinary Revenue	90.8%	86.2%	91.3%	86.7%	91.5%	86.6%
Import duty	6.5%	6.1%	6.3%	6.1%	6.3%	5.9%
Excise duty	10.2%	9.5%	11.1%	10.0%	11.6%	11.2%
Income tax	44.8%	42.7%	44.4%	42.3%	43.8%	41.2%
VAT	22.9%	21.7%	22.9%	22.0%	23.8%	22.3%
Investment Income - Others	1.2%	1.2%	1.5%	1.6%	2.0%	1.9%
Others	5.2%	4.8%	5.2%	4.7%	4.0%	4.1%
Appropriation-in-Aid	6.7%	8.4%	6.3%	8.5%	6.6%	9.5
Railway Development Levy	-	1.9%	-	-	-	-
Grants	2.5%	5.5%	2.3%	4.8%	1.8%	3.9%
AMISOM Receipts	0.3%	0.5%	0.3%	0.5%	0.5%	0.4%
Project Grants (Revenue)	0.6%	1.1%	0.6%	1.2%	0.7%	1.2%
Project Grants (AIA)	1.4%	3.7%	1.3%	3.0%	0.7%	2.2%
Italian Debt Swap	0.0%	0.0%	0.0%	0.0%	-	0.0%
County Health Facilities – DANIDA	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%

Notes:
(1) Provisional.
Source: National Treasury

Expenditure and Net Lending

Total expenditure and net lending increased by 18.4 per cent. from KES1,781.9 billion in 2015/16 to KES2,110.0 billion in 2016/17. In 2016/17, recurrent expenditure constituted 55.9 per cent. of total expenditure and net lending (compared to 57.7 per cent. in 2015/16), while development expenditure constituted 30.3 per cent. in 2016/17 (compared to 27.2 per cent. in 2015/16).

The KES217.1 billion shortfall in total expenditure and net lending in 2016/17 was a result of lower absorption in both recurrent and development expenditures by the national government. Recurrent expenditure showed underperformance in operations and maintenance and others, while development expenditure shortfalls are attributed mainly to lower than programmed absorption of domestically financed programmes by ministries, departments and agencies and lower than programmed execution of externally funded programmes.

Total cumulative ministerial and other public agencies expenditure was KES1,466.8 billion for 2016/17 compared to a target of KES1,730.5 billion. The three largest components of ministerial expenditures in 2016/17 were expenditures for the Teachers Service Commission, 11.0 per cent. of total target ministerial expenditures, expenditures for the State Department of Transport, 8.7 per cent. of total target ministerial expenditures, and expenditures for the State Department of Infrastructure, 8.5 per cent. of total target ministerial expenditures. Expenditures for the Teachers Service Commission consist primarily of payments for salaries. Expenditures for the Ministry of Transport and the Ministry of Infrastructure consist primarily of payments for construction of roads and personal emoluments.

The following table sets forth information regarding the composition of fiscal expenditures as a percentage of total expenditures and net lending for the periods indicated.

	2014/2015		2015/2016		2016/2017[1]	
	Actual	Target	Actual	Target	Actual	Target
Per Cent. Total Expenditure And Net Lending						
Recurrent Expenditure	54.6%	50.5%	57.7%	53.4%	55.9%	53.2%
Domestic Interest	8.5%	7.3%	9.7%	8.6%	10.1%	7.8%
Foreign Interest due	2.0%	1.6%	2.4%	2.0%	2.8%	2.7%
Pensions, salaries, allowances, and miscellaneous services.	2.3%	2.1%	3.0%	2.8%	3.0%	2.8%
Wages & Salaries	18.2%	16.0%	17.3%	16.4%	16.0%	14.7%
Defense and NSIS	5.7%	5.3%	6.4%	5.5%	6.2%	5.6%
O&M/Others(2)	17.9%	15.1%	19.0%	18.1%	17.9%	19.7%
Development and Net Lending	31.1%	36.9%	26.9%	33.0%	30.3%	34.5%
Equalization Fund/1400	0.0%	0.2%	0.4%	0.3%	0.3%	0.3%
County Governments' Allocation	14.0%	12.3%	14.8%	13.0%	13.5%	12.2%
Contingencies Fund	0.3%	0.3%	0.3%	0.2%	-	-

Notes:
(1) Provisional.
(2) Other expenditures consist of personal emoluments, utilities for use of goods and services, current and capital transfers which includes subscriptions.
Source: National Treasury

The following table sets forth information regarding the composition of ministerial expenditures as a percentage of total expenditures, for the period indicated.

	2016/17[(1)(2)]			
MINISTRY/DEPARTMENT/COMMISSION	**Recurrent Actual**	**Development Actual**	**Total Actual**	**% of Total[(3)]**
		(KES millions)		
The Presidency	9,954	254	10,207	0.6
State Department for Interior	92,091	24,630	116,722	6.7
State Department for Correctional Services	17,094	254	17,348	1.0
State Department for Devolution	779	394	1,172	0.1
State Department for Special Programmes	8,823	6,289	15,111	0.9
State Department for Planning and Statistics	5,671	29,696	35,367	2.0
Ministry of Defence	101,148	-	101,148	5.8
Ministry of Foreign Affairs	10,826	159	10,985	0.6
State Department for Basic Education	54,842	8,196	63,038	3.6
State Department for Vocational And Technical Training	2,446	5,427	7,874	0.5
State Department for University Education	54,282	9,380	63,662	3.7
The National Treasury	35,343	21,472	56,815	3.3
Ministry of Health	29,806	26,791	56,597	3.3
State Department for Infrastructure	38,760	107,821	146,581	8.5
State Department for Transport	1,511	148,836	150,347	8.7
State Department for Marine time Affairs	241	-	241	0.0
State Department for Housing & Urban Development	2,324	14,015	16,339	0.9
State Department for Public Works	753	999	1,752	0.1
State Department for Water Services	2,305	33,441	35,745	2.1
State Department for Irrigation	470	8,634	9,104	0.5
State Department of Environment	2,778	1,557	4,335	0.3
State Department for Natural Resources	6,400	1,537	7,937	0.5
Ministry of Lands and Physical Planning	2,118	2,945	5,062	0.3
State Department for Information Communication and Technology & Innovation	1,045	25,283	26,328	1.5
State Department for Broadcasting & Telecommunications	3,103	329	3,432	0.2
State Department for Sports Development	3,564	2,010	5,574	0.3
State Department For Arts And Culture	2,887	488	3,375	0.2
State Department of Energy	2,022	79,568	81,590	4.7
State Department of Petroleum	182	1,470	1,652	0.1
State Department for Agriculture	11,532	9,583	21,116	1.2
State Department for Livestock	5,677	2,963	8,640	0.5
State Department for Fisheries and The Blue Economy	1,796	2,707	4,503	0.3
State Department for Investment and Industry	2,721	3,384	6,106	0.4
State Department for Cooperatives	3,092	530	3,621	0.2
State Department for Trade	3,414	119	3,532	0.2
State Department for East African Integration	1,506	16	1,522	0.1
State Department for Labour	1,366	382	1,748	0.1
State Department for Social Protection	6,909	13,665	20,574	1.2
Ministry of Mining	643	1,252	1,894	0.1
Ministry of Tourism	1,438	3,247	4,686	0.3
State Department of Public Service and Youth Affairs	13,077	14,173	27,251	1.6
State Department for Gender	699	3,430	4,129	0.2
State Law Office and Department of Justice	3,936	60	3,996	0.2
The Judiciary	11,428	2,632	14,060	0.8
Ethics and Anti-Corruption Commission	3,180	250	3,430	0.2

MINISTRY/DEPARTMENT/COMMISSION	2016/17[1][2]			
	Recurrent Actual	Development Actual	Total Actual	% of Total[3]
National Intelligence Service	29,046	-	29,046	1.7
Directorate of Public Prosecutions	1,480	12	1,492	0.1
Registrar of Political Parties	674	-	674	0.0
Witness Protection Agency	320	-	320	0.0
Kenya National Commission on Human Rights	419	-	419	0.0
National Land Commission	1,256	103	1,359	0.1
Independent Electoral and Boundaries Commission	21,313	-	21,313	1.2
Parliamentary Service Commission	8,474	1,880	10,354	0.6
National Assembly	15,740	-	15,740	0.9
Judicial Service Commission	418	-	418	0.0
Commission on Revenue Allocation	318	-	318	0.0
Public Service Commission	1,225	38	1,264	0.1
Salaries and Remuneration Commission	536	-	536	0.0
Teachers Service Commission	190,925	6	190,931	11.0
National Police Service Commission	428	-	428	0.0
Auditor General	4,122	144	4,266	0.2
Controller of Budget	498	-	498	0.0
The Commission on Administrative Justice	419	-	419	0.0
National Gender and Equality Commission	378	-	378	0.0
Independent Policing Oversight Authority	336	-	336	0.0
Totals..	**844,307**	**622,455**	**1,466,762**	**84.8**

Notes:

(1) Expenses are set forth according to the composition of the ministries, departments and commissions after reorganisation of the government in 2013.

(2) Provisional.

(3) Total actual expenditures for ministry, department or commission as per cent. of total target expenditures for all ministries, departments and commissions.

Source: National Treasury

The 2017/18 Budget

In November 2016, the National Treasury presented to Parliament the Budget Policy Statement, a document that states the government's plans for raising and spending money in fiscal year 2017/18 and the main priorities on which it will spend its resources. Consistent with the second MTP and the five pillars of the Vision 2030 plan, the government announced in the Budget Policy Statement that it plans to (i) sustain a conducive business environment by maintaining macroeconomic stability and enhancing security so as to promote sustainable growth and encourage investment opportunities in the country; (ii) continue spending in infrastructure to unlock growth constraints and maintain and expand the on-going public investments in road, rail, energy and water supplies; (iii) enable transformation of agriculture from subsistence to commercial farming and agribusiness, and to ensure sustainable food security in the country; (iv) continue investing in quality and accessible healthcare, relevant education and strengthen the social safety net; and (v) further entrench devolution for the delivery of better government services and enhanced rural economic development.

In June 2017, the Parliament approved the budget estimates for the 2017/18 budget. However, as a result of the prolonged drought in Kenya in 2017, the repeat of the presidential elections in October 2017, salary shortfalls and the under performance of the main revenue tax heads, among other challenges, the 2017/18 budget estimates were subsequently revised. Revenue forecasts for the 2017/18 budget were revised downwards to reflect the outcome of the 2016/17 financial year and to take into account other than the fiscal developments. Further, expenditure projections were revised to accommodate some of these challenges, emerging priorities and provide room for salary shortfalls under the recently approved Supplementary Budget I. These additional expenditures were accommodated by trade-offs and reallocations of the existing budgetary provisions supported by austerity measures instituted on less productive areas of spending across the government.

The budget estimates includes allocations, among others, of KES134.9 billion for on-going road construction projects, KES75.5 billion for the Standard Gauge Rail project, KES7.3 billion for on-going irrigation projects countrywide and transformation of agriculture from subsistence to productive commercial farming, KES14.3 billion for enhancing security operations and KES53.3 billion for energy related initiatives, including geothermal development and the rural electrification programme. As presented in the Draft 2018 Budget Policy Statement, the 2017/18 budget assumes:

- economic growth of 5.3 per cent. for 2017/18 and 5.9 per cent. for 2018/19;

- average inflation of 6.3 per cent. in 2017/18;
- the net-public debt to GDP ratio will increase from 51.9 per cent. for 2016/17 to 53.0 per cent. for 2017/18; and
- total revenue to be up to 19.0 per cent. of GDP in 2017/18.

The following table sets forth the original and revised 2017/18 budget as provided in the Draft 2018 Budget Policy Statement.

	2017/2018		
	Original Budget	**Revised Budget**	**Deviation**
	(KES millions)		
Total Revenue And Grants	**1,763,324**	**1,702,356**	**(60,968)**
Revenue	**1,704,503**	**1,643,110**	**(61,393)**
Ordinary Revenue	1,549,367	1,486,294	(63,072)
Import duty	102,401	102,391	(11)
Excise duty	197,370	183,661	(13,708)
Income tax	765,602	709,134	(56,468)
VAT	383,522	383,698	175
Investment Income - Others	18,162	23,111	4,949
Others	82,310	84,300	1,990
Appropriation-in-Aid	155,136	156,816	1,680
Grants	**58,821**	**59,246**	**425**
AMISOM Receipts	6,100	6,100	-
Projects Grants (Revenue)	12,536	13,726	1,190
Projects Grants (AIA)	40,184	39,419	(765)
Italian Debt Swap	-	-	-
County Health Facilities – DANIDA	-	-	-
Total Expenditure And Net Lending	**2,298,775**	**2,323,151**	**24,376**
Recurrent Expenditure	**1,347,280**	**1,404,815**	**57,535**
Domestic Interest	210,148	215,243	5,095
Foreign Interest due	70,572	88,841	18,269
Pensions, salaries, allowances, and miscellaneous services.	76,173	76,173	-
Wages & Salaries	409,206	401,003	(8,202)
Defense and NSIS	130,178	123,520	(6,658)
O&M/Others	451,003	500,035	49,032
Development and Net Lending	**640,295**	**607,136**	**(33,160)**
Equalization Fund/1400	7,716	7,716	-
County Governments' Allocation	306,200	306,200	-
Contingencies Fund	5,000	5,000	-
Deficit Incl. Grant (Commitment Basis)	**(535,451)**	**(620,795)**	**(85,343)**
Deficit Excluding Grants (Commitment Basis)	**(594,272)**	**(680,040)**	**(85,768)**
Adjustment to cash basis	-	-	-
Deficit Including Grants (Cash Basis)	**(535,451)**	**(620,795)**	**(85,343)**
Financing	**535,451**	**620,795**	**85,343**
Net Foreign Financing	**255,954**	**323,219**	**67,266**
Disbursements	405,000	472,496	67,496
Commercial Financing	200,000	250,000	50,000
Export Credit – Commercial Financing	0	11,495	11,495
Project Loans AIA	117,255	117,499	244
Project Loans Revenue	32,830	33,487	657
Project Loans SGR AIA	54,015	54,015	-
Programme Loans	900	6,000	5,100
Debt Repayment – Principal	(149,046)	(149,277)	(230)
Other Domestic Financing	3,809	3,809	-
Net Domestic financing	**275,689**	**293,767**	**18,078**
Nominal GDP Estimate	**8,284,284**	**8,681,200**	**396,916**

Source: National Treasury

Estimated total revenue for fiscal year 2017/18 is KES1.6 trillion, comprising of KES1.5 trillion of ordinary revenue and KES135.6 billion of A-i-A. The total revenue estimate represents an increase of 17.3 per cent. over revenue collection for 2016/17. Revenue performance will be underpinned by on-going reforms in tax policy and revenue administration, through automation and inter-agency collaboration and connectivity. The Government will also complete the review of the income tax law so as to modernise it and align it to international practice. The 2017/18 budget includes external grants from development partners' amounting to KES59.2 billion.

The government estimates total expenditure and net lending in the 2017/18 budget to amount to KES2.3 trillion, which the government expects to result in an overall fiscal deficit (including grants) of KES620.8 billion (7.2 per cent. of GDP). The government expects the deficit to be financed by net external financing of KES323.2 billion and KES 297.6 billion net borrowing from the domestic market.

The recurrent expenditures are budgeted to amount to KES1,404.8 billion, of which KES304.1 billion is for interest payments and KES76.2 billion is for pensions. The government estimates gross development expenditures for 2017/18 at KES607.1 billion.

The following table sets out the budget allocation by sector for the 2017/18 budget as provided in the Draft 2018 Budget Policy Statement.

Sectors	**2017/18 Recurrent Expenditure Allocations**	**2017/2018 Development Expenditure Allocations**	**Total Allocation**
		(KES millions)	
Education	350,149	24,839	374,987
Energy, infrastructure and IT	67,222	348,522	415,744
Agriculture, rural and urban development	17,311	21,086	38,397
Public administration and international relations	165,720	104,471	270,191
Governance, justice law and order	176,137	26,414	202,551
National security	130,178	45	130,223
Social protection, culture and recreation	20,652	25,526	46,178
Environment protection, water and natural resources	22,788	50,798	73,586
Health services	30,721	30,979	61,700
General economic and commercial affairs	9,610	10,185	19,794
Totals	**990,487**	**642,865**	**1,633,352**

Source: National Treasury

The 2018/19 Budget

The proposed 2018/19 Budget Policy Statement is expected to be submitted to Parliament for approval by 15 February 2018. The proposed 2018/19 budget may be subject to further variation, in particular the expenditure figures, of up to 10 per cent.

The proposed 2018/19 budget projects revenue collection, including A-i-A revenues, at KES1,849.4 billion, or 18.9 per cent. of GDP, for the fiscal year 2018/19. Expenditures are estimated at KES2,488.4 billion, or 25.4 per cent. of GDP. The 2018/19 proposed budget estimates a fiscal deficit of KES588.5 billion (including grants) or 6.0 per cent. of GDP. The fiscal deficit is expected to be financed by net external financing of KES214.7 billion, net domestic borrowing of KES369.6 billion and other net domestic receipts of KES4.2 billion.

PUBLIC DEBT

Overview

Government debt comprises external and domestic debt. Domestic debt is reported on a gross basis and excludes government deposits in commercial banks, CBK and National Treasury advances to parastatals. It consists of government securities and loans and advances from the banking system. All domestic debt is in local currency; there is no foreign currency domestic debt. External debt consists of public and publicly guaranteed debt from outside the country contracted in foreign currency.

Total national government debt stood at US$41.2 billion as at 30 June 2017, representing a 17.0 per cent. increase from US$35.1 billion as at 30 June 2016. The proportion of national government's external debt to total debt increased from 48.9 per cent. as at 30 June 2016 to 50.5 per cent. as at 30 June 2017, mainly due to increased commercial borrowing. The government is permitted under the terms of the PFMA to incur debt within the limits set by Parliament, currently set at 50 per cent. of GDP in net present value terms. Following the issue of the Notes, the total net present value of debt as a percentage of GDP is expected to nearly reach the 50 per cent. limit. Although the government may be restricted from incurring further public debt under such circumstances, the Government will be seeking to refinance or repay near term maturities, and therefore expects to maintain the ratios within the set limits.

The following table sets out a summary of national government public debt disaggregated into foreign and domestic debt as at the dates indicated.

As at 30 June	External		Internal		Total	
	(KES millions)	*(US$ millions)*[1]	*(KES millions)*	*(US$ millions* [1]	*(KES millions)*	*(US$ millions* [1]
2014	1,138,505	12,993	1,284,327	14,657	2,422,832	27,649
2015	1,423,252	14,429	1,420,444	14,400	2,843,696	28,829
2016	1,796,198	17,766	1,815,133	17,953	3,611,331	35,720
2017[1]	2,294,153	22,120	2,112,710	20,371	4,406,863	42,491

Notes:

(1) Conversion from Kenyan shilling to US dollar made using the applicable end of period mean exchange rate as released by the Central Bank of Kenya.

(2) Provisional

Source: National Treasury / Central Bank of Kenya

The following table sets out a summary of national government debt disaggregated into fixed rate debt and floating rate debt as at the dates indicated.

	As at 30 June					
	2015		**2016**		**2017[1]**	
	Amount (KES millions)	**Percen tage**	**Amount (KES millions)**	**Percentage**	**Amount (KES millions)**	**Percentage**
Floating rate debt	175,060.00	6%	170,638.81	5%	683,657.59	16%
Fixed rate debt	2,668,636.00	94%	3,440,692.19	95%	3,723,205.41	84%
Total	**2,843,696.00**	**100%**	**3,611,331.00**	**100%**	**4,406,863.00**	**100%**

Notes:

(1) Provisional

Source: National Treasury / Central Bank of Kenya

Total multilateral debt increased by 15.8 per cent. to stand at US$8.0 billion at 30 June 2016 while total bilateral debt increased from US$4.5 billion at 30 June 2015 to US$5.3 billion at 30 June 2016. Although the government exerted efforts to restrict borrowing to sources that attract low interest rates as well as long-term repayment period, the depreciation of the Kenyan shilling contributed to the overall increase in external debt. The increase in bilateral debt was mainly driven by a rise in stock of debt from the People's Republic of China, which increased by 21.2 per cent., accounting for more than half of the total bilateral debt. See "*Risk Factors— Kenya has concentrated debt exposure to China and an adverse impact on the Chinese economy may impact the future ability of Kenya to increase its borrowings*". Outstanding debt from Japan and Belgium also increased by 28.0 per cent. and 15.9 per cent, respectively. These increases are mainly attributed to increased disbursements to finance infrastructure development.

Total multilateral debt rose by 1.0 per cent. to US$8.1 billion at 30 June 2017 while total bilateral debt increased by 31.0 per cent. from US$5.3 billion at 30 June 2016 to US$7.0 billion at 30 June 2017. As at 30 June 2017, approximately 29.3 per cent. of external debt is floating-rate debt.

In June and November 2014, Kenya raised in aggregate US$2.75 billion through a dual tranche 5- and 10-year Eurobond issuance. The proceeds of the issuance were used for the funding of infrastructure projects, as well as the repayment of a US$600 million loan incurred in 2011/12.

In 2015, Kenya entered into a 2-year US$750 million syndicated loan with a consortium of banks. In June 2016, Kenya entered into a 7-year US$600 million loan from China Development Bank Corporation and a 2-year US$200 million loan from Africa Export-Import (Afrexim) Bank. In December 2016, Kenya entered into a 2-year US$250 million loan from East and South Africa Trade Development Bank (formerly PTA Bank). In March 2017, Kenya entered into a 5-year US$300 million loan and a 10-year US$200 million from East and South Africa Trade Development Bank, and a 2-year US$766 million and a 3-year US$234 million loans with a consortium of banks. In October 2017, Kenya entered into a 10-year US$750 million loan from East and South Africa Trade Development Bank to refinance the maturing 2-year US$750 million syndicated loan.

During 2017, various ministries and corporations in Kenya, such as the Ministry of Energy and Kenya Power and Lighting Co. Ltd. entered into a series of loans with Exim Bank of China, amounting to a total sum of approximately US$1.2 billion and CNY3.4 billion. Such loans mature between 2030 and 2040 and were used to fund certain infrastructure and electricity projects in Kenya.

The following tables set out the total public and publicly guaranteed external and internal debt by source as at the dates indicated.

	As at 30 June			
	2014	**2015**	**2016**	**2017**
	(US$ millions)[(1)]			
External Debt:				
Lending Countries:				
Germany	303.2	228.7	305.98	305.4
Japan	964.5	801.1	933.85	881.8
France	702.7	598.5	587.3	610.0
United States	51.8	45.2	39.9	33.7
Netherlands	30.8	19.9	23.2	16.9
Denmark	22.7	14.6	15.2	13.1
Finland	1.1	0.7	2.7	16.5
China	922.7	2,555.1	3,097.2	4,614.9
Belgium	92.4	62.3	73.9	95.8
Austria	8.2	7.5	10.2	5.0
Canada	15.4	12.9	8.0	5.2
Italy	19.6	11.2	6.2	6.3
United Kingdom	21.0	14.9	9.8	6.3
Other	152.2	139.5	310.4	356.4
Total Lending Countries	**3,308.4**	**4,511.9**	**5,423.8**	**6,967.2**
International Organisations:				
ADB/ADF	1,165.3	1,637.6	1,772.8	1,904.3
IDA/IFAD	4,238.0	4,129.1	4,989.9	5,211.8
EEC/EIB	235.7	209.1	208.4	196.7
IMF	950.4	873.4	839.2	748.6
Others	103.4	91.6	91.0	80.5
Total International Organisations	**6,816.8**	**6,940.7**	**7,901.2**	**8,141.8**
Commercial Banks	**2,679.4**	**2,807.6**	**4,276.7**	**6,864.3**
International Sovereign Bond	2,000.0	2,750.0	2,750.0	2,750.0
Export Credit	**187.7**	**168.6**	**164.5**	**147.6**
Total External	**12,992.6**	**14,428.8**	**17,766.1**	**22,120.8**

Notes:

(1) Conversion from Kenyan shilling to US dollar made using the applicable end of period mean exchange rate as released by the Central Bank of Kenya.

Source: National Treasury/Central Bank of Kenya

	As at 30 June			
	2014	**2015**	**2016**	**2017**
	(KES Millions)			
Internal Debt:				
Treasury Bills[(1)]	299,406.0	318,929.0	588,088.0	744,154.9
Treasury Bonds...	914,762.0	1,035,662.0	1,152,041.0	1,332,417.6
Non-Interest bearing debt	28,334.0	26,676.0	25,559.0	24,448.8
Others (includes stocks)[(2)]..........................	41,825.0	39,177.0	49,446.0	11,132.0
Less government deposits & on-lending....	(205,516.0)	(242,266.0)	(400,557.0)	(434,475.0)
Total Internal (net)	**1,078,811.0**	**1,178,178.0**	**1,414,577.0**	**1,677,678.0**

Notes:
(1) Excludes repo bills.
(2) Others consist of Central Bank of Kenya overdraft to the government of Kenya, cleared items awaiting transfer to PMG, commercial bank advances and tax reserve certificates.
Source: National Treasury/Central Bank of Kenya

The table below shows the principal maturities of Kenya's foreign currency debt.

	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028-2032**	**2033-2038**	**2039-2043**	**2044-2048**
							(US$ millions)							
Concessional	617.5	544.3	584.8	579.59	545.0	505.2	460.7	441.7	414.1	418.0	1,950.9	1,601.6	1,095.1	872.7
Non-Concessional	1,204.9	1,075.6	698.5	548.63	557.1	436.4	361.4	343.7	346.3	333.4	1,030.5	280.3	--	-
Eurobond	-	750.0	-	-	-	-	2,000.0	-	-	-	-	-	-	-

As at 30 June 2017, the national government guaranteed approximately KES135,180 million of the indebtedness of the non-financial public sector.

The table below sets out information on publicly guaranteed debt of the non-financial public sector at the dates indicated.

	Publicly Guaranteed Debt					
	Year Loan		**Loan Balance At 30 June**			
	Contracted	**Creditor**	**2014**	**2015**	**2016**	**2017[(1)]**
			(KES millions)			
City Council of Nairobi...	1985	United States	75	-	-	-
Kenya Broadcasting Corporation......................................	1989	Japan	3,584	2,404	2,224	1,385.68
Telkom Kenya Ltd...	1990	Canada	351	375	-	-
Tana and Athi River Development Authority....................	1990	Japan	1,526	1,172	1,156	810.93
East African Portland Cement...	1990	Japan	1,896	1,457	1,438	1,008.06
KenGen Ltd	1995	Japan	4,048	3,393	3,767	3,325
	1997	Japan	3,950	3,372	3,827	3,422
	2004	Japan	8,981	8,005	9,534	8,753
	2007	Japan	3,660	3,416	4,218	3,972
	2010	Japan	42	44	55	51
	2010	Germany	-	-	3,514	3,302
	2011	Germany	-	-	4,656	4,875
Kenya Ports Authority...	2007	Japan	13,167	15,856	22,099	21,211
Kenya Railways...	2008	IDA	3,943	4,439	4,044	4,667
Kenya Ports Authority	2016	Japan	-	-	-	614
Kenya Airways	2017	Afrexim	0	0	0	77,784
Total			**45,221**	**43,933**	**60,530**	**135,180**

Notes:
(1) Provisional
Source: National Treasury

Net external debt servicing charges increased to US$922.0 million in 2016/17, while net internal debt servicing charges increased by 20.7 per cent. to US$2,004.6 million in 2016/17. The government attributes this change to increase in outstanding domestic debt portfolio. Interest and loan receipts decreased by 3.0 per cent. from US$49.4 million in 2015/16 to US$47.9 million in 2016/17.

The following table sets out a summary of central government debt service as at the dates indicated.

Year Ended 30 June	Annual Debt Servicing Charges[1]			Interest and Loan Repayment Receipts			Net Servicing Charges		
	External	Internal	Total	External	Internal	Total	External	Internal	Total
					(US$ millions)[2]				
2014	472.4	1,360.3	1,832.7	-	40.7	40.7	472.4	1,319.6	1,792.0
2015	1,151.1	1,416.5	2,567.6	-	43.5	43.5	1,151.1	1,373.0	2,524.1
2016[3]	777.3	1,709.8	2,487.0	-	49.4	49.4	777.3	1,660.4	2,437.7
2017[3]	922.0	2,052.5	2,974.5	-	47.9	47.9	922.0	2,004.6	2,926.6

Notes:

(1) Annual debt servicing charges = central government and guaranteed debt redemption + interest.

(2) Conversion from Kenyan shilling to US dollar made using the applicable end of period mean exchange rate as released by the Central Bank of Kenya.

(3) Provisional

Source: National Treasury

Relations with the IMF

The IMF approved a three-year Extended Credit Facility ("**ECF**") arrangement for Kenya on 31 January 2011 in an amount equivalent to SDR325.68 million (US$508.7 million). The programme was aimed at protecting Kenya's external position, while allowing a gradual fiscal adjustment. The programme was designed to help rebuild Kenya's international reserves by supporting the conditions for sustainable growth while preserving macroeconomic stability and help address balance of payments financing needs and provide a reserve cushion to help Kenya deal with adverse shocks. On 9 December 2011, the IMF approved an augmentation of the ECF arrangement bringing the total to an amount equivalent to SDR 488.52 million (approximately US$748.4 million). On 2 December 2013, the IMF announced that it had completed its sixth review of Kenya's economic programme supported by the ECF and approved the immediate disbursement of an amount equivalent to SDR 71.921 million (approximately US$110.2 million), which brought total disbursements to the full arrangement amount of SDR 488.52 million. The IMF conducted its Article IV Mission from 25 June 2014 to 9 July 2014 and published its report in October 2014. In February 2015, the IMF approved a blended Stand-By Arrangement and Standby Credit Facility (the "**SBA-SCF 1**") for a combined amount of SDR 488.52 million (approximately US$688 million), with SDR 379.96 million made available immediately, and the remainder in two equal tranches upon completion of semi-annual programme reviews. The first review was completed in September 2015, where the Executive Board made available an additional SDR54.38 million (approximately US$76.3 million).

In March 2016, the IMF approved a new SDR 709.259 million (approximately US$989.8 million) 24-month Stand-By Arrangement (SBA) and a SDR 354.629 million (approximately US$494.9 million) 24-month Standby Credit Facility (SCF) for a combined SDR 1.06 billion (approximately US$1.5 billion) for Kenya (the "**SBA-SCF 2**") and SDR 542.8 million (approximately US$$757.5 million) was made immediately available. The first review of the SBA-SCF 2 was completed by the IMF in January 2017 and following completion of this review an additional SDR 56.994 million (approximately US$77.4 million) under the facility was made available to Kenya.

However, the second and third reviews of the IMF programme due in June 2017 and December 2017 could not be completed on time due to the prolonged election period. Accordingly, no funds under the SBA-SCF 2 facility (including previously available amounts that were not drawn down) are available to Kenya until it has reached certain targets to the satisfaction of the IMF, which will be assessed at the next review. Following the conclusion of the general election, the IMF is now in Nairobi from 19 February 2018 to conduct a review under the SBA-SCF2 and for consultations on whether to extend the existing SBA-SCF or to agree on a new programme. Even if the IMF agrees to make this or another programme available upon conclusion of their review, the government intends to continue to treat the arrangements as precautionary and does not intend to draw on the facility unless exogenous shocks lead to an actual balance of payments need.

At present, there is no indication of on what terms any facility might be made available, and no assurance that any standby facility will be made available at all. In addition, statements made by the IMF may contain adverse information that could negatively impact the price of the Notes.

Debt Record

History of Debt Restructuring

Paris Club. Kenya has approached the Paris Club of creditors three times since 1990 to seek debt relief and a rescheduling of its external debt. The first debt rescheduling agreement was reached in January 1994 and granted debt relief with respect to US$535 million of indebtedness to bilateral creditors on non-concessional terms with an eight-year repayment period, including a one-year grace period. The amount covered by the first rescheduling agreement has been fully repaid. While the first rescheduling agreement was "flow" rescheduling, which limited the rescheduling to the debt servicing (principal plus interest) falling due within a specified period (consolidation period), the second rescheduling agreement received "stock" treatment, which takes into account the entire outstanding stock (principal plus accumulated arrears) and reprofiles it over an extended period of time. The second debt rescheduling agreement was signed in November 2000 and granted debt relief with respect to US$301 million of indebtedness to bilateral creditors, with maturities due from 1 July 2000 to 30 June 2001 (including the debt service payments in arrear as of 1 July 2000). As part of this rescheduling, Kenya received an extension of repayment of Official Development Assistance ("**ODA**") of 20 years and an extension of repayment of non-ODA credits of 18 years, with a three-year grace period.

The third rescheduling agreement was signed in January 2004. Approximately US$353 million of debt owed to bilateral creditors was rescheduled and the Republic received an extension of repayment of ODA credits of 20 years, with a ten-year grace period, and an extension of repayment of non-ODA credits of 15 years, with a five-year grace period. The total stock of bilateral debt eligible under the agreement covered maturities falling due from 1 January 2004 to 31 December 2006 (including the debt service payments in arrear as of 31 December 2003).

London Club. Kenya has also received debt relief from the London Club creditors. In 1998, the London Club creditors rescheduled Kenya's debts amounting to US$70 million over ten years, including a three year grace period, at prevailing market interest rates. In 2003/04, approximately US$23 million of debt owed to London Club creditors was rescheduled over two years at prevailing market interest rates.

Bilateral Debts. Kenya has also received bilateral debt cancellations from Finland, Netherlands and China in various past years. In 2006, Kenya entered into a debt-for-development swap agreement with the Italian government amounting to US$44 million.

The table below summarises the current status of the rescheduled debts.

	Amount rescheduled	**Outstanding amount**
Rescheduling year	**As at 31 December 2017**(1)	
	(US$ millions)(2)	
Paris Club		
1994	535	-
2000	301	86
2004	353	231
London Club		
1998	70	-
2003	23	-

Notes:
(1) Provisional
(2) Conversion from Kenyan shilling to US dollar made using the applicable end of period mean exchange rate as released by the Central Bank of Kenya.
Source: National Treasury

TERMS AND CONDITIONS OF THE NOTES

Terms and Conditions of the 2028 Notes

The following is the text of the Terms and Conditions of the 2028 Notes which, upon issue, will represent the terms and conditions applicable to all 2028 Notes, and, subject to completion and amendment, will be endorsed on each Certificate and will be attached and (subject to the provisions thereof) apply to each Global Note representing the 2028 Notes. Within the following section "Terms and Conditions of the 2028 Notes", please note that the use of the term the "Notes" applies only to the 2028 Notes. Elsewhere in the Prospectus, the use of the term the "Notes" applies to the 2028 Notes and the 2048 Notes together:

The US$1,000,000,000 7.250 per cent. Notes due 2028 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 and forming a single series with the Notes) issued by the Republic of Kenya (the "**Issuer**") are issued subject to and with the benefit of an agency agreement dated 28 February 2018 (such agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer, Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**"), Citibank, N.A., London Branch as fiscal agent and principal paying agent (the "**Fiscal Agent**"), Citibank, N.A., London Branch as transfer agent (the "**Transfer Agent**") and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the "**Paying Agents**") and the other agents named in it (together with the Fiscal Agent, the Registrar, the Transfer Agent and the other Paying Agents, the "**Agents**"). The Notes also have the benefit of a deed of covenant dated 28 February 2018 (the "**Deed of Covenant**") executed by the Issuer in relation to the Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours by the holders of the Notes (the "**Noteholders**") at the Specified Office (as defined in the Agency Agreement) of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Paying Agents and the Agents shall include any successor appointed under the Agency Agreement.

1. Form, Denomination and Title

(a) **Form and Denomination**: The Notes are issued in registered form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof (each, an "**Authorised Denomination**"). A registered note certificate (each, a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders (the "**Register**") which the Issuer will procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement.

(b) **Title**: Title to the Notes passes only by registration in the Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions "**Noteholder**", and in relation to a Note, "**holder**" means the person in whose name a Note is registered in the Register (or, in the case of a joint holding, the first named thereof).

2. Transfers of Notes and Issue of Certificates

(a) **Transfers**: Subject to Condition 2(d) and Condition 2(e), a Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the Specified Office of the Registrar or any of the Transfer Agents together with such evidence as the Registrar or Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided however, that* a Note may not be transferred unless the principal amount of the Notes transferred and (where not all of the Notes held by a Noteholder are being transferred) the principal amount of the Notes not transferred, are Authorised Denominations.

(b) **Delivery of new Certificates**: Each new Certificate to be issued upon transfer or exchange of Notes will, within five business days of receipt by the Registrar or the Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition 2(b), "**business day**" shall mean a day on which banks are open for business in the city in which the Specified Office of the Registrar or the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

(c) **Formalities free of charge**: Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but upon payment (or the giving of such indemnity as the Registrar or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

(d) **Closed Periods**: No Noteholder may require the transfer of a Note to be registered during the period of 15 calendar days ending on (and including) the due date for any payment of principal or interest on that Note.

(e) **Regulations**: All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder upon request.

3. Status

The Notes constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank, and will rank, *pari passu* and without any preference among themselves, and at least *pari passu* with all other present and future unsubordinated and (subject as provided in Condition 4) unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law, *provided*, *further*, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other obligations and, in particular, shall have no obligation to pay such other obligations at the same time or as a condition of paying sums due on the Notes and vice versa. The Notes are backed by the full faith and credit of the Issuer.

4. Negative Pledge

(a) **Negative Pledge**: So long as any Note remains outstanding (as defined in the Agency Agreement) the Issuer will not, save for the exceptions set out below in Condition 4(c) create, incur, assume or permit to subsist any Security upon the whole or any part of its present or future assets or revenues to secure (i) any of its Public External Indebtedness, (ii) any Guarantees in respect of Public External Indebtedness or (iii) the Public External Indebtedness of any other person, without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other arrangement (whether or not comprising Security) as shall be approved by an Extraordinary Resolution of Noteholders or by a Written Resolution (as defined in Condition 13.1). For the avoidance of doubt, any such approval shall not constitute a Reserved Matter (as defined in Condition 13.5).

(b) **Interpretation**: In these Conditions:

(i) "**Guarantee**" means any obligation of a person to pay the Indebtedness of another person including, without limitation: an obligation to pay or purchase such Indebtedness, an obligation to lend money or to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, an indemnity against the consequences of a default in the payment of such Indebtedness or any other agreement to be responsible for such Indebtedness;

(ii) "**Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders (whether originally convened or resumed following an adjournment) duly convened and held in accordance with Schedule 6 (*Provisions for Meetings of the Noteholders*) to the Agency Agreement by a majority of not less than three quarters of the votes cast;

(iii) "**Indebtedness**" means any obligation (whether present or future) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing);

(iv) "**person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, trust or other juridical entity, state or agency of a state or other entity, whether or not having a separate legal personality;

(v) "**Public External Indebtedness**" means any Indebtedness which (i) is expressed, denominated or payable, or at the option of the relevant creditor may be payable, in any currency other than the lawful currency from time to time of the Republic of Kenya, and (ii) is in the form of, or is represented by, bonds, notes or other securities with a stated maturity of more than one year from the date of issue which are, or are capable of being, quoted, listed or ordinarily purchased or sold, dealt in or traded on any stock exchange, automated trading system, over-the-counter or other securities market; and

(vi) "**Security**" means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance including, without limitation, anything analogous to the foregoing under the laws of any jurisdiction.

(c) **Exceptions**: The following exceptions apply to the Issuer's obligations under Condition 4(a):

(i) any Security upon property to secure Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person incurred for the purpose of financing the acquisition or construction of such property and any renewal and extension of such Security which is limited to the original property covered thereby and which (in either case) secures any renewal or extension of the original secured financing; and

(ii) any Security securing Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project; *provided that* (A) the holders of such Public External Indebtedness or Guarantee expressly agree to limit their recourse to the assets and revenues of such project or the proceeds of insurance thereon as the principal source of repayments of such Public External Indebtedness and (B) the property over which such Security is granted consists solely of such assets and revenues.

5. Interest

(a) **Interest Rate and Interest Payment Dates**: The Notes bear interest from and including 28 February 2018 (the "**Issue Date**") to but excluding the Maturity Date (as defined in Condition 7(a)) at the rate of 7.250 per cent. per annum (the "**Rate of Interest**"), payable semi-annually in arrear on 28 February and 28 August in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6(d). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called, an "**Interest Period**".

(b) **Interest Accrual**: Each Note will cease to bear interest from and including its due date for redemption unless, upon surrender of the Certificate representing such Note, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue (both before and after judgment) until whichever is the earlier of:

(i) the date on which all amounts due in respect of such Note up to that date have been received by or on behalf of the relevant Noteholder; and

(ii) the day seven days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12 (except to the extent that there is any subsequent default in payment to the relevant Noteholders).

(c) **Calculation of Interest**: The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

6. Payments

(a) **Payments in respect of Notes**: Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by a cheque in US dollars drawn on a bank that processes payments in US dollars mailed to the registered address of the Noteholder if it does not have a registered account. Payment of principal will only be made against surrender of the relevant Certificate at the Specified Office of any of the Paying Agents. Interest on Notes due on an Interest Payment Date will be paid to the Noteholder shown on the Register at the close of business on the date (the "**record date**") being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition 6(a), a Noteholder's "**registered account**" means the US dollar account maintained by or on its behalf with a bank that processes payments in US dollars, details of which appear on the Register at the close of business, in the case of principal, on the second Business Day (as defined below) before the due date for payment and, in the case of interest, on the relevant record date, and a Noteholder's "**registered address**" means its address appearing on the Register at that time.

(b) **Payments subject to Applicable Laws**: Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

(c) **No commissions**: No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition 6.

(d) **Payment on Business Days**: Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the due date for payment or, in the case of a payment of principal, if later, on the Business Day on which the relevant Certificate is surrendered at the Specified Office of an Agent. If any date for payment in respect of a Note is not a Business Day, the Noteholder shall not be entitled to payment until the next following Business Day.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 6(d) arrives after the due date for payment.

In this Condition 6, "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in London, New York City and, in the case of surrender of a Certificate, in the place in which the Certificate is surrendered.

(e) **Partial Payments**: If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or interest in fact paid.

(f) **Agents**: The names of the initial Agents and their initial Specified Offices are set out in the Agency Agreement. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents; *provided that*, there will at all times be: (i) a Fiscal Agent, (ii) a Registrar, (iii) a Transfer Agent and (iv) such other agents as may be required by any stock exchange on which the Notes may be listed.

Notice of any termination or appointment and of any changes in Specified Offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

7. Redemption and Purchase

(a) **Redemption at Maturity**: Unless previously purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 28 February 2028 (the "**Maturity Date**").

(b) **Purchases and Cancellation**: The Issuer may at any time purchase Notes in the open market or otherwise at any price and for any consideration. All Notes so purchased may be cancelled or resold. Any Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder of the Notes to vote at any meeting of Noteholders and shall not be deemed outstanding for the purpose of such meetings. Any Notes cancelled shall not be reissued.

8. Taxation

(a) **Payment without Withholding**: All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(i) held by or on behalf of a Noteholder who is liable to the Taxes in respect of such Note by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note; or

(ii) in respect of which the Certificate representing it is surrendered for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant Noteholder would have been entitled to such additional amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days assuming, whether or not such is in fact the case, that day to have been a Business Day (as defined in Condition 6).

(b) **Interpretation**: In these Conditions:

(i) "**Relevant Date**" in respect of any Note means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12; and

(ii) "**Relevant Jurisdiction**" means the Republic of Kenya or any political subdivision or any authority thereof or therein having power to tax in respect of payments in respect of the Notes.

(c) **Additional Amounts**: Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 8.

9. Prescription

Claims against the Issuer for payment in respect of the Notes will be prescribed and become void unless made within six years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 8).

10. Events of Default

(a) **Events of Default**: If any of the following events ("**Events of Default**") shall have occurred and be continuing:

(i) ***Non-payment***: (A) the Issuer fails to pay any principal on any of the Notes when due and payable and such failure continues for a period of 15 business days; or (B) the Issuer fails to pay any interest on any of the Notes or any amount due under Condition 8 when due and payable, and such failure continues for a period of 30 days; or

(ii) ***Breach of Other Obligations***: the Issuer does not perform or comply with any one or more of its other obligations in the Notes, the Agency Agreement or the Deed of Covenant, which default is incapable of remedy or is not remedied within 45 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(iii) ***Cross-default***: (A) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any External Indebtedness of the Issuer, or (B) any default in the payment of principal of any External Indebtedness of the Issuer shall occur when and as the same shall become due and payable if such default shall continue beyond the initial grace period, if any, applicable thereto or (C) any default in the payment when due and called upon (after the expiry of any originally applicable grace period) of any Guarantee of the Issuer in respect of any External Indebtedness of any other person; *provided that*, the aggregate amount of the relevant External Indebtedness in respect of which one or more of the events mentioned in this paragraph (iii) have occurred equals or exceeds US$25,000,000 or its equivalent; or

(iv) ***Moratorium***: a moratorium on the payment of principal of, or interest on, the External Indebtedness of the Issuer shall be declared by the Issuer; or

(v) ***IMF Membership***: the Issuer shall cease to be a member of the International Monetary Fund ("**IMF**") or shall cease to be eligible to use the general resources of the IMF; or

(vi) ***Validity***: (A) the validity of the Notes shall be contested by the Issuer, or (B) the Issuer shall deny any of its obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (C) it shall be or become unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes, including, without limitation, the payment of interest on the Notes, as a result of any change in law or regulation in the Republic of Kenya or any ruling of any court in the Republic of Kenya whose decision is final and unappealable or for any reason such obligations cease to be in full force and effect; or

(vii) ***Consents***: if any authorisation, consent of, or filing or registration with, any governmental authority necessary for the performance of any payment obligation of the Issuer under the Notes, when due, ceases to be in full force and effect or remain valid and subsisting,

then the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

In this Condition 10, "**External Indebtedness**" means Indebtedness expressed or denominated or payable or which, at the option of the relevant creditor, may be payable in a currency other than the lawful currency from time to time of the Republic of Kenya.

11. Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. Notices

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the Register at the time of publication of such notice by pre-paid first class mail (or any other manner approved by the Registrar (or the Fiscal Agent on its behalf), which may be by electronic transmission) and for so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, shall be sent to the Companies Announcement Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the fourth week day (being a day other than a Saturday or Sunday) after being so mailed.

13. Meetings of Noteholders; Written Resolutions

13.1 *Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*

(a) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the Agency Agreement. The Issuer will determine the time and place of the meeting. The Issuer will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(b) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10 per cent. in principal amount of the outstanding Notes (as defined in the Agency

Agreement and described in Condition 13.9 below) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(c) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

(d) The notice convening any meeting will specify, *inter alia*:

(i) the date, time and location of the meeting;

(ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(iii) the record date for the meeting, which shall be no more than five business days before the date of the meeting;

(iv) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder’s behalf at the meeting;

(v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;

(vi) whether Condition 13.2, or Condition 13.3, or Condition 13.4 shall apply and, if relevant, in relation to which other series of debt securities it applies;

(vii) if the proposed modification or action relates to two or more series of debt securities issued by the Issuer and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(viii) such information that is required to be provided by the Issuer in accordance with Condition 13.6;

(ix) the identity of the Aggregation Agent and the Calculation Agent (each as defined in these Conditions), if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 13.7; and

(x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(e) All information to be provided pursuant to Condition 13.1(d) shall also be provided, mutatis mutandis, in respect of Written Resolutions and Electronic Consents (as defined in Condition 13.12).

(f) A “**record date**” in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb

Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(g) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(h) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(i) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(j) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 13 and Condition 14 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

13.2 *Modification of this Series of Notes only*

(a) Any modification of any provision of, or any action in respect of, the Notes, these Conditions, the Agency Agreement and/or the Deed of Covenant may be made or taken if approved by a Single Series Ordinary Resolution, a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(b) For the purposes of a meeting of Noteholders convened in respect of this Series of Notes only and for the purposes of passing a Single Series Ordinary Resolution and/or a Single Series Extraordinary Resolution (each as defined below) (a "**Single Series Meeting**"), at any such Single Series Meeting any one or more persons present in person holding Notes or proxies or representatives and holding or representing in the aggregate not less than 50 per cent. in principal amount of the Notes for the time being outstanding (or, in the case of an adjourned meeting, one or more persons present in person holding Notes or being proxies or representatives (whatever the principal amount of Notes so held or represented)) shall (except for the purposes of passing a Single Series Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any such Single Series Meeting unless the requisite quorum be present at the commencement of business. The quorum at any such Single Series Meeting convened for the purpose of passing a Single Series Extraordinary Resolution shall be one or more persons present in person holding Notes or being proxies or representatives and holding or representing in the aggregate not less than 66.67 per cent. of the principal amount of the Notes for the time being outstanding, (or, in the case of an adjourned meeting, one or more persons so present in person holding Notes or being proxies or representatives and holding or representing in the aggregate not less than 33.34 per cent. in the principal amount of Notes for the time being outstanding).

(c) A **Single Series Ordinary Resolution** means a resolution passed at a Single Series Meeting duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Conditions 13.1 and 13.2(b) in respect of any matter other than a Reserved Matter, by a majority of at least 66.67 per cent. of the votes cast.

(d) A **Single Series Extraordinary Resolution** means a resolution passed at a Single Series Meeting duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Conditions 13.1 and 13.2(b) in respect of a Reserved Matter by a majority of at least 75 per cent. of the votes cast.

(e) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(i) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or

(ii) in the case of a matter other than a Reserved Matter, at least 66.67 per cent. of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

(f) Any Single Series Ordinary Resolution, Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended such Single Series Meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

13.3 ***Multiple Series Aggregation – Single limb voting***

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

(b) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 13.1, as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(c) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.

(d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

(e) The "**Uniformly Applicable**" condition will be satisfied if:

(i) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (i) the same new instrument or other consideration or (ii) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(ii) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).

(f) It is understood that a proposal under Condition 13.3(c) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

(g) Any modification or action proposed under Condition 13.3(a) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.3 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

13.4 ***Multiple Series Aggregation – Two limb voting***

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(b) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 13.1, as supplemented if necessary, which is passed by a majority of:

(i) at least 66.67 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(c) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(i) at least 66.67 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(d) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

(e) Any modification or action proposed under Condition 13.4(a) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.4 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

13.5 *Reserved Matters*

In these Conditions, "**Reserved Matter**" means any proposal:

(a) to change the dates, or the method of determining the dates, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(b) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(c) to change the majority or quorum required to pass a Single Series Ordinary Resolution, an Electronic Consent, an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(d) to change this definition, or the definition of "Electronic Consent", "Extraordinary Resolution", "Single Series Ordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";

(e) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";

(f) to change the definition of "Uniformly Applicable";

(g) to change the definition of "outstanding" or to modify the provisions of Condition 13.9;

(h) to change the legal ranking of the Notes;

(i) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 10;

(j) to change the law governing the Notes, the arbitral tribunals to the jurisdiction of which the Issuer has submitted in the Notes, the Issuer's obligation to maintain an agent for service of process in England, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 16;

(k) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;

(l) to modify the provisions of this Condition 13.5;

(m) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; or

(n) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:

(i) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

(ii) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

13.6 *Information*

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 13.2, Condition 13.3 or Condition 13.4, the Issuer shall publish in accordance with Condition 14, and provide the Fiscal Agent with the following information:

(a) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;

(b) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement;

(c) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(d) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 13.1(d)(vii).

13.7 *Claims Valuation*

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 13.3 and Condition 13.4, the Issuer may appoint a calculation agent (the "**Calculation Agent**"). The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

13.8 ***Manifest error, etc.***

The Notes, these Conditions and the provisions of the Agency Agreement may be amended by the Issuer and the Fiscal Agent without the consent of the Noteholders either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is, in the sole opinion of the Issuer, not materially prejudicial to the interests of the Noteholders. Any such modification shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

13.9 ***Notes controlled by the Issuer***

For the purposes of (a) determining the right to attend and vote at any meeting of Noteholders, the right to give an Electronic Consent, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (b) this Condition 12 and (c) Condition 10, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be deemed not to remain outstanding, where:

(x) "**public sector instrumentality**" means the Central Bank of Kenya, any other department, ministry or agency of the government of the Republic of Kenya or any corporation, trust, financial institution or other entity owned or controlled by the government of the Republic of Kenya or any of the foregoing; and

(y) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Electronic Consent or Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 14.5, which includes information on the total number of Notes which are for the time being held by any person (including but not limited to the Issuer) on behalf of the Issuer or by any public body owned or controlled, directly or indirectly, by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

13.10 ***Publication***

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 14.8.

13.11 ***Exchange and Conversion***

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

13.12 ***Written Resolutions and Electronic Consents***

A Written Resolution may be contained in one document or in several documents in like form, each signed by or on behalf of one or more of the Noteholders.

For so long as any Notes are in the form of a global Note held on behalf of one or more of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system (the "**relevant clearing system(s)**"), then:

(a) Approval of a resolution proposed by the Issuer given by way of electronic consent communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures (i) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders or (ii) (where such holders have been given at least 21 days' notice of such resolution) by or on behalf of:

(A) in respect of a proposal that falls within paragraphs (c), (d) and (e) of Condition 13.2, the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding Notes in the case of a Reserved Matter or at least 66.67 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter;

(B) in respect of a proposal that falls within paragraphs (b) and (c) of Condition 13.3, the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate);

(C) in respect of a proposal that falls within paragraphs (b) and (c) of Condition 13.4, (x) the persons holding at least 66.67 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and (y) the persons holding more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually),

(in the case of (A), (B) and (C), each an "**Electronic Consent**") shall, for all purposes (including Reserved Matters) take effect as (i) a Single Series Extraordinary Resolution (in the case of (A) above), (ii) a Multiple Series Single Limb Extraordinary Resolution (in the case of (B) above) or (iii) a Multiple Series Two Limb Extraordinary Resolution (in the case of (C) above), as applicable.

The notice given to Noteholders shall specify, in sufficient detail to enable Noteholders to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the "**Relevant Date**") by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s).

If, on the Relevant Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the required proportion for approval, the resolution shall, if the party proposing such resolution (the "**Proposer**") so determines, be deemed to be defeated. Alternatively, the Proposer may give a further notice to Noteholders that the resolution will be proposed again on such date and for such period as shall be agreed with the Issuer (unless the Issuer is the Proposer). Such notice must inform Noteholders that insufficient consents were received in relation to the original resolution and the information specified in the previous paragraph. For the purpose of such further notice, references to "**Relevant Date**" shall be construed accordingly.

An Electronic Consent may only be used in relation to a resolution proposed by the Issuer which is not then the subject of a meeting that has been validly convened above, unless that meeting is or shall be cancelled or dissolved.

(b) Where Electronic Consent has not been sought, for the purposes of determining whether a Written Resolution has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer (a) by accountholders in the relevant clearing system(s) with entitlements to any global Note and/or (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, the relevant clearing system(s) and, in the case of (b) above, the relevant clearing system(s) and the accountholder identified by the relevant clearing system(s). Any such certificate or other document (i) shall be conclusive and binding for all purposes and (ii) may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

All information to be provided pursuant to paragraph (d) of Condition 13.1 shall also be provided, *mutatis mutandis*, in respect of Written Resolutions and Electronic Consents.

A Written Resolution and/or Electronic Consent (i) shall take effect as an Extraordinary Resolution and (ii) will be binding on all Noteholders, whether or not they participated in such Written Resolution and/or Electronic Consent, even if the relevant consent or instruction proves to be defective.

14. Aggregation Agent; Aggregation Procedures

14.1 *Appointment*

The Issuer will appoint an aggregation agent (the "**Aggregation Agent**") to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes, and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

14.2 *Extraordinary Resolutions*

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

14.3 *Written Resolutions*

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

14.4 *Electronic Consents*

If approval of a resolution proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, is proposed to be given by way of Electronic Consent, the Aggregation Agent will, as soon as reasonably practicable after the relevant Electronic Consent has been given, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have consented to the resolution by way of Electronic Consent such that the resolution is approved. If so, the Aggregation Agent will determine that the resolution has been duly approved.

14.5 *Certificate*

For the purposes of Condition 14.2, 14.3 and Condition 14.4, the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 13.2, Condition 13.3 or Condition 13.4, as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

(a) list the total principal amount of Notes outstanding and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and

(b) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 13.9 on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

14.6 *Notification*

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 14 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

14.7 *Binding nature of determinations; no liability*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 14 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

14.8 *Manner of publication*

The Issuer will publish all notices and other matters required to be published pursuant to this Condition 14, including any matters required to be published pursuant to Condition 10 and Condition 13:

(a) on the website of the National Treasury, acting on behalf of the Issuer: www.treasury.go.ke;

(b) through the systems of Clearstream, Luxembourg, Euroclear, DTC and/or any other international or domestic clearing system(s) through which the Notes are for the time being cleared and otherwise in accordance with Condition 12; and

(c) in such other places and in such other manner as may be required by applicable law or regulation.

15. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

16. Governing Law, Arbitration and Enforcement

(a) **Governing Law**: The Agency Agreement and the Notes (including any non-contractual obligations arising from or in connection with them) are governed by, and will be construed in accordance with, English law.

(b) **Arbitration**: Any dispute arising out of or in connection with the Notes (including any dispute as to (i) the existence of the Notes, (ii) the validity or termination of the Notes, (iii) any non-contractual obligation arising out of or in connection with the Notes, (iv) the consequences of the nullity of the Notes or (v) this Condition 16(b)) (each, a "**Dispute**") shall be exclusively referred to and finally resolved by arbitration under the Arbitration Rules of the London Court of International Arbitration (the "**LCIA**") (the "**Rules**") as at present in force and as modified by this Condition 16(b), which Rules, as so modified, are deemed incorporated by reference into this Condition 16(b). The number of arbitrators shall be three, one of whom shall be appointed by the claimant(s), one by the respondent(s) and the third of whom, who shall act as chairman, shall be nominated by the two party-nominated arbitrators, *provided that* if the claimant(s) or respondents(s) fail to nominate an arbitrator within the time limits specified by the Rules or the party-nominated arbitrators fail to nominate a chairman within 30 days of the nomination of the second party-nominated arbitrator, such arbitrator shall be appointed promptly by the LCIA. The seat of Arbitration shall be London, England and the language of the arbitration shall be English. The parties exclude the jurisdiction of the courts under Sections 45 and 69 of the Arbitration Act 1996.

(c) **Appointment of Process Agent**: The Issuer has appointed the High Commissioner of the Republic of Kenya in London, presently located at 45 Portland Place, London W1B 1AS as its agent for service of process in relation to any proceedings ("**Proceedings**") before the English courts permitted by the Rules in connection with any arbitral proceedings pursuant to Condition 16(b), or in connection with the enforcement of any arbitral award rendered pursuant to Condition 16(b) and hereby undertakes that, in the event of the High Commissioner of the Republic of Kenya ceasing so to act or ceasing to be located in England, it will appoint another person as its agent for service of process in England for such purposes as soon as reasonably practicable thereafter. Nothing in these Conditions shall affect the right to serve Proceedings in any other manner permitted by law.

(d) **Consent to Enforcement and Waiver of Immunity**: Except as provided below in this Condition 16(d) and, without prejudice to the exclusivity of the remedies provided in Condition 16(b), to the extent the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, arbitral award, judgment, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process in respect of (i) any arbitration proceedings to resolve a Dispute under Condition 16(b) or (ii) any Proceedings, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction (and consents generally for the purposes of the State Immunity Act 1978 to the giving of any relief or the issue of any process in connection with any such proceedings). The Issuer does not hereby waive such immunity from execution or attachment in respect of (a) property, including any bank account, used by a diplomatic or consular mission of the Issuer or its special missions or delegations to international organisations, (b) property of a military character or in use for military purposes and in each case under the control of a military authority or defence agency of the Issuer or (c) property located in the Republic of Kenya. The Issuer reserves the right to plead sovereign immunity under the US Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it in any court of or in the United States of America under any United States federal or State securities law.

17. Rights of Third Parties

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any arbitration award or any order or judgment given or made in relation thereto has to be converted from the currency (the "**First Currency**") in which the same is payable under these Conditions or such award, order or judgment into another currency (the "**Second Currency**") for the purpose of (i) making or filing a claim or proof against the Issuer, (ii) obtaining an award, order or judgment in any arbitral tribunal or court or (iii) enforcing any award, order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (x) the rate of exchange used for such purpose to convert the sum in question from the First Currency into the Second Currency and (y) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the First Currency with the Second Currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such award, order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

Terms and Conditions of the 2048 Notes

The terms and conditions of the 2048 Notes will be identical to those described under "*Terms and Conditions of the 2028 Notes*" above, except as follows:

(a) the reference in the introductory paragraph to the "US$1,000,000,000 7.250 per cent. Notes due 2028" shall be replaced by a reference to the "US$1,000,000,000 8.250 per cent. Notes due 2048" and references to "Notes" shall be construed as references to the 2048 Notes;

(b) the reference in Condition 5(a) (Interest Rate and Interest Payment Dates) to "7.250 per cent." shall be replaced by a reference to "8.250 per cent."; and

(c) the reference in Condition 7(a) (Redemption at Maturity) to "28 February 2028" shall be replaced by a reference to "28 February 2048".

THE GLOBAL NOTES

The Global Notes contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Notes, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes have the same meaning in paragraphs 1 to 6 below.

1. Accountholders

For so long as any of the Notes are represented by one or more Global Notes, each person (other than another clearing system) who is for the time being shown in the records of DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "Noteholders" and references to "holding of Notes" and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against Kenya, solely in the nominee for the relevant clearing system (the "**Relevant Nominee**") in accordance with and subject to the terms of the Global Notes. Each Accountholder must look solely to DTC or Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

2. Cancellation

Cancellation of any Note following its purchase by Kenya will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders.

3. Payments

Payments of principal and interest in respect of Notes represented by a Global Note will be made upon presentation or, in the case of payment of principal, against presentation and surrender of such Global Note to or to the order of the Fiscal Agent, or such other Agent as shall have been notified to the holders of one or more Global Note for such purpose.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes held through DTC will receive, to the extent received by the Fiscal Agent, all distributions of amounts with respect to book-entry interests in such Notes from the Fiscal Agent through DTC. Distributions in the United States will be subject to relevant US tax laws and regulations.

A record of each payment made will be entered in the register of Noteholders by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

4. Notices

So long as the Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 12 (Notices) as set forth herein, provided that, so long as the Notes are listed on any stock exchange notices shall also be published in accordance with the rules of such exchange. See "*Terms and Conditions of the Notes*". Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to such clearing system.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through the applicable clearing system's operational procedure approved for this purpose and otherwise in such manner as the Fiscal Agent and the applicable clearing system may approve for this purpose.

5. Registration of Title

The Global Note will be exchangeable (free of charge to the holder) in whole but not in part for Certificates only upon the occurrence of an Exchange Event. An Exchange Event means that:

(a) an Event of Default (as defined in Condition 10) has occurred and is continuing; or

(b) in the case of Notes registered in the name of a Relevant Nominee for DTC, the Issuer has been notified by DTC that DTC is unwilling or unable to continue to act as depositary with respect to the Global Note and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the US Securities Exchange Act of 1934, as amended; or

(c) in the case of Notes registered in the case of Notes registered in the name of a Relevant Nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear or Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available.

The Issuer will promptly give notice to the Noteholders in accordance with Condition 12 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any Accountholder) may give notice to the Registrar requesting exchange. Any exchange shall occur no later than ten days after the date of receipt of the first relevant notice by the Registrar.

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee for a period of fifteen calendar days preceding the due date for any payment of principal or interest in respect of the Notes.

If only one of the Global Notes (the "**Exchanged Global Note**") becomes exchangeable for Certificates in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Certificates issued in exchange for beneficial interests in the Exchanged Global Note and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note.

In the event that (a) the Notes as evidenced by the Global Note (or any part of it) have become due and repayable in accordance with the Conditions or that the maturity date of the Notes has occurred and, in either case, payment in full of the amount due has not been made to the Relevant Nominee, or (b) following an Exchange Event, the Global Note is not duly exchanged for Certificates by the day provided in the Global Note, then from 8.00 p.m. (London time) on such day each Accountholder will become entitled to proceed directly against the Issuer on, and subject to, the terms of the Deed of Covenant executed by the Issuer on 28 February 2018 in respect of the Notes and the Relevant Nominee will have no further rights under the Global Note (but without prejudice to the rights any person may have under the Deed of Covenant).

6. Transfers

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear, Clearstream, Luxembourg and DTC and their respective participants in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg and DTC and their respective direct and indirect participants, as more fully described under "*Clearing and Settlement Arrangements*".

CLEARING AND SETTLEMENT ARRANGEMENTS

Kenya has obtained the information in this section from sources it believes to be reliable, including from DTC, Euroclear and Clearstream, Luxembourg. Kenya confirms that it has accurately reproduced such information and that, so far as it is aware and is able to ascertain from information published by third parties, it has omitted no facts which would render the reproduced information inaccurate or misleading. Kenya takes no responsibility, however, for the accuracy of this information. Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the following procedures in order to facilitate transfers of interests in the Unrestricted Global Note and in the Restricted Global Note among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither Kenya nor the Fiscal Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

DTC

DTC is a limited-purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participating organisations ("**DTC Participants**") and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of its DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, brokers, banks, trust companies and clearing corporations and may include certain other organisations, Indirect access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("**Indirect DTC Participants**").

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect DTC Participants and certain banks, the ability of a person having a beneficial interest in a note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. The Rules applicable to DTC and its Participants are on file with the US Securities and Exchange Commission.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg hold securities for participating organisations, and facilitate the clearance and settlement of securities transactions between their respective participants, through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg interface with domestic securities markets. Euroclear and Clearstream, Luxembourg participants are recognised financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations and include the Joint Lead Managers. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Unrestricted Global Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II. B1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy. L-l855, Luxembourg.

DTC

The Restricted Global Notes will have a CUSIP number and will be deposited with a custodian (the "**Custodian**") for and registered in the name of Cede & Co., as nominee of DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of the DTC is 55 Water Street, New York, New York 10041, USA.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by Kenya to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). Kenya expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Global Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or account holders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. Kenya also expects that payments by direct participants in any clearing system to owners of beneficial interests in any Global Note held through such direct participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against Kenya in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of Kenya will be discharged by payment to the registered holder of such Global Note in respect of each amount so paid. None of Kenya, the Fiscal Agent or any agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through direct participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the direct and indirect participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for interests evidenced by a definitive note certificate.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the direct participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect DTC Participants, the ability of a person having an interest in a Restricted Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Investors that hold their interests in the Notes through DTC will follow the settlement practices applicable to global bond issues. Investors' securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

Investors that hold their interests in the Notes through Clearstream, Luxembourg or Euroclear accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. The interests will be credited to the securities custody accounts on the settlement date against payment in same-day funds.

Secondary Market Trading

Since the purchaser determines the place of delivery, it is important to establish at the time of trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desire value date.

Trading between DTC Participants

Secondary market trading between DTC Participants will be settled using the procedures applicable to global bond issues in same-day funds.

Trading between Euroclear and/or Clearstream, Luxembourg participants

Secondary market trading between Euroclear participants and/or Clearstream, Luxembourg participants will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

Trading between DTC seller and Euroclear or Clearstream, Luxembourg purchaser

When Notes are to be transferred from the account of a DTC Participant to the account of a Clearstream, Luxembourg or Euroclear participant, the purchaser will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg or Euroclear participant, as the case may be, at least one business day prior to settlement. Clearstream, Luxembourg or the Euroclear operator will instruct its respective depositary to receive the Notes against payment. Payment will include interest accrued on such beneficial interest on the Note from and including the last interest payment date to and excluding the settlement date. Payment will then be made by the depositary to the DTC Participant's account against delivery of Notes. After settlement has been completed, the Notes will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Clearstream, Luxembourg or Euroclear participant's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to, and the interest on the Note will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Clearstream, Luxembourg or Euroclear cash debit will be valued instead as of the actual settlement date.

Euroclear and Clearstream, Luxembourg participants will need to make available to the respective clearing system the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement, either from cash on-hand or existing lines of credit. Under this approach, participants may take on credit exposure to the Euroclear operator or Clearstream, Luxembourg until the interests in the Note are credited to their accounts one day later.

As an alternative, if Clearstream, Luxembourg or Euroclear has extended a line of credit to a Clearstream, Luxembourg or Euroclear participant, as the case may be, such participant may elect not to pre-position funds and may allow that credit line to be drawn upon to finance settlement. Under this procedure, Clearstream, Luxembourg participants or Euroclear participants purchasing interests in a Note would incur overdraft charges for one day, assuming they cleared the overdraft when the interest in the Note were credited to their accounts. However, interest on the Note would accrue from the value date. Therefore, in many cases, the investment income on the interest in the Note would accrue from the value date. Therefore, in many cases, the investment income on the interest in the Note earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

Since the settlement is taking place during New York business hours, DTC Participants can employ their usual procedures for transferring interests in the Global Notes to the respective depositaries of Clearstream, Luxembourg or Euroclear for the benefit of Clearstream, Luxembourg participants or Euroclear participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC Participants, a cross-market sale transaction will settle no differently than a trade between two DTC Participants.

Trading between Clearstream, Luxembourg or Euroclear Seller and DTC purchaser

Due to time zones differences in their favour, Clearstream, Luxembourg and Euroclear participants may employ their customary procedures for transactions in which interests in a Note are to be transferred by their respective clearing system, through its respective depositary, to a DTC Participant, as the case may be, at least one business day prior to settlement. In these cases, Clearstream, Luxembourg or Euroclear will instruct its respective depositary to deliver the interest in the Note to the DTC Participant's account against payment. Payment will include interest accrued on such beneficial interest in the Note from and including the interest payment date to and excluding the settlement date. The payment will then be reflected in the account of the Clearstream, Luxembourg participant or Euroclear participant the following day, and receipt of the cash proceeds in the Clearstream, Luxembourg or Euroclear participant's account would be back-valued at the value date (which would be the preceding day, when settlement occurred in New York). Should the Clearstream, Luxembourg or Euroclear participant have a line of credit in its respective clearing system and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft charges occurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Clearstream, Luxembourg or Euroclear participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Clearstream, Luxembourg or Euroclear to purchase interests in a Note from DTC Participants for delivery to Clearstream, Luxembourg participants or Euroclear participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

- borrowing through Clearstream, Luxembourg or Euroclear for one day (until the purchase side of the day trade is reflected in their Clearstream, Luxembourg or Euroclear accounts) in accordance with the clearing system's customary procedures;

- borrowing the interests in the United States from a DTC Participant no later than one day prior to settlement, which would give the interests sufficient time to be reflected in their Clearstream, Luxembourg or Euroclear account in order to settle the sale side of the trade; or

- staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the DTC Participant is at least one day prior to the value date for the sale to the Clearstream, Luxembourg participant or Euroclear participant.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes offered hereby.

The Notes have not been registered under the Securities Act, and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold (1) in the United States only to QIBs within the meaning of Rule 144A under the Securities Act and (2) outside the United States in offshore transactions pursuant to Regulation S under the Securities Act. Terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein, as applicable.

General

Transfers will be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

The Restricted Global Notes will bear a legend substantially identical to that set out below, and neither a Restricted Global Note nor any beneficial interest in the Restricted Global Notes may be transferred except in compliance with the transfer restrictions set forth in such legend.

A beneficial interest in the Restricted Global Notes may be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Notes only upon receipt by the Registrar of a written certification from the transferor (in the form scheduled to the applicable Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Restricted Global Notes or the Unrestricted Global Notes that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

Kenya is a foreign government as defined in Rule 405 under the Securities Act and is eligible to register securities on Schedule B of the Securities Act. Therefore Kenya is not subject to the information provision requirements of Rule 144A(d)(4)(i) under the Securities Act.

Restricted Notes

Each prospective purchaser of Notes in reliance on Rule 144A (a "**144A Offeree**"), by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

- such 144A Offeree acknowledges that this Prospectus is personal to such 144A Offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. Distribution of this Prospectus, or disclosure of any of its contents to any person other than such 144A Offeree and those persons, if any, retained to advise such 144A Offeree with respect thereto and other persons meeting the requirements of Rule 144A or Regulation S is unauthorised, and any disclosure of any of its contents, without the prior written consent of Kenya, is prohibited; and

- such 144A Offeree agrees to make no photocopies of this Prospectus or any documents referred to herein.

Each purchaser of Restricted Notes within the United States, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

- the purchaser (i) is a QIB, (ii) is acquiring the Notes for its own account or for the account of a QIB and (iii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the herein acknowledgments, representations and agreements on behalf of each such account;

- the purchaser understands that such Restricted Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, such Restricted Notes have not been and will

- not be registered under the Securities Act or any other applicable State securities laws, the purchaser acknowledges that such Restricted Note is a "restricted security" (as defined in Rule 144(a)(3) under the Securities Act) and that (i) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Restricted Notes, such Restricted Notes may be offered, sold, pledged or otherwise transferred only (A) in the United States to a person that the seller reasonably believes is a QIB purchasing for its own account in a transaction meeting the requirements of Rule 144A whom the seller has notified, in each case, that the offer, resale, pledge or other transfer is being made in reliance on Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) but only upon delivery to Kenya of an opinion of counsel in form and scope satisfactory to Kenya or (D) to Kenya; in each case in accordance with any applicable securities laws of any state of the United States, and (ii) no representation can be made as to the availability at any time of the exemption provided by Rule 144 for the resale of the Notes;

- the purchaser agrees that it will deliver to each person to whom it transfers Notes notice of any restriction on transfer of such Notes;

- the purchaser understands that the Restricted Notes offered hereby will bear a legend to the following effect, unless Kenya determines otherwise in accordance with applicable law:

  THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) ("**QIB**"), PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO EXPIRATION OF THE APPLICABLE REQUIRED HOLDING PERIOD DETERMINED PURSUANT TO RULE 144 OF THE SECURITIES ACT FROM THE LATER OF THE ISSUE DATE AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QIB WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE SECURITY.

  THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON

NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

UNLESS THIS GLOBAL NOTE IS PRESENTED BY AN AUTHORISED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("**DTC**"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY REGISTERED NOTE ISSUED IN EXCHANGE FOR THIS GLOBAL NOTE OR ANY PORTION HEREOF IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUIRED BY AN AUTHORISED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS GLOBAL SECURITY MAY NOT BE EXCHANGED, IN WHOLE OR IN PART, FOR A SECURITY REGISTERED IN THE NAME OF ANY PERSON OTHER THAN THE DEPOSITORY TRUST COMPANY OR A NOMINEE THEREOF EXCEPT IN THE LIMITED CIRCUMSTANCES SET FORTH IN THIS GLOBAL SECURITY, AND MAY NOT BE TRANSFERRED, IN WHOLE OR IN PART, EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THIS LEGEND. BENEFICIAL INTERESTS IN THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT IN ACCORDANCE WITH THIS LEGEND.

- the purchaser understands that Notes offered in reliance on Rule 144A will be represented by a Restricted Global Note. Before any interest in a Note represented by a Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the applicable Agency Agreement) as to compliance with applicable securities laws; and

- the purchaser understands that Kenya, the Registrar and the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

For so long as the Notes are held in global form, Noteholders may not require transfers to be registered during the period of 15 calendar days ending on (and including) the due date for any payment of principal or interest in respect of such Notes.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each purchaser of Notes outside the United States pursuant to Regulation S, by accepting delivery of this Prospectus and the Unrestricted Notes, will be deemed to have represented, agreed and acknowledged as follows:

- it is, or at the time Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes; it is located outside the United States (within the meaning of Regulation S), and it is not an affiliate of Kenya or a person acting on behalf of such an affiliate;

- such Unrestricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act;

- Kenya, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements;

- the Notes offered in reliance on Regulation S will be represented by the Unrestricted Global Notes;

- none of Kenya, the Joint Lead Managers or any person representing any such entity has made any representation to it with respect to any such entity or the offering or sale of any Notes, other than the information in this Prospectus; and

- the Notes, while represented by the Unrestricted Global Notes, or if issued in exchange for an interest in the Unrestricted Global Notes or for Note Certificates, will bear a legend to the following effect:

  THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Kenya of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

The Republic of Kenya

Income tax in Kenya is charged under the provisions of the Income Tax Act (Chapter 470, Laws of Kenya) ("**ITA**"). Pursuant to section 3 of the ITA, income tax is chargeable on all the income of a person, whether resident or non-resident, which accrued in or was derived from Kenya. Interest payable on the Notes has been exempted from income tax under section 13(2) of the ITA by virtue of the Gazette Notice 86/2014 dated 18 June 2014 (the "**Income Tax Exemption**"), as amended by the Gazette Notice 45/2018 dated 8 February 2018 (the "**ITA Amendment**"). The Income Tax Exemption came into effect upon publication in the Kenya Gazette and has been laid before Parliament in accordance with the Statutory Instruments Act, 2013. The ITA Amendment came into effect upon publication in the Kenya Gazette but must be laid before Parliament in accordance with the Statutory Instruments Act, 2013.

If either the Income Tax Exemption or the ITA Amendment is modified or revoked by Parliament or otherwise ceases to be in force for any reason, interest income earned on the Notes by a person, whether resident or non-resident, could become subject to income tax in Kenya. In such circumstances, the government would be obliged to deduct withholding tax at the rate then prevailing. The current rate applicable to interest income is 15 per cent. of the gross amount payable. Under the terms and conditions of the Notes, the Issuer is required to pay additional amounts so that the Noteholders will receive the full net amount which they would otherwise have received had there been no deduction of income tax.

Capital gains tax was reintroduced in Kenya by the Finance Act, 2014, with effect from 1 January 2015. Chargeable gains or allowable losses may arise upon the transfer of Notes. The current applicable rate is 5 per cent. of the chargeable gain. Capital gains that accrue on a transfer of the Notes have been exempted from capital gains tax under section 13(2) of the ITA by virtue of the Gazette Notice 44/2018 dated 8 February 2018 (the "**Capital Gains Tax Exemption**"). The Capital Gains Tax Exemption came into effect upon publication in the Kenya Gazette but must be laid before Parliament in accordance with the Statutory Instruments Act, 2013.

If the Capital Gains Tax Exemption is modified or revoked by Parliament or otherwise ceases to be in force for any reason, chargeable gains or allowable losses may arise upon the transfer of Notes.

Pursuant to section 21(1)(b) of the Statutory Instruments Act, 2013, the Income Tax Exemption and the Capital Gains Tax Exemption have been exempted from expiry by virtue of the Gazette Notice 46/2018 dated 9 February 2018 (the "**Statutory Instruments Act Exemption**"). The Statutory Instruments Act Exemption came into effect upon publication in the Kenya Gazette but must be laid before Parliament in accordance with the Statutory Instruments Act, 2013.

If the Statutory Instruments Act Exemption is modified or revoked by Parliament or otherwise ceases to be in force for any reason, the Income Tax Exemption and the Capital Gains Tax Exemption is each subject to automatic revocation on the day which is ten years after the making of the Income Tax Exemption or the Capital Gains Tax Exemption, as the case may be.

When tabled, each of the ITA Amendment, the Capital Gains Tax Exemption and the Statutory Instruments Act Exemption (each, an "**Exemption**") stands referred to the Committee on Delegated Legislation (the "**Committee**"), which must scrutinise each Exemption in accordance with the principles of good governance and the rule of law. If the Committee is not satisfied that an Exemption complies with the law, it has the power to refer the matter to Parliament, which in turn may modify or revoke such Exemption. The time limits specified for the consideration of each Exemption by the Committee is 20 calendar days after committal to it of such Exemption. There is a further provision in the Income Tax Act under which Parliament could annul an Exemption within 20 days of when it next sits after the Exemption is tabled.

United States Federal Income Taxation

Generally

The following is a summary of certain US federal income tax consequences to original purchasers of the Notes of the purchase, ownership and disposition of the Notes by a US Holder or non-US Holder (each as defined below). This summary is based upon tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect. No assurances can be given that any changes in these laws or authorities will not affect the accuracy of the discussions set forth in this summary.

This summary does not purport to discuss all aspects of US federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by a particular investor in light of that investor's individual circumstances, such as investors whose functional currency is not the US dollar or certain types of investors subject to special tax rules (*e.g.*, financial institutions, insurance companies, dealers in securities or currencies, investors liable for the alternative minimum tax, accrual method taxpayers that are required to include certain amounts on income no later than the time such amounts are reflected on certain financial statements, individual retirement accounts and other tax-deferred accounts, certain securities and currency traders, regulated investment companies, pension plans, and tax-exempt organisations and investors that hold Notes as a position in a "straddle," "conversion," "hedging," "integrated" or "constructive sale" transaction for US federal income tax purposes). In addition, this summary does not discuss any non-US, state, or local tax considerations. This summary only applies to investors that acquire Notes as part of the initial distribution at their issue price (generally the first price to the public at which a substantial amount of the Notes is sold for money to persons other than bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) and hold Notes as "capital assets" (generally, property held for investment) within the meaning of the US Internal Revenue Code of 1986, as amended (the "**Code**").

For purposes of this summary, the term "**US Holder**" means a beneficial owner of a Note who, for US federal income tax purposes, is an individual citizen or resident of the United States, a corporation created or organised in or under the laws of the United States, any state of the United States or the District of Columbia, an estate whose income is subject to US federal income tax regardless of its source or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons," as defined for US federal income tax purposes, have the authority to control all substantial decisions of the trust or the trust has in effect a valid election to be treated as a United States person. As used herein, the term "**non-US Holder**" means a beneficial owner of a Note that is neither a US Holder nor a partnership for US federal income tax purposes.

If a partnership (or other entity treated as a partnership for US federal income tax purposes) holds the Notes, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as partnerships for US federal income tax purposes should consult their tax advisers concerning the US federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-US AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

US Holders

Payments of Interest and Additional Amounts

Payments of interest on a Note generally will be taxable to a US Holder as ordinary income at the time they are received or accrued, depending on the US Holder's regular method of tax accounting. In addition to interest on a Note, if withholding taxes are imposed on payments of interest, the Issuer may be required to pay additional amounts to US Holders so that US holders receive the same amounts they would have received had no withholding taxes been imposed. If taxes are withheld from a payment of interest on the Notes, a US Holder will be required to include the amount of any such tax withheld as ordinary income, even though such holder did not in fact receive it, as well as any additional amounts paid in respect of such tax withheld.

Subject to certain limitations, a US Holder generally will be entitled to a credit against its US federal income tax liability, or a deduction in computing its US federal taxable income, for Kenyan income taxes withheld by the Issuer. For purposes of the foreign tax credit limitation, foreign source income generally is categorized in one of two "baskets", and the credit for foreign taxes on income in any basket is limited to US federal income tax allocable to that income. Interest (and any additional amounts paid) on the Notes will constitute income from sources outside the United States. The limitation on foreign taxes eligible for the US foreign tax credit is calculated separately with respect to specific "baskets" of income. For this purpose interest should generally be classified as "passive category income", which is relevant in computing the foreign tax credit allowable to a US Holder under the US federal income tax laws. Prospective purchasers should consult their tax advisers regarding the foreign tax credit implications of the payment of these Kenyan taxes.

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

A US Holder generally will recognise gain or loss upon the sale, exchange, retirement or other taxable disposition of a Note (including payments as a result of an acceleration) in an amount equal to the difference between the amount realised upon that sale, exchange, retirement or other taxable disposition (other than amounts representing accrued and unpaid interest not previously included in income, which will be taxable as interest income) and the US Holder's adjusted tax basis in the Note. The amount realised is the sum of cash plus the fair market value of any property received upon the sale, exchange, retirement or other taxable disposition of a Note. A US Holder's adjusted tax basis in a Note generally will equal the US Holder's initial investment in the Note. Gain or loss on the sale, exchange, retirement or other taxable disposition of a Note generally will be capital gain or loss, and will be long-term capital gain or loss if the Note is held by the US Holder for more than one year. The ability of a US Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognised on sale, exchange, retirement or other taxable disposition of a Note by a US Holder generally will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes. Therefore, US Holders may not be able to claim a credit for any Kenyan tax imposed upon a sale, exchange, retirement or other taxable disposition of a Note unless (subject to special limits) such holder has other income from foreign sources and certain other requirements are met. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale, exchange, retirement or other taxable disposition of Notes.

Tax on Net Investment Income

A US Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8 per cent. tax on the lesser of (i) the US Holder's "net investment income" (or, in the case of an estate or trust, the "undistributed net investment income") for the relevant taxable year and (ii) the excess of the US Holder's modified adjusted gross income for the taxable year (or, in the case of an estate or trust, the US Holder's adjusted gross income for the taxable year) over a certain threshold (which in the case of individuals will be between US$125,000 and US$250,000, depending on the individual's circumstances). A US Holder's net investment income generally will include its interest income and its net gains from the disposition of a Note, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities).

Information with Respect to Foreign Financial Assets

US taxpayers that own "specified foreign financial assets," including debt of foreign entities, with an aggregate value in excess of $50,000 on the last day of the taxable year, or $75,000 at any time during the taxable year generally will be required to file information reports with respect to such assets with their US federal income tax returns. Depending on the holder's circumstances, higher threshold amounts may apply. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-US persons, (ii) financial instruments and contracts held for investment that have non-US issuers or counterparties and (iii) interests in non-US entities. The Notes may be treated as specified foreign financial assets and US Holders may be subject to this information reporting regime. Failure to file information reports may subject US Holders to penalties. US Holders should consult their own tax advisors regarding their obligation to file information reports with respect to the Notes.

Non-US Holders

Payments of Interest and Additional Amounts

Subject to the discussion below of backup withholding, payments of interest and any additional amounts on the Notes generally are not subject to US federal income tax, including withholding tax, if paid to a "non-US Holder", as defined above, unless the interest is effectively connected with such non-US Holder's conduct of a trade or business within the United States (or, if an income tax treaty applies, the interest is attributable to a permanent establishment or fixed place of business maintained by such non-US Holder within the United States). In that case, the non-US Holder generally will be subject to US federal income tax in respect of such interest in the same manner as a US Holder, as described above. A non-US Holder that is a corporation may, in certain circumstances, also be subject to an additional "branch profits tax" in respect of any such effectively connected interest income currently imposed at a 30 per cent. rate (or, if attributable to a permanent establishment maintained by such non-US Holder within the United States, a lower rate under an applicable tax treaty).

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

Subject to the discussion below of backup withholding, a non-US Holder generally will not be subject to US federal income or withholding tax on any gain realised on the sale, exchange, retirement or other taxable disposition of a Note unless: (1) the gain is effectively connected with the conduct by such non-US Holder of a trade or business within the United States (or, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base in the United States.), or (2) such non-US Holder is a non-resident alien individual, who is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met. Non-US Holders who are described under (1) above generally will be subject to US federal income tax on such gain in the same manner as a US Holder and, if the non-US Holder is a foreign corporation, such holder may also be subject to the branch profits tax as described above. Non-US Holders described under (2) above generally will be subject to a flat 30 per cent. tax on the gain derived from the sale, exchange, retirement or other taxable disposition of Notes, which may be offset by certain US capital losses (notwithstanding the fact that such holder is not considered a US resident for US federal income tax purposes). Any amount attributable to accrued but unpaid interest on the Notes generally will be treated in the same manner as payments of interest, as described above under "*—Payments of Interest and Additional Amounts.*"

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of principal and interest and any additional amounts on the Notes to non-corporate US Holders if such payments are made within the United States or by or through a custodian or nominee that is a "US Controlled Person," as defined below. Backup withholding will apply to such payments if a US Holder fails to provide an accurate taxpayer identification number or, certification of exempt status or, in the case of interest payments and the accrual of interest, fails to certify that it is not subject to backup withholding or is notified by the IRS that it has failed to report all interest and dividends required to be shown on its US federal income tax returns.

Non-US Holders are generally exempt from these withholding and reporting requirements (assuming that the gain or income is otherwise exempt from US federal income tax), but such non-US Holders may be required to comply with certification and identification procedures in order to prove their exemption. If a non-US Holder holds a Note through a foreign partnership, these certification procedures would generally be applied to such holder as a partner. The payment of proceeds of a sale or redemption of Notes effected at the US office of a broker generally will be subject to the information reporting and backup withholding rules, unless such non-US Holder establishes an exemption. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a non-US office of a broker that is a US Controlled Person, as defined below, unless the broker has documentary evidence that the holder or beneficial owner is not a US Holder (and has no actual knowledge or reason to know to the contrary) or the holder or beneficial owner otherwise establishes an exemption.

As used herein, the term "**US Controlled Person**" means:

- a "United States person;"
- a controlled foreign corporation for US federal income tax purposes;
- a non-US person 50 per cent. or more of whose gross income is derived for tax purposes from the conduct of a US trade or business for a specified three-year period; or
- a non-US partnership in which United States persons hold more than 50 per cent. of the income or capital interests or which is engaged in the conduct of a US trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of a Note generally will be allowed as a refund or a credit against the holder's US federal income tax liability as long as the holder provides the required information to the IRS in a timely manner.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of the Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

PLAN OF DISTRIBUTION

Each of the joint lead managers named in the table (the "**Joint Lead Managers**") has, pursuant to Subscription Agreements (the "**Subscription Agreements**") dated 26 February 2018 severally (but not jointly) agreed to subscribe or procure subscribers for the principal amount of Notes set out opposite its name in the table below at the issue price of 100.00 per cent. of the principal amount of the 2028 Notes and at the issue price of 100.00 per cent. of the principal amount of the 2048 Notes, less a management and underwriting commission.

Joint Lead Managers	Principal Amount 2028 Notes	Principal Amount 2048 Notes
Citigroup Global Markets Limited	US$250,000,000	US$250,000,000
J.P. Morgan Securities plc	US$250,000,000	US$250,000,000
The Standard Bank of South Africa Limited	US$250,000,000	US$250,000,000
Standard Chartered Bank	US$250,000,000	US$250,000,000
Total	**US$1,000,000,000**	**US$1,000,000,000**

Kenya has agreed to indemnify the Joint Lead Managers against certain liabilities (including liabilities under the Securities Act) incurred in connection with the issue of the Notes. The Subscription Agreements may be terminated in certain circumstances prior to payment of the net subscription money in respect of the Notes to Kenya.

If a jurisdiction requires that the offering of Notes be made by a licensed broker or dealer and a Joint Lead Manager or any affiliate of the applicable Joint Lead Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

To the extent that the Joint Lead Managers intend to effect any sales of the Notes in the United States, they will do so through their respective selling agents, or through one or more US registered broker-dealers or as otherwise permitted by applicable US law.

On 28 October 2015 and 9 March 2017, Kenya entered into two syndicated loan facilities for US$750 million and US$1 billion, respectively, with a consortium of lenders, including Citibank N.A., The Standard Bank of South Africa Limited and Standard Chartered Bank (or their affiliates). The loans were provided for general budgetary purposes, including funding the development budget and with stated maturities of 27 April 2018 for the 2015 syndicated loan facility and a first maturity of 18 April 2019 for the 2017 syndicated loan facility. As of the date of this Prospectus, Kenya's outstanding indebtedness under the 2015 syndicated loan facility is US$646 million and US$1 billion under the 2017 syndicated loan facility. Under the terms of the 2015 syndicated loan facility, the outstanding amount will be redeemed at the earlier of a bond issue by the government of Kenya or the final maturity date. The 2017 syndicated loan facility has a similar redemption feature, however the lenders have discretion to waive this prepayment right following an issue of a new bond by Kenya. Currently, Kenya expects certain lenders to exercise this feature and that they may not require, or may only require part, repayment of the 2017 syndicated loan facility. Accordingly, Kenya expects that part of the proceeds of the Notes will be applied to repay all amounts outstanding under the 2015 loan facility and that part of the proceeds may be applied to repay a portion of the amount outstanding under the 2017 syndicated loans and manage the maturity profile of the government's debt.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Joint Lead Managers have agreed, severally (but not jointly), to offer the Notes for resale in the United States initially only (1) to persons they reasonably believe to be QIBs purchasing for their own account or for the account of a QIB in reliance on Rule 144A, or (2) outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

Each Joint Lead Manager has represented and agreed severally (but not jointly), that, except as permitted by the Subscription Agreements, it has not offered and sold, and will not offer and sell, the Notes by means of any general solicitation or advertising in the United States or otherwise in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act. Accordingly, neither such Joint Lead Manager nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes, and such Joint Lead Manager, its affiliates and any persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S.

United Kingdom

Each Joint Lead Manager has represented and agreed, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to Kenya; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, each Joint Lead Manager has represented and warranted that, save as set out below, it has not offered, sold, or delivered and will not offer, sell, or deliver any Notes in the Republic of Italy in a solicitation to the public and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Accordingly, each Joint Lead Manager has represented and agreed that it will not offer, sell or deliver any Notes or distribute copies of the Prospectus and any other document relating to the Notes in the Republic of Italy except:

(a) to "Qualified Investors" (*investitori qualificati*), pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended ("**Financial Services Act**") and Article 34-*ter*, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended ("**Regulation No. 11971**"); or

(b) in any other circumstances where an express exemption from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-*ter* of Regulation No. 11971 applies.

Any such offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy must:

(a) be made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993 as amended (the "**Banking Act**"), and;

(b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

Republic of Kenya

This Prospectus and the initial offering of Notes has not been and will not be approved by the Capital Markets Authority in Kenya and the Notes will not be listed on the Nairobi Securities Exchange when they are issued. The Notes will not be issued, offered or sold in Kenya.

South Africa

Each Joint Lead Manager has represented and agreed that it has not and will not offer for sale or subscription or sell any Notes, directly or indirectly, within the Republic of South Africa or to any person or corporate or other entity resident in the Republic of South Africa except (i) in accordance with the exchange control regulations of the Republic of South Africa and (ii) to any entity resident or within the Republic of South Africa in accordance with the Commercial Paper Regulations issued under Government Notice 2172 published in Government Gazette No. 16167 of 14 December 1994 pursuant to the Banks Act 1990 and the Companies Act 2008 and the Financial Advisory and Intermediary Services Act 2002.

Switzerland

Each Joint Lead Manager has represented and agreed that it will not publicly offer, as such term is defined or interpreted under the Swiss Code of Obligations, sell or advertise, directly or indirectly, the Notes in, into or from Switzerland and agrees and undertakes that it will not publicly distribute or otherwise make publicly available in Switzerland this Prospectus or any other offering or marketing material relating to the Notes.

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, distributed, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Schemes Act, and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the offering, the Issuer or the Notes has been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., Swiss Financial Markets Supervisory Authority FINMA, and investors in the Notes will not benefit from protection or supervision by such authority.

General

No action has been taken by Kenya or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of the Prospectus or any other offering or publicity material relating to the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Contact Information

The address of the Republic of Kenya, acting through the National Treasury is: The National Treasury, Harambee Avenue, Nairobi, GPO 00100. The telephone number of Kenya is +254 20 225 2299.

Listing

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market. The listing of the Notes is expected to be granted on or around the Issue Date. The total expenses related to the admission to trading of the Notes on the Irish Stock Exchange are expected to be approximately 5,500 euros.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market of the Irish Stock Exchange.

Application will also be made to the UK Listing Authority for the Notes to be admitted to the official list of the UK Listing Authority and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Notes is expected to be granted on or around the Issue Date. The total expenses related to the admission to trading of the Notes on the London Stock Exchange are expected to be approximately GBP 4,200.

Indication of Yield

Based upon a re-offer price of 100.00 per cent. of the principal amount of the 2028 Notes and a re-offer price of 100.00 per cent. of the principal amount of the 2048 Notes, the yield of the 2028 Notes is 7.250 per cent. and the yield of the 2048 Notes is 8.250 per cent., in each case on an annual basis. The yields are calculated at the Issue Date. They are not an indication of future yields.

Authorisations

Kenya has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Notes. The government's power to borrow has been duly exercised in accordance with the PFMA.

Documents on Display

For so long as any Notes shall be outstanding, physical copies of: (i) Kenya's budget for the current fiscal year and each of the fiscal years ended 30 June 2017 and 30 June 2016, (ii) the applicable Agency Agreement and (iii) the applicable Deed of Covenant may be inspected during normal business hours at the specified offices of the Fiscal Agent.

Clearing Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Unrestricted Global Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the Common Code No. 178171054 and the ISIN XS1781710543 for the 2028 Unrestricted Global Note and under Common Code No. 178171062 and the ISIN XS1781710626 for the 2048 Unrestricted Global Note. The Restricted Global Notes have been accepted for clearance through DTC. The CUSIP number is 491798 AG9, the ISIN is US491798AG90 and Common Code is 178426192 for the 2028 Restricted Global Note and the CUSIP number is 491798 AH7, the ISIN is US491798AH73 and Common Code is 178426478 for the 2048 Restricted Global Note. The address of Euroclear is 1 Boulevard du Roi Albert II, B. 1210 Brussels, Belgium, the address of Clearstream, Luxembourg is Avenue J.F. Kennedy, L-1855, Luxembourg and the address of DTC is 55 Water Street, New York, NY, 10041, USA.

Litigation

Save as disclosed on pages 34 to 35 under the heading Legal Proceedings, Kenya is not involved in, and has not been involved for 12 months prior to the date of this Prospectus in, any governmental, legal or arbitration proceedings which may have or have had in the recent past a significant effect on its financial position nor, so far as Kenya is aware, is any such proceeding pending or threatened.

Material Change

Since the end of the last fiscal year on 30 June 2017, there has been no significant change in Kenya's (a) tax and budgetary systems, (b) gross public debt or the maturity structure or currency of its outstanding debt and debt payment record (c) foreign trade and balance of payment figures (d) foreign exchange reserves including any potential encumbrances to such foreign exchange reserves as forward contracts or derivatives (e) financial position and resources including liquid deposits available in domestic currency and (f) income and expenditure figures.

Interest of Natural and Legal Persons

So far as the Issuer is aware, no person involved in the offer or the Notes has an interest material to the offer.

Joint Lead Managers transacting with the Issuer

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer and its affiliates in the ordinary course of business. See "*Plan of Distribution*" for more information.

References in this Prospectus to "affiliates" of the Joint Lead Managers are references to affiliates as defined in Rule 501(b) of Regulation D of the Securities Act.

ISSUER

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