

Our Financial Review

Profit



Revenue



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Dividends



Investments



The directors submit their report together with the audited financial statements for the year ended March 31, 2017 which disclose the state of affairs of Safaricom Limited (the "Company") and its subsidiaries (together, the "Group"). The annual report and financial statements have been prepared in accordance with Section 147 to 163 of the repealed Companies Act Cap 486, which remains in force under the transition rules contained in the sixth schedule; the transition and saving provisions of the Companies Act 2015.

Principal activities

The principal activities of the Group are provision of telecommunication services, providing a comprehensive range of integrated telecommunication services including voice and data (both mobile and fixed), SMS, internet and M-PESA.

Results and dividend

The net profit for the year of Shs48,444,418,000 (2016: Shs38,104,290,000) has been added to retained earnings. During the year, a special dividend of Shs27,244,491,000 was declared and was paid by December 1, 2016. The directors recommend the approval of a final dividend of Shs38,863,465,000 (2016: Shs30,483,432,000).

Directors

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

Nicholas Nganga	Chairman	Kenyan
Bob Collymore	Managing Director and Chief Executive Officer	British
Bitange Ndemo	(Appointed March 2, 2017)	Kenyan
Esther Koimett	(Alternate to Henry Rotich)	Kenyan
Gianluca Ventura		Italian
Henry Rotich		Kenyan
John Otty		British
John Tombleson	(Resigned July 31, 2016)	New Zealander
Michael Joseph		American
Nancy Macharia	(Resigned May 9, 2017)	Kenyan
Sateesh Kamath	(Alternate to Bob Collymore, appointed on 1 August 2016)	Indian
Serpil Timuray	(Resigned January 12, 2017)	Turkish
Susan Mudhune		Kenyan
Vivek Badrinath	(Appointed January 12, 2017)	French

Auditor

PricewaterhouseCoopers were appointed auditors during the year and have expressed their willingness to continue in office in accordance with Section 159 (2) of the repealed Companies Act (CAP 486).

By order of the Board



Kathryne Maundu

SECRETARY

May 9, 2017

The Companies Act 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the Group keeps proper accounting records that are sufficient to show and explain the transactions of the Group; disclose with reasonable accuracy at any time the financial position of the Group; that enables them to prepare financial statements of the Group that comply with prescribed financial reporting standards and the requirements of the Companies Act. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. Selecting suitable accounting policies and then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances.

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

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

Approved by the board of directors on May 9, 2017 and signed on its behalf by:



Nicholas Nganga

CHAIRMAN

AND NON-EXECUTIVE DIRECTOR



Bob Collymore

MANAGING DIRECTOR

AND CHIEF EXECUTIVE OFFICER



Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Safaricom Limited (the Company) and its subsidiaries (together, the Group) set out on pages 94 to 134, which comprise the consolidated statement of financial position at March 31, 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the separate statement of financial position of the Company at March 31, 2017 and the statement of changes in equity of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company at March 31, 2017 and of the financial performance and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015.

Basis for opinion

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

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

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

Key audit matters

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



Key audit matter

How our audit addressed the key audit matter

Revenue recognition – accuracy of revenue recorded given the complexity of systems

There is an inherent risk around the accuracy of revenue recorded. This arises from the complexity and volume of transactions from the multiple revenue streams and tariff structures that are further impacted by changing pricing models and points of recognition.

Management also exercises judgement in estimating amounts relating to deferred revenue for prepaid subscribers.

In addition, the capturing and recording of revenue is heavily dependent on complex information systems and applications in the business.

Refer to note 2 (e) on accounting policy on revenue recognition and 5 (a) and 27 for disclosures on revenue and deferred revenue.

We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial accounting and reporting.

We performed reviews of the revenue billing systems and their interfaces with the financial reporting system through testing the relevant IT general controls and application controls.

We performed independent reviews and re-performed some of the work done by the Group's Revenue Assurance (department on capturing and recording of revenue transactions, authorisation of rate changes and input of this information into the billing system during the year.

We carried out substantive analytical reviews on relevant revenue streams and traced revenue amounts on a sample basis to source systems and other supporting documentation to determine the reasonableness of the amounts disclosed in note 5 to the financial statements.

Impairment of property and equipment

The Group incurs significant capital expenditure on an annual basis to meet its growth and modernisation strategy. The technology used in the telecommunication industry is rapidly changing. On an annual basis, management carries out an impairment assessment of its property and equipment particularly the network infrastructure.

Management exercises significant judgement in the assessment of the impairment of network infrastructure based on:

- Changes in the group business strategy driven by rapid technological changes that could significantly affect the expected useful life of some of the infrastructure; and
- The period of time taken to construct and bring into use the infrastructure affecting both the useful life and the recoverable cost of the asset.

Refer to notes 2 (f) – Accounting policy on property and equipment and 18 – Property, plant and equipment.

We assessed the consistency with which the useful lives of assets and related depreciation policies have been applied over the years and the changing circumstances.

We obtained the work performed by the management's experts in identifying impaired assets and reviewed this together with management's assessment of this work and decisions taken to determine reasonableness of the carrying values of property and equipment.

Further, we assessed the sufficiency of the disclosure of the impairment losses under note 18 to the financial statements based on our understanding of the latest modernisation plan.



Other information

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

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

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

Responsibilities of management and those charged with governance for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



● Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

● Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

● Obtain appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal requirements

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

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- iii) The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Anne Eriksson P/No. 772.

A handwritten signature in black ink, appearing to read 'Anne Eriksson', written over a light blue horizontal line.

Certified Public Accountants

Nairobi

9 May 2017

	Notes	Year ended March 31	
		2017 Shs'000	2016 Shs'000
Service revenue	5 (a)	204,109,166	177,784,089
Handsets and other revenues	5 (b)	8,699,845	8,621,317
Construction revenue	5 (c)	76,183	9,279,818
Total revenue		212,885,194	195,685,224
Other income	6	2,510,905	231,823
Direct costs	7 (a)	(66,749,520)	(62,310,003)
Construction costs	7 (b)	(76,183)	(9,279,818)
Other expenses	7 (c)	(44,960,599)	(41,260,953)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		103,609,797	83,066,273
Depreciation of property, plant and equipment	18 (a)	(29,215,294)	(24,662,315)
Impairment of property, plant and equipment	18 (a)	(2,331,357)	(1,790,267)
Amortisation - Indefeasible Rights of Use (IRUs)	19 (a)	(345,258)	(348,171)
Amortisation and impairment - Intangible assets	21 (a)	(1,342,500)	(1,141,793)
Operating profit		70,375,388	55,123,727
Finance income	8	1,722,788	2,301,055
Finance costs	9	(1,484,860)	(1,399,507)
Fair value loss on investment property	20	-	(366,859)
Share of profit of associate	22 (b)	18,757	104,089
Profit before income tax		70,632,073	55,762,505
Income tax expense	12	(22,187,655)	(17,658,215)
Profit for the year		48,444,418	38,104,290
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of the Company		48,444,418	38,104,290
Earnings per share			
Basic and diluted (Shsper share)	13	1.21	0.95

		At March 31	
	Notes	2017	2016
		Shs'000	Shs'000
Equity attributable to owners			
Share capital	14	2,003,271	2,003,271
Share premium	14	2,200,040	2,200,040
Retained earnings		64,422,467	82,052,298
Proposed dividend	15	38,863,465	30,483,432
Total equity		107,489,243	116,739,041
Non-current assets			
Deferred income tax	17 (a)	1,946,433	1,420,309
Property, plant and equipment	18 (a)	117,199,063	113,419,398
Indefeasible Rights of Use (IRUs)	19 (a)	4,155,076	4,500,334
Investment property	20	845,000	845,000
Intangible assets - Licenses	21 (a)	10,114,950	8,721,561
Intangible assets - Goodwill	21 (a)	-	219,151
Investment in associate	22 (b)	134,665	115,908
Prepaid operating lease rentals	23	1,304	477
Restricted cash	26 (b)	1,337,626	2,281,051
Deferred restricted cash asset	26 (c)	793,056	-
		136,527,173	131,523,189
Current assets			
Inventories	24	1,370,771	816,393
Receivables and prepayments	25	17,833,539	20,622,992
Cash and cash equivalents	26 (a)	5,955,513	6,220,005
		25,159,823	27,659,390
Current liabilities			
Payables and accrued expenses	27	36,567,298	40,068,982
Current income tax		1,086,304	2,374,556
Borrowings	16	16,544,151	-
		54,197,753	42,443,538
Net current liabilities		(29,037,930)	(14,784,148)
		107,489,243	116,739,041

The financial statements on pages 94 to 134 were approved for issue by the Board of Directors on May 9, 2017 and signed on its behalf by:




Director
Nicholas Nganga



Director
Bob Collymore

	Notes	At March 31	
		2017	2016
		Shs'000	Shs'000
Equity			
Share capital	14	2,003,271	2,003,271
Share premium	14	2,200,040	2,200,040
Retained earnings		65,046,631	82,866,067
Proposed dividend	15	38,863,465	30,483,432
Total equity		108,113,407	117,552,810
Non-current assets			
Deferred income tax	17 (b)	1,910,380	1,407,269
Property, plant and equipment	18 (b)	117,189,921	113,402,203
Indefeasible Rights of Use (IRUs)	19 (b)	4,155,076	4,456,065
Investment properties	20	845,000	845,000
Intangible assets - Licenses	21 (b)	10,106,925	8,712,350
Investment in subsidiaries	22 (a)	846,451	857,341
Investment in associate	22 (b)	134,665	115,908
Prepaid operating lease rentals	23	1,304	477
Loan to related parties	29 (x)	474,353	837,588
Restricted cash	26 (b)	1,337,626	2,281,051
Deferred restricted cash asset	26 (c)	793,056	-
		137,794,757	132,915,252
Current assets			
Inventories	24	1,370,771	816,393
Receivables and prepayments	25	17,358,746	20,541,259
Cash and cash equivalents	26 (a)	5,821,052	5,885,242
		24,550,569	27,242,894
Current liabilities			
Payables and accrued expenses	27	36,638,763	40,272,336
Current income tax		1,049,005	2,333,000
Borrowings	16	16,544,151	-
		54,231,919	42,605,336
Net current liabilities		(29,681,350)	(15,362,442)
		108,113,407	117,552,810

The financial statements on pages 94 to 134 were approved for issue by the board of directors on May 9, 2017 and signed on its behalf by:


 Director
 Nicholas Nganga


 Director
 Bob Collymore

	Notes	Share capital	Share premium	Retained earnings	Proposed dividends	Total equity
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended March 31, 2016						
At start of year		2,003,271	2,200,040	74,431,440	25,641,874	104,276,625
Profit and total comprehensive income for the year		-	-	38,104,290	-	38,104,290
Transactions with owners:						
Dividends:						
- Final for 2015	15	-	-	-	(25,641,874)	(25,641,874)
- Proposed final for 2016	15	-	-	(30,483,432)	30,483,432	-
		-	-	(30,483,432)	4,841,558	(25,641,874)
At end of year		2,003,271	2,200,040	82,052,298	30,483,432	116,739,041
Year ended March 31, 2017						
At start of year		2,003,271	2,200,040	82,052,298	30,483,432	116,739,041
Profit and total comprehensive income for the year		-	-	48,444,418	-	48,444,418
Transactions with owners:						
Dividends						
- Final for 2016	15	-	-	-	(30,483,432)	(30,483,432)
- Rounding off adjustment for prior year dividend		-	-	33,707	-	33,707
-Special dividend for 2016	15	-	-	(27,244,491)	-	(27,244,491)
- Proposed final for 2017	15	-	-	(38,863,465)	38,863,465	-
		-	-	(66,074,249)	8,380,033	(57,694,216)
At end of year		2,003,271	2,200,040	64,422,467	38,863,465	107,489,243

	Share capital	Share premium	Retained earnings	Proposed dividends	Total equity
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended March 31, 2016					
At start of year	2,003,271	2,200,040	75,584,707	25,641,874	105,429,892
Profit and total comprehensive income for the year	-	-	37,764,792	-	37,764,792
Transactions with owners:					
Dividends:					
- Final for 2015	-	-	-	(25,641,874)	(25,641,874)
- Proposed final for 2016	-	-	(30,483,432)	30,483,432	-
	-	-	(30,483,432)	4,841,558	(25,641,874)
At end of year	2,003,271	2,200,040	82,866,067	30,483,432	117,552,810
Year ended March 31, 2017					
At start of year	2,003,271	2,200,040	82,866,067	30,483,432	117,552,810
Profit and total comprehensive income for the year	-	-	48,254,813	-	48,254,813
Transactions with owners:					
Dividends:					
- Final for 2016	-	-	-	(30,483,432)	(30,483,432)
- Rounding off adjustment for prior year dividend	-	-	33,707	-	33,707
- Special dividend for 2016	-	-	(27,244,491)	-	(27,244,491)
- Proposed final for 2017	-	-	(38,863,465)	38,863,465	-
	-	-	(66,074,249)	8,380,033	(57,694,216)
At end of year	2,003,271	2,200,040	65,046,631	38,863,465	108,113,407

	Notes	Year ended March 31	
		2017 Shs'000	2016 Shs'000
Cash flows from operating activities			
Cash generated from operations	28	101,997,737	79,203,275
Movement in restricted cash		108,356	(286,760)
Interest received	8	1,423,076	1,341,725
Income tax paid		(24,002,031)	(15,654,767)
Net cash generated from operating activities		79,527,138	64,603,473
Cash flows from investing activities			
Purchase of property, plant and equipment	18 (a)	(35,334,333)	(33,337,423)
Proceeds from disposal of property, plant and equipment		124,498	37,948
Purchase of intangible assets		(2,516,738)	-
Net cash used in investing activities		(37,726,573)	(33,299,475)
Cash flows from financing activities			
Dividends paid	15	(57,694,216)	(25,641,874)
Interest paid	9	(914,992)	(838,157)
Proceeds from long-term borrowings	16	27,399,984	8,696,700
Repayments on long-term borrowings	16	(10,855,833)	(19,336,680)
Net cash used in financing activities		(42,065,057)	(37,120,011)
Net decrease in cash and cash equivalents		(264,492)	(5,816,013)
Movement in cash and cash equivalents			
At start of year		6,220,005	12,036,018
Decrease in cash and cash equivalents		(264,492)	(5,816,013)
At end of year	26	5,955,513	6,220,005

1. General information

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

The address of the registered office of the Company is:

L.R. No. 13263

Safaricom House, Waiyaki Way

P.O. Box 66827-00800

Nairobi

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

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of comprehensive income in these financial statements.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis Of preparation

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

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

ii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing April 1, 2016:

- Annual improvements to IFRSs 2012 – 2014 cycle;
- Disclosure initiative – amendments to IAS 1; and
- Clarification of Acceptable Methods of Depreciations and Amortisation - Amendments to IAS 16 and IAS 38.

The adoption of these amendments did not have any material impact on the current period or any prior period and is not likely to affect future periods.

ii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31, 2017 reporting period and have not been early adopted by the Group. The standards expected to have a significant impact on the financial statements of the Group are set out below:

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

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

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

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating

lease commitments of Shs7,910,170,000 (see note 31). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

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

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

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

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- Accounting for the customer loyalty programme – IFRS 15 requires that the total consideration received must be allocated to the points and goods based on relative standalone selling prices rather than based on the residual value method; this could result in different amounts being allocated to the goods sold and delay the recognition of a portion of the revenue.
- Accounting for certain costs incurred in fulfilling a contract – certain costs that are currently expensed may need to be recognised as an asset under IFRS 15 such as discounts on prepaid voucher sales and upfront fees for emergency top up (ETU) fees could be deferred.
- The introduction of the concept of control over goods or services to determine how revenue is recognised will require the Group to reassess the gross versus net presentation of revenue from value added services.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

When IFRS 15 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

of the comparative periods presented in the financial statements, or with the cumulative retrospective impact of IFRS 15 applied as an adjustment to equity on the date of adoption; when the latter approach is applied it is necessary to disclose the impact of IFRS 15 on each line item in the financial statements in the reporting period. The Group currently intends to reflect the cumulative impact of IFRS 15 in equity on the date of adoption.

(b) Consolidation

(i) Subsidiaries

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

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

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is

recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement profit or loss.

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

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries

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

(ii) Associates

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-

acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit / (loss) of associate' in the statement of comprehensive income.

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

(iii) Separate financial statements

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred

2. Summary of significant accounting policies (continued)

(c) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

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

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

(d) Segment reporting

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

The SLT consider the Company to be comprised of one operating segment. The financial statements are presented on the basis that risks and rates of return are related to this one reportable segment. Further details are included under Note 5.

(e) Revenue recognition

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

i) Voice and SMS Revenue

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

The Safaricom Limited headline voice tariff for prepay customers is called Uwezo and Advantage tariff for Postpay customers. The on-net and off-net rate is Shs4 during the day and Shs2 from 10 pm to 8 am applicable to both prepay and postpay customers. Revenue from prepay voice customers is recognised on usage whereas post pay revenue is recognized at the end of every month based on a monthly charge.

In the year ended March 31, 2017, the Group introduced call drop guarantee, Stori Ibambe bonus and Blaze categories.

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

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

Blaze targets subscribers between the ages of 18 and 25, offering them a specialised platform that includes custom-made tariffs and product offerings.

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

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

on other networks. Revenue is recognised on billing. Customers can send messages for Shs1 on both on-net and off-net. There are also attractive SMS bundles that offer an effective price per SMS lower than Shs1. Revenue from SMS service is recognised on usage or sale of SMS bundle.

ii) Data revenue

Mobile data enables both prepay and postpay customers to access the Internet. Prepay customers top up their lines by purchasing credit or bundles in advance whereas postpay customers get credit based on the tariff subscribed.

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

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

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

In the year ended March 31, 2017, the Group introduced the Data Manager tool that gives subscribers the power to control data bundle usage and allows them to restrict browsing out of bundle, avoiding instances of higher pricing when browsing the Internet.

Fixed data services allow customers Internet connectivity. Revenue is based on the bandwidth and speed contracted by the customer. Revenue is recognised at the end of every month based on a standard monthly charge.

iii) M-PESA revenue

M-PESA is a mobile phone service allowing customers to deposit, transfer and withdraw money or pay for goods and services (Lipa na M-PESA) using a mobile phone. M-PESA is available to all Safaricom Limited subscribers (prepay and postpay). Registration is free and available at any M-PESA agent countrywide. The M-PESA application is installed on the SIM card and works on all makes of handsets.

Revenue from this service is earned largely from transfer and withdrawal transactions performed by customers. A tariff that is graduated depending on the funds being transacted is applied on all transactions which are cumulatively reported as M-PESA transaction commission revenue.

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

2. Summary of significant accounting policies (continued)

(e) Revenue Recognition (continued)

iii) M-PESA revenue (continued)

To further drive financial inclusion Safaricom has partnered with Commercial Bank of Africa (CBA) and Kenya Commercial Bank (KCB) to offer Mshwari and KCB-M-PESA services respectively.

These services enable customers to save as little as Shs1 (\$0.01) and get loans from Shs50 (\$0.485) to Shs1 million (\$9,699.32). Revenue is shared on the basis of the facility fee and other charges to customers.

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

In November 2016, the Group launched a new M-PESA tariff dubbed "M-PESA Kadogo" where transaction charges for single transaction amounts that are up to Shs100 were waived. This allowed subscribers to send as little as Shs1 on its M-PESA platform.

iv) Other service revenue

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

v) Loyalty programme

A loyalty programme, Bonga Points, was introduced in January 2007 to both prepay and postpay subscribers. Under this scheme, subscribers earn one Bonga Point for every Shs10 spent on voice calls, short messages service (SMS), data and M-PESA services. These points can be redeemed for free airtime, SMS or merchandise such as phones, modems and tablets.

Management defers revenue for every point accumulated and recognises the revenue relating to the points earned on redemption. The position as at March 31, 2017 was that 82% (2016: 82%) of the points redeemed in the year were for non-merchandise items (voice minutes, data bytes and SMS) while 18% (2016: 18%) was redeemed for merchandise items. Management also recognises revenue on the remaining loyalty points for the churned simcards.

In the year ended March 31, 2017, the Group introduced the Bonga Everywhere scheme where subscribers are able to utilise their points in appointed retail outlets e.g. Naivas supermarkets, to purchase goods and services.

vi) Handsets and acquisitions revenue

These includes revenue on sale of mobile phone handsets, starter packs, Sim swaps and other accessories sold through dealers and own-retail centres spread across the country. Starter packs consist of a SIM card and information brochures. Handsets, Sim swaps and accessories have no right of return and revenue is recognised on sale.

However, income from sale of SIM cards is deferred and recognised as revenue when the customer activates the line through initial top up.

vii) Construction and managed service contract

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

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

viii) Other revenue

This includes among other site rentals. Site rental revenue is billed monthly and is based on the number of sites and equipment hosted per site.

(f) Property, plant and equipment

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

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

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

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

Effective March 31, 2015, the Group adopted an amendment to IAS 16 "Property, Plant and Equipment" that clarifies that items such as spare parts, standby equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment.

In 2015, the Group adopted an amendment to IAS 16: Property, plant and equipment and transferred network maintenance spares supporting the network previously classified under inventory to property, plant and equipment. See additional details under Note 18.

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

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

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

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

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

2. Summary of significant accounting policies (continued)

(g) Investment properties

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

Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

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

(h) Intangible Assets

(i) Goodwill

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

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

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

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

(ii) Network licences

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

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

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

Currently, the Group has the following licences:

Safaricom Limited is licensed under the Unified License Framework, which means it possesses;

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

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

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

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

The following licences are also in place:

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

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

(i) Derivative financial instruments

Derivatives, which comprise solely of forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income. These derivatives are trading derivatives and are classified as a current asset or liability.

(j) Impairment of non-financial assets

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

(k) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(i) Classification

The Group and Company classify financial assets in the following categories: At fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. The directors determine the classification of the financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if expected to be realised within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12

2. Summary of significant accounting policies (continued)

(k) Accounting for leases (continued)

Loans and receivables (continued)

months after the end of the reporting period. These are classified as non-current assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or the directors intend to dispose of the investment within 12 months of the end of the reporting period.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the entity commits to purchase or sell the asset. Investments are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets, carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the entity has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Changes in their fair value are dealt with through the profit and loss. Loans and receivables are carried at amortised cost using the effective interest method.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(iv) Impairment of financial assets

Assets carried at amortised cost

The Group and Company assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets classified as available-for-sale

The Group and Company assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the entity's right to receive payments is established.

(m) Indefeasible Rights of Use

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

The Group also has rights to use sites for which lease agreements with respective landlords are with East Africa Tower Company Limited (EATCL). The rights are amortised over the period in which the lease agreements remain between EATCL and the landlords. On expiry, the lease agreements will be transferred to Safaricom.

IRU	Contract period
TEAMS	20 years
KPLC	20 years
SEACOM	20 years
TATA	15 years
ETISALAT	15 years
EATCL	Dependent on individual lease period

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of inventories comprises purchase price and other incidental costs. Net realisable value is the estimate of the selling price and other incidental costs.

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

(o) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the carrying amount of all balances in each class of debt older than:

Postpay, roaming and corporate debt	91 days
Collocation and fibre debt	61 days
Interconnect and premium rate service debt	31 days
Emergency Top Up debt (ETU)/Okoa Jahazi	5 days
Other	specific customer terms

(p) Trade and other payables

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

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Deferred revenue is accounted for as described under Note 2(e) and Note 27. Management makes assumptions and applies judgements in estimating the amount of deferred data revenues.

(q) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value (Shs0.05) of the shares is classified as share premium in equity.

2. Summary of significant accounting policies (continued)

Ordinary shares represent the residual economic value of a company. They carry rights to distribution of profits through dividends, to the surplus assets of a company on a winding up and to votes at general meetings of the Company.

There are no differences in the voting rights of the ordinary shares held by the shareholders of the Company.

Non-participating preference shares have the right to preference in the payment of the paid up par value in the event of liquidation of the Company and may be redeemed at any time by the Board of Directors of the Company subject to the provisions of the Kenyan Companies Act.

(r) Cash and cash equivalents

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

(s) Restricted cash

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

Restricted cash relates to deposit held with Housing Finance Group Limited (formerly known as Housing Finance Company of Kenya Limited). The cash is used as a backup to the staff mortgage loans and its withdrawal is restricted.

The restricted cash is initially measured at fair value using discounted cash flow method. The discount rate used is based on 70% of the Central Bank of Kenya rate (CBR). Subsequently, the restricted cash is measured at amortised cost. The difference between the actual cash held as deposits and the fair value (i.e. the deferred restricted cash asset) is amortised over the term of the deposit.

(t) Employee benefits

(i) Retirement benefit obligations

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

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

For defined contribution plans, the Group and Company pay contributions to publicly or privately administered plans on a mandatory, contractual or voluntary basis. The entity has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

(ii) Termination benefits

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

(iii) Other entitlements

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

(u) Share-based payments

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

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

(v) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the

initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(w) Borrowings

Borrowings are recognised initially at fair value including transaction costs and subsequently stated at amortised cost using the effective interest method. Any differences between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year end.

2. Summary of significant accounting policies (continued)

(w) Borrowings (continued)

Capitalisation of borrowing cost

The Group from time to time capitalises borrowing costs as provided under IAS 23. In line with the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore, will be capitalized. A qualifying asset is one which necessarily takes more than six months to get ready for its intended use or sale. A qualifying asset can either be tangible or intangible in nature. Examples of qualifying assets include core network equipment, transmission and radio equipment for base station sites, computer software and licenses.

(x) Dividend distribution

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

(y) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(z) Comparatives

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year. The consolidated statements of comprehensive income, financial position and cash flows for the previous year has been reconstructed to reflect the effect of the restricted cash and specifically to conform to changes in presentation in the current year based on IAS 1 requirements.

3. Critical accounting estimates and judgements

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

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting

estimates will, by definition, seldom equal the related actual results.

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

Fair value estimation

The fair value of financial instruments is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the statement of financial position date. The financial instruments subject to fair value estimation have been disclosed under Note 4.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 (h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 21.

Income taxes

Significant judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Property, plant and equipment

Critical estimates are made by management in determining depreciation rates and impairment of property, plant and equipment. The depreciation rates used are set out in Note 2 (f) above and the basis of impairment has been disclosed under Note 18.

Valuation of Bonga Points

Bonga Points are valued based on fair value, which is determined by historical redemption information. The length of historical period used to determine the fair value is set by management and is based on previous redemptions rates on airtime, data, messages or merchandise.

If the fair value per point was +/- 2% higher / lower, there would be a decrease/ increase in profit before tax of Shs48 million respectively (2016: Shs61 million).

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

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

- The classification of financial assets and leases; and
- Whether assets are impaired.

(iii) Critical judgement on going concern

The Group's current liabilities exceed its current assets by Shs29 billion (2016: Shs14.8 billion) at the statement of financial position date as shown on page 95. For items that significantly impact the net working capital, refer to Notes 16 and 25 to 27.

The Shs29 billion is explained by among other things, creditors relating to network infrastructure (Shs6.6 billion) and short term loans (Shs16.5 billion).

This net current liability position is expected to remain in the near future as a result of the nature of the Group's business. A significant portion of creditors relate to network infrastructure investments rather than on-going trading hence net working capital is typically a negative amount. This is due to payment terms for capital creditors being longer than receivables and inventory turnover period owing to longer project implementation period, agreed credit terms and payment milestones with the vendors in this category.

Other significant portion of current liabilities is a result of how revenue is recognised. The related liabilities are all held in the statement of financial position and are explained below:

- Unused airtime and data bundles by prepaid customers of Shs3.4 billion (2016: 2.8 billion). Prepaid airtime when sold to customers is held as a liability in the statement of financial position (deferred revenue) until the customer uses it, at which point revenue is recognised by reducing the liability and reporting revenue.
- Loyalty points earned by customers (Bonga points) of Shs3.3 billion (2016: Shs3.2 billion). Loyalty points are earned when a customer uses a Safaricom service including use of airtime, data or M-PESA. These points are valued and accumulated into the customer account until such a time when the customer opts to redeem the points against merchandise (devices including handsets, accessories and merchandise from appointed Bonga everywhere outlets) or non-merchandise (free airtime and data bundles). It is at this point that the liability is reduced and the redeemed points recognized as revenue. In addition, loyalty points earned by Enterprise Business customers in the year were Shs482 million. Enterprise Business customers earn loyalty points upon achievement of their monthly revenue targets and the accumulated amounts are only redeemable after the maturity of the underlying revenue contracts with the Group.
- Deposits held for postpaid customers of Shs1.1 billion (2016: Shs981 million).

Deposits for postpaid customer are held until the customer opts to leave Safaricom when he/she is refunded the deposits or the deposit is transferred to customer's prepay account if the customer changes to a prepaid tariff.

3. Critical accounting estimates and judgements (continued)

(iii) Critical judgement on going concern (continued)

These amounts are included under "trade and other payables" in the statement of financial position. Refer to Note 27.

Further, the Group finances its long term projects with short term debt. In the year ended March 31, 2017, the Group borrowed Shs27.2 billion and made an early repayment of Shs10.8 billion. The outstanding amount of Shs16.5 billion is due for payment by July 31, 2017. The directors are confident that sufficient funds will be available and accessible to meet obligations as they fall due.

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

4. Financial risk management

The Group's activities expose it to a variety of financial risks, market risk (including foreign exchange risk, interest rate risk, and price risk), credit risk and liquidity risk.

Financial risk management is carried out by the treasury section in finance division under policies approved by the Board of Directors. The treasury section identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

Loans and receivables have been disclosed at their carrying values. Financial liabilities have been carried at amortised cost.

Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily, with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities using spot and forward contracts, but has not designated any derivative instruments as hedging instruments. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

At March 31, 2017, if the shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, consolidated post tax profit for the year would have been Shs243 million (2016: Shs116 million) higher/lower, mainly as a result of US dollar denominated cash and bank balances, receivables and payables.

Profit is more sensitive to movement in Shs/US dollar exchange rates in 2017 than 2016 because of the increased amount of US dollar-denominated creditor balances.

At March 31, 2017, if the shilling had weakened/strengthened further by 10% against the euro with all other variables held constant, consolidated post tax profit for the year would have been Shs26 million (2016: Shs-67 million) lower/higher, mainly as a result of increased euro-denominated creditor balances.

(ii) Price risk

The Group does not hold investments or securities that would be subject to price risk. The Group is not exposed to commodity price risk.

(iii) Interest rate risk

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

At March 31, 2017, an increase/decrease of 100 basis points (2016: 100 basis points) would have resulted in a decrease/increase in consolidated post tax profit of Shs124 million (2016: Shs67 million).

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from deposits with banks as well as trade and other receivables. The Group has no significant concentrations of credit risk. Derivative financial instruments and bank deposits are re-valued at closing rates at the end of the period.

For banks and financial institutions, only reputable well established financial institutions are used. Category 1 is made up of counterparties with international credit ratings; Category 2 are counterparties who are subsidiaries of parents with international credit ratings; Category 3 counterparties have local credit ratings or are not rated but are classified as large by the Central Bank of Kenya.

Cash at bank and short term bank deposits

	Group		Company	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Category 1	3,905,387	1,192,617	3,905,387	1,192,617
Category 2	1,320,330	3,994,729	1,320,330	3,974,052
Category 3	729,506	1,009,696	595,045	695,684
	5,955,223	6,197,042	5,820,762	5,862,353

Trade and other receivables

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

4. Financial risk management (continued)

Credit risk (continued)

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

Postpay debtors comprise of individuals as well as corporate customers. Postpay debtors have a 15 day credit period after which individual customers must pay within 10 days after due date, while business accounts have up to 30 days. The auto-bar feature ensures that once the limit has been reached the customer account is barred. This minimises the credit risk associated with these customers.

The Group currently has 548 (March 31, 2016: 538) signed international roaming agreements in place. The roaming strategy targets countries which historically have had the most visitors to Kenya, including UK, Italy, Spain, Sweden, South Africa, and Kenya's neighbouring countries. Roaming partners have entered into an agreement with the Group to terminate their calls on the Group's network for visitors travelling into Kenya. Amounts due from the roaming partners are settled within 60 days unless a dispute arises. Disputes are handled by Synverse, a roaming clearing house.

The Group has also signed interconnect agreements with partners to terminate calls to and from other networks on the Group's network. Amounts due from interconnect partners are settled within 30 days of invoice unless a dispute arises. Disputes are handled in the first instance by the Regulatory Department of the Group. The Group's maximum exposure to credit risk is approximated by the carrying amounts.

The Group has an elaborate ageing system for monitoring its receivables. Dealers' transactions and credit positions are closely monitored. All fully performing balances are within 90 days. The other categories are past due. Collateral is held for bulk of the trade receivables in the form of bank guarantees and deposits. None of the above assets are either past due or impaired except for the following amounts in trade receivables:

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Past due but not impaired:				
- by up to 30 days	2,614,659	710,068	2,610,456	710,068
- by more than 30 days	210,078	956,944	177,789	897,087
Total past due but not impaired	2,815,737	1,667,012	2,788,245	1,607,155
Receivables individually determined to be impaired	1,410,288	1,602,687	1,410,288	1,589,531

(a) Group	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	Shs'000	Shs'000	Shs'000	Shs'000
At March 31, 2017:				
Dealers	41,202	-	1,937	43,139
Post-pay	867,175	273,546	324,612	1,465,333
Roaming and interconnect	398,732	397,779	496,745	1,293,256
Amounts due from related parties	2,140,551	268,930	8,421	2,417,902
Other receivables	4,408,624	166,834	409,096	4,984,554
Construction contract receivable	2,590,573	1,708,648	169,477	4,468,698
Total	10,446,857	2,815,737	1,410,288	14,672,882
At March 31, 2016:				
Dealers	170,513	158,542	1,590	330,645
Post-pay	1,158,337	265,044	422,248	1,845,629
Roaming and interconnect	810,005	586,690	599,046	1,995,741
Amounts due from related parties	2,005,654	270,650	1,987	2,278,291
Other receivables	909,348	386,086	577,816	1,873,250
Construction contract receivable	9,279,818	-	-	9,279,818
Total	14,333,675	1,667,012	1,602,687	17,603,374

4. Financial risk management (continued)

Credit risk (continued)

Trade and other receivables (continued)

<i>(b) Company</i>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>	<i>Impaired</i>	<i>Total</i>
	<i>Shs'000</i>	<i>Shs'000</i>	<i>Shs'000</i>	<i>Shs'000</i>
At March 31, 2017:				
Dealers	41,202	-	1,937	43,139
Post-pay	867,175	273,546	324,612	1,465,333
Roaming and interconnect	398,732	397,779	496,745	1,293,256
Amounts due from related parties	1,794,075	268,930	8,421	2,071,426
Other receivables	4,333,241	139,343	409,096	4,881,680
Construction contract receivable	2,590,573	1,708,648	169,477	4,468,698
Loan to related parties	474,353	-	-	474,353
Total	10,499,351	2,788,245	1,410,288	14,697,885
At March 31, 2016:				
Dealers	170,513	158,542	1,590	330,645
Post-pay	1,158,337	265,044	422,248	1,845,629
Roaming and interconnect	810,005	586,690	599,046	1,995,741
Amounts due from related parties	2,421,926	248,618	1,987	2,672,531
Other receivables	503,228	348,261	564,660	1,416,149
Construction contract receivable	9,279,818	-	-	9,279,818
Loan to related parties	837,588	-	-	837,588
Total	15,181,415	1,607,155	1,589,531	18,378,101

Dealers' debt is fully secured by bank guarantees. The Group has bank guarantees of Shs315 million as at March 31, 2017 (2016: Shs376 million), which can be enforced in the event of default. Customers under the 'past due but not impaired' category continue paying their debts as they trade. The default rate is low. The credit control department is actively following the debts that are overdue but not impaired.

The balances that are impaired have been fully provided for. However, external debt collectors as well as the Group's legal department are following up on the impaired balances.

In determination of the impaired balances above, management considered the age of the debt and financial position of the debtor.

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs.

Such forecasting takes into consideration the entity's debt financing plans (See Note 16 for undrawn bank facilities), covenant compliance, compliance with internal statement of financial position ratio targets. Surplus cash held by the entity over and above the amounts required for working capital management are invested in interest bearing current accounts and fixed deposit accounts and marketable securities.

The Group's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Treasury section maintains flexibility in funding by maintaining availability under committed credit lines. Liquidity position is monitored through daily cash position as well as monthly cash forecast that monitors debt structure and expected cash position.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

4. Financial risk management (continued)

Liquidity risk (continued)

(a) Group	Less than 1 year	Between 1 and 2 years	Total
	Shs'000	Shs'000	Shs'000
At March 31, 2017:			
- payables and accrued expenses	28,832,599	-	28,832,599
borrowings	16,544,151	-	16,544,151
Total financial liabilities	45,376,750	-	45,376,750
At March 31, 2016:			
- payables and accrued expenses	33,633,144	-	33,633,144
Total financial liabilities	33,633,144	-	33,633,144

(b) Company			
At March 31, 2017:			
- payables and accrued expenses	28,727,099	-	28,727,099
- borrowings	16,544,151	-	16,544,151
Total financial liabilities	45,271,250	-	45,271,250
At March 31, 2016:			
- payables and accrued expenses	33,836,499	-	33,836,499
Total financial liabilities	33,836,499	-	33,836,499

Guarantees amounting to Shs149 million (2016: Shs412 million) have been issued against credit cards for use of senior staff and to various customers for services provided by the company as detailed under Note 30.

Excluded from the trade and other payables is deferred revenue amounting to Shs7,253 million (2016: Shs6,274 million) and Enterprise Business customer loyalty of Shs482 million (2016: ShsNil) which are not expected to result into cash outflow in the normal course of business. There are also undrawn bank facilities amounting to Shs20.87 billion (2016: Shs10.86 billion) that would be utilised to settle its obligations as they fall due.

Capital management

The Group and Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders.

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

The first priority of the Company will be to maintain sufficient distributable reserves and liquidity to ensure that operational needs and / or business growth are not limited by the unavailability of funds and also that facilities are available to cover all known contingencies. Additionally, any dividends will only be declared and paid where allowable under any covenants included in any funding facilities.

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

Whenever possible, it will be the Company's intention to, at least, maintain annual dividend payments at the level declared in the previous year. However, with respect to the initial dividend payment under the current policy, such dividends will not necessarily be at the level declared in the previous years, past dividend payments should not be taken as an indication of future payments.

4. Financial risk management (continued)

Capital management (continued)

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

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Total borrowings	16,544,151	-	16,544,151	-
Less: cash and cash equivalents	(5,955,513)	(6,220,005)	(5,821,052)	(5,885,242)
Net debt	10,588,638	-	10,723,099	-
Total equity	107,489,243	116,739,041	108,113,407	117,552,810
Total capital	118,077,881	116,739,041	118,836,506	117,552,810
Gearing ratio	8.97%	-	9.02%	-

Fair value estimation

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

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

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Investment property disclosed under Note 20 represents the recurring fair value measurement in these financial statements.

5. Segment information

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

The SLT considers the business as one operating segment for purpose of financial performance. The SLT also reviews the results of the segment on a monthly basis in a formal session where the Chief Financial Officer takes the SLT through all the activities and their impact on the results of the segment.

The reason for looking at the business as one segment is because of the interrelated nature of the products and services on offer as well as their dependence on the network infrastructure. Total profitability is discussed and action plans agreed where necessary to improve performance. Other than revenue and related non-financial drivers and statistics, there is no other discrete financial information relating to the revenue streams that the CODM looks at.

The reportable operating segment derives its revenue from the provision of telecommunication services to its customers as explained in Note 2 (e).

Revenue is derived from Kenya. There is no single customer who accounts for more than 10% of the revenue. The SLT assesses the performance of the operating segment from revenue to net income.

Revenue from subscribers is derived from the sale of airtime, handsets, accessories,

M-PESA transaction fees and data products through the dealer/agent network or through the Company's retail outlets across the country and direct airtime top-up via M-PESA.

Breakdown of the revenue from all activities is as follows:

a) Service Revenue	2017	2016
	Shs'000	Shs'000
Voice revenue	90,172,834	87,341,316
Interconnect voice revenue generated from local interconnect partners.	3,286,261	3,461,120
Messaging revenue	16,619,054	17,278,925
Interconnect messaging revenue generated from local interconnect partners	60,213	48,690
Mobile data revenue	29,289,089	21,154,136
Fixed service revenue	5,241,722	3,815,455
M-PESA revenue	55,084,380	41,499,923
Other service revenue	4,355,613	3,184,524
	204,109,166	177,784,089

Service revenue grew by 14.8% to Shs204.1 billion driven predominantly by growth in 30 day active users and increased usage of non-voice services mainly M-PESA and Mobile data. Non-voice service revenue accounted for 54.2% of service revenue, recording a growth of 27.2% to Shs110.6 billion.

Overall voice service revenue now stands at 45.8% of service revenue and remained resilient in the year growing by 2.9% to Shs93.5 billion.

Mobile data revenue, which accounts for 14.3% of our service revenue, grew at 38.5% to Shs29.3 billion. This was driven by a 18.1% growth in 30 day active mobile data customers to 16.6 million, increased bundle users and smartphone penetration.

Bundle users in the period grew by 37.7% to 8.6 million. By March 31, 2017 we had 12.2 million customers on 3G and 4G enabled devices.

Fixed data revenue increased by 37.4% to Shs5.2 billion on the back of 21.2% growth in fixed service customers. Included in fixed service revenue is Shs729 million (2016: ShsNil) relating to the annual management service charge for the national secure communication network.

M-PESA revenue recorded a growth of 32.7% to Shs55.1 billion driven by 14.6% increase in 30 day active M-PESA customers to 19.0 million and a 35.0% growth in monthly usage per customer to 10.0 transactions per month.

5. Segment information(continued)

b) Handsets and other revenues		
	2017	2016
	Shs'000	Shs'000
Handset revenue	5,990,644	6,367,593
Acquisition and other revenue	2,709,201	2,253,724
	8,699,845	8,621,317

c) Construction revenue		
	2017	2016
	Shs'000	Shs'000
National Police Service contract revenue	76,183	9,279,818

Construction revenue relates to a national secure communication network and surveillance system for the National Police Service. This revenue is based on percentage of completion which is determined based on work done compared to the estimated costs to completion.

Equivalent costs have been reported as construction costs. No profit or loss has been recognised in the statement of comprehensive income.

In addition to the construction revenue, a management service charge for the year amounting to Shs729 million (see (a) above) has been recognized as part of fixed data revenue. Billings have been raised as per the agreed contract terms. The total debt outstanding has been classified as construction contract and maintenance receivable under Note 25.

(d) The Group's interest-bearing liabilities are equal to the segment liabilities. Such liabilities are tracked and managed by the treasury function.

The segment information provided to the SLT for the reportable segment for the years ended March 31, 2017 and 2016 is as follows:

	March 31	March 31
	2017	2016
	Shs'000	Shs'000
Total equity and non-current liabilities	107,489,243	116,739,041
Non-current assets	136,527,173	131,523,189
Current assets	25,159,823	27,659,390
Current liabilities	(54,197,753)	(42,443,538)
Net current liabilities	(29,037,930)	(14,784,148)
	107,489,243	116,739,041

There are no discontinued operations.

The amounts reported with respect to total assets and total liabilities are measured in a manner consistent with these financial statements.

Reportable segment assets are equal to total assets hence no reconciliation is required.

6. Other income		
	Group	
	2017	2016
	Shs'000	Shs'000
Gain on disposal of property, plant and equipment	116,481	27,445
Miscellaneous income	2,394,424	204,378
	2,510,905	231,823

This category includes income from disposal of assets and other miscellaneous incomes which includes any one off transactions not likely to recur in future.

During the year, the Group released accruals relating to principal and interest on tax matters with the Kenya Revenue Authority totalling to Shs2.2 billion (2016: Nil) upon resolution of the matter.

7. (a) Direct costs	Group	
	2017	2016
	Shs'000	Shs'000
M-PESA commissions	17,750,428	14,685,220
Airtime commissions	11,416,461	10,783,845
Licence fees (spectrum, M-PESA and link leases)	10,175,799	9,799,334
Interconnect and roaming costs	7,359,728	7,467,557
Handset costs	6,176,544	6,426,675
Customer acquisition and retention	7,238,656	6,116,974
Value added services costs (Voice and SMS)	5,702,098	5,952,237
Other direct costs	929,806	1,078,161
	66,749,520	62,310,003
7. (b) Construction costs		
National Police Service contract costs	76,183	9,279,818
7. (c) Other expenses		
Repairs and maintenance expenditure on property, plant and equipment	300,974	211,322
Operating lease rentals - buildings	956,932	817,100
Operating lease rentals - sites	2,181,423	1,568,536
Warehousing costs	315,365	222,250
Employee benefits expense	13,721,770	12,563,301
Auditor's remuneration	48,095	43,109
Sales and advertising	6,257,245	5,570,314
Consultancy including legal fees	2,148,979	1,135,420
Network operating costs	12,532,498	11,153,804
Travel and accommodation	764,566	741,247
Computer maintenance	1,836,304	1,225,527
Office upkeep	1,096,535	792,717
Bad debts	31,612	705,311
Net foreign exchange losses, other than on borrowings and cash and cash equivalents	7,017	271,855
Other operating expenses	2,761,284	4,239,140
	44,960,599	41,260,953
8. Finance Income		
Interest income	1,423,076	1,341,725
Foreign exchange gain on cash and borrowings	341,725	959,330
Amortisation of initial fair valuation loss on restricted cash	(42,013)	-
	1,722,788	2,301,055

9. Finance costs	Group	
	2017	2016
	Shs'000	Shs'000
Interest expense	(914,992)	(838,157)
Foreign exchange losses on cash and borrowings	(400,391)	(561,350)
Impairment loss on construction and maintenance contract	(169,477)	-
	(1,484,860)	(1,399,507)

10. Employee benefits expense	Group	
	2017	2016
	Shs'000	Shs'000
The following items are included within employee benefits expense:		
Salaries and wages	8,225,677	7,558,280
Employee Performance Share Award Plan (EPSAP)	284,530	226,873
Retirement benefits costs:		
- Defined contribution scheme	535,025	464,573
- National Social Security Fund	10,693	9,878
	9,055,925	8,259,604

11. Employee Performance Share Award Plan

On 1 July 2011, the Group implemented an Employee Performance Share Award Plan (the Trust) where shares are awarded to qualifying staff based on the previous year's achieved performance ratings. Under the outright grant scheme, shares are purchased from the market and transferred to eligible staff at no cost after a 3 year vesting period. The shares are purchased and held by the Trust until the end of the vesting period.

During the year, 11.75 million shares were bought by the Trust, at a cost of Shs224 million. Additionally, 13.7 million shares historically valued at Shs193.2 million (2016: 30.4 million shares valued at Shs375.12 million) vested and were exercised by eligible staff.

The Trust currently holds 26.34 million shares at a total cost of Shs462.3 million (2016: 28.31 million shares at a cost of Shs431.42 million).

The Trust is a "cash-settled share based scheme" as described in IFRS 2, Share based payments as the Company provides money to the Trust to purchase shares which will be distributed to the entitled employees on the vesting date.

The Company has accounted for a receivable from the Trust in relation to shares purchased and payables to employees is recognised in these financial statements.

12. Income tax expense	Group	
	2017	2016
	Shs'000	Shs'000
Current income tax	22,713,779	17,412,107
Deferred income tax (Note 17 (a))	(526,124)	246,108
Income tax expense	22,187,655	17,658,215

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable income tax rate as follows:

	2017	2016
	Shs'000	Shs'000
Profit before income tax	70,632,073	55,762,505
Tax calculated at the applicable income tax rate of 30% (2016: 30%)	21,189,622	16,728,752
Tax effect of:		
Income not subject to tax	(21,830)	(37,565)
Expenses not deductible for tax purposes	897,043	1,036,480
Under/ (over) provision of deferred tax in prior year	47,127	(58,769)
Under/ (over)provision of current tax in prior years	75,693	(10,683)
Income tax expense	22,187,655	17,658,215

13. Earnings per share

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

	March 31, 2017	March 31, 2016
Profit attributable to equity holders of the Company (Shs thousands)	48,444,418	38,104,290
Weighted average number of ordinary shares in issue (thousands)	40,065,428	40,065,428
Basic earnings per share (Shs)	1.21	0.95
Diluted earnings per share (Shs)	1.21	0.95

14. Share capital and share premium

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000	Total Shs'000
At April 1, 2015, March 31, 2016 and March 2017	40,065,428	2,003,271	2,200,040	4,203,311

The authorised shares capital of the Company is Shs6,000,000,000 divided into 119,999,999,600 ordinary shares of Shs0.05 each and 5 non-redeemable preference shares of Shs4 each.

The issued share capital comprises 40,065,428,000 (2016: 40,065,428,000) ordinary shares with a par value of Shs0.05 each.

15. Dividend per share

A special dividend of Shs27,244,491,000 (Shs0.68 per share) was declared and paid by December 1, 2016 (2016: Nil).

At the annual general meeting to be held on September 15, 2017, a final dividend in respect of the year ended March 31, 2017 of Shs0.97 (2016: Shs0.76) per share amounting to a total of Shs38,863,465,160 (2016: Shs30,483,432,000) is to be proposed.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

Total dividends payouts in the year were as follows:	March 31 2017 Shs'000	March 31 2016 Shs'000
Special dividend	27,244,491	-
Final dividend	30,449,725	25,641,874
	57,694,216	25,641,874

16. Borrowings

The Group has a short term revolving facility with Commercial Bank of Africa totaling Shs2,400,000,000 with a maturity date of December 2017 at an interest rate of 0.45% above the 91-day Treasury bill rate payable monthly. This facility was fully drawn as at March 31, 2017.

The Group has a short term revolving facility with Standard Chartered Bank of Kenya totaling Shs8,000,000,000 with a maturity date of September 2017 at an interest rate of 0.425% above the 91 day Treasury bill rate payable monthly. Shs244,151,313 had been drawn as at March 31, 2017.

The Group has a short term facility with Barclays Bank of Africa totaling Shs6,900,000,000 with a maturity date of September 2017; at an interest rate of 2.25% above the 91 day Treasury bill rate payable monthly. Shs6,900,000,000 had been drawn as at March 31, 2017.

16. Borrowings (continued)

As at March 31, 2017, the Group had undrawn credit facilities with various banks totalling Shs20,870 million (2016: Shs10,860 million).

Borrowings are made up as follows:

	<i>Group and Company</i>	
	<i>March 31 2017 Shs'000</i>	<i>March 31 2016 Shs'000</i>
Movement in the borrowings		
Opening balance	-	10,639,980
Borrowings	27,399,984	8,696,700
Repayments	(10,855,833)	(19,336,680)
	16,544,151	-

17. Deferred income tax**(a) Group**

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

	<i>Group</i>	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	(785,446)	(580,216)
- Deferred tax assets to be recovered within 12 months	(1,608,818)	(1,450,095)
	(2,394,264)	(2,030,311)
Deferred tax liabilities:		
- Deferred tax assets recoverable after 12 months	431,743	610,002
- Deferred tax liability recoverable within 12 months	16,088	-
	447,831	610,002
Net deferred income tax asset	(1,946,433)	(1,420,309)

Deferred income tax is calculated using the enacted income tax rate of 30% (2016: 30%).

At start of year	(1,420,309)	(1,666,417)
(Credit) / charge to statement of comprehensive income (Note 12)	(526,124)	246,108
At end of year	(1,946,433)	(1,420,309)

17. Deferred income tax (continued)

Consolidated deferred income tax assets and liabilities and deferred income tax charge/(credit) in the statement of comprehensive income (SOCl) are attributable to the following items:

		<i>Charged/ (credited) to SOCl</i>	
<i>Year ended March 31, 2017</i>	<i>14.2016</i>		<i>31.3.2017</i>
	<i>Shs'000</i>	<i>Shs'000</i>	<i>Shs'000</i>
Deferred income tax liabilities			
Property, plant and equipment	610,002	(178,259)	431,743
Unrealised exchange gains	-	16,088	16,088
	610,002	(162,171)	447,831
Deferred income tax assets			
Unrealised exchange loss	(3,684)	3,684	-
Provisions	(2,013,587)	(367,637)	(2,381,224)
Arising from fair value adjustment on acquisition of subsidiary	(13,040)	-	(13,040)
	(2,030,311)	(363,953)	(2,394,264)
Net deferred income tax asset	(1,420,309)	(526,124)	(1,946,433)

		<i>Charged/ (credited) to SOCl</i>	
<i>Year ended March 31, 2016</i>	<i>14.2015</i>		<i>31.3.2016</i>
	<i>Shs'000</i>	<i>Shs'000</i>	<i>Shs'000</i>
Deferred income tax liabilities			
Property, plant and equipment	(466,078)	1,076,080	610,002
Unrealised exchange gains	3,359	(3,359)	-
	(462,719)	1,072,721	610,002
Deferred income tax assets			
Unrealised exchange loss	(17,207)	13,523	(3,684)
Provisions	(1,173,451)	(840,136)	(2,013,587)
Arising from fair value adjustment on acquisition of subsidiary	(13,040)	-	(13,040)
	(1,203,698)	(826,613)	(2,030,311)
Net deferred income tax asset	(1,666,417)	246,108	(1,420,309)

(b) Company

Company deferred income tax assets and liabilities are attributable to the following items:

	<i>March 31</i>	<i>March 31</i>
	<i>2017</i>	<i>2016</i>
	<i>Shs'000</i>	<i>Shs'000</i>
Deferred income tax liabilities		
Property, plant and equipment:	453,695	610,002
Unrealised exchange gains	16,039	-
Total deferred income tax liabilities	469,734	610,002
Deferred income tax assets		
Unrealised exchange loss	-	(3,684)
Provisions	(2,380,114)	(2,013,587)
Total deferred income tax assets	(2,380,114)	(2,017,271)
Net deferred income tax asset	(1,910,380)	(1,407,269)

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

18. Property, plant and equipment

(a) Group	Network infrastructure	Capital work in progress (CWIP)*	Network maintenance spares	Leasehold improvements	Vehicles & equipment	Fibre	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At March 31, 2015							
Cost	195,394,858	22,909,945	922,898	4,539,975	28,201,805	8,059,500	260,028,981
Accumulated depreciation and impairment	(127,472,632)	-	(447,243)	(3,411,747)	(20,629,738)	(310,702)	(152,272,062)
Net book amount	67,922,226	22,909,945	475,655	1,128,228	7,572,067	7,748,798	107,756,919
Year ended March 31, 2016							
Opening net book amount	67,922,226	22,909,945	475,655	1,128,228	7,572,067	7,748,798	107,756,919
Additions	-	32,971,341	366,082	-	-	-	33,337,423
Transfers	(48,240)	-	-	919	39,018	8,303	-
Transfers from CWIP	16,887,273	(36,167,245)	-	1,000,822	12,685,905	5,593,245	-
Transfers to investment properties (Note 20)	-	(1,211,859)	-	-	-	-	(1,211,859)
Disposal	-	-	-	-	(97,735)	-	(97,735)
Depreciation charge	(17,028,286)	-	(161,894)	(474,833)	(6,468,143)	(529,159)	(24,662,315)
Impairment of assets**	(1,790,267)	-	-	-	-	-	(1,790,267)
Depreciation on disposal	-	-	-	-	87,232	-	87,232
Closing net book amount	65,942,706	18,502,182	679,843	1,655,136	13,818,344	12,821,187	113,419,398
At March 31, 2016							
Cost	212,233,891	18,502,182	1,288,980	5,541,716	40,828,993	13,661,048	292,056,810
Accumulated depreciation and impairment	(146,291,185)	-	(609,137)	(3,886,580)	(27,010,649)	(839,861)	(178,637,412)
Net book amount	65,942,706	18,502,182	679,843	1,655,136	13,818,344	12,821,187	113,419,398
Year ended March 31, 2017							
Opening net book amount	65,942,706	18,502,182	679,843	1,655,136	13,818,344	12,821,187	113,419,398
Additions	-	34,776,656	150,988	-	406,689	-	35,334,333
Transfers from CWIP	19,592,821	(34,081,765)	-	431,148	12,348,648	1,709,148	-
Disposal	-	-	(107,408)	-	(171,764)	-	(279,172)
Depreciation charge	(18,490,038)	-	(192,303)	(511,872)	(9,417,691)	(603,390)	(29,215,294)
Impairment of assets**	(2,331,357)	-	-	-	-	-	(2,331,357)
Depreciation on disposal	-	-	107,409	-	163,746	-	271,155
Closing net book amount	64,714,132	19,197,073	638,529	1,574,412	17,147,972	13,926,945	117,199,063
At March 31, 2017							
Cost	231,826,712	19,197,073	1,332,560	5,972,864	53,412,566	15,370,196	327,111,971
Accumulated depreciation and impairment	(167,112,580)	-	(694,031)	(4,398,452)	(36,264,594)	(1,443,251)	(209,912,908)
Net book amount	64,714,132	19,197,073	638,529	1,574,412	17,147,972	13,926,945	117,199,063

18. Property, plant and equipment (continued)

(b) Company	Network infrastructure	Capital work in progress (CWIP)*	Network maintenance spares	Leasehold improvements	Vehicles & equipment	Fibre	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At March 31, 2015							
Cost	195,257,514	22,909,945	922,898	4,539,973	28,097,057	8,053,140	259,780,527
Accumulated depreciation and impairment	(127,349,977)	-	(447,243)	(3,411,745)	(20,542,371)	(304,342)	(152,055,678)
Net book amount	67,907,537	22,909,945	475,655	1,128,228	7,554,686	7,748,798	107,724,849
Year ended March 31, 2016							
Opening net book amount	67,907,537	22,909,945	475,655	1,128,228	7,554,686	7,748,798	107,724,849
Additions	-	32,971,341	366,082	-	-	-	33,337,423
Transfers to investment properties (Note 20)	-	(1,211,859)	-	-	-	-	(1,211,859)
Transfer from CWIP	16,887,273	(36,167,245)	-	1,000,822	12,685,905	5,593,245	-
Disposal	-	-	-	-	(97,735)	-	(97,735)
Transfers	(48,240)	-	-	919	39,018	8,303	-
Depreciation charge	(17,022,354)	-	(161,894)	(474,833)	(6,459,200)	(529,159)	(24,647,440)
Impairment of assets**	(1,790,267)	-	-	-	-	-	(1,790,267)
Depreciation on disposals	-	-	-	-	87,232	-	87,232
Closing net book amount	65,933,949	18,502,182	679,843	1,655,136	13,809,906	12,821,187	113,402,203
At March 31, 2016							
Cost	212,096,547	18,502,182	1,288,980	5,541,714	40,724,245	13,654,688	291,808,356
Accumulated depreciation and impairment	(146,162,598)	-	(609,137)	(3,886,578)	(26,914,339)	(833,501)	(178,406,153)
Net book amount	65,933,949	18,502,182	679,843	1,655,136	13,809,906	12,821,187	113,402,203
Year ended March 31, 2017							
Opening net book amount	65,933,949	18,502,182	679,843	1,655,136	13,809,906	12,821,187	113,402,203
Additions	-	34,776,656	150,988	-	406,689	-	35,334,333
Transfer from CWIP	19,592,821	(34,081,765)	-	431,148	12,348,648	1,709,148	-
Disposal	-	-	(107,408)	-	(169,571)	-	(276,979)
Transfers	-	-	-	-	-	-	-
Depreciation charge	(18,481,985)	-	(192,303)	(511,872)	(9,417,691)	(603,390)	(29,207,241)
Impairment of assets**	(2,331,357)	-	-	-	-	-	(2,331,357)
Depreciation on disposals	-	-	107,409	-	161,553	-	268,962
Closing net book amount	64,713,428	19,197,073	638,529	1,574,412	17,139,534	13,926,945	117,189,921
At March 31, 2017							
Cost	231,689,368	19,197,073	1,332,560	5,972,862	53,310,011	15,363,836	326,865,710
Accumulated depreciation and impairment	(166,975,940)	-	(694,031)	(4,398,450)	(36,170,477)	(1,436,891)	(209,675,789)
Net book amount	64,713,428	19,197,073	638,529	1,574,412	17,139,534	13,926,945	117,189,921

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

** Impairments amounting to Shs2,331 million (2016: Shs1,790 million), being the carrying value of the assets identified as impaired as a result of the ongoing modernization programme prompted by evolution of technology, have been included in the consolidated statement of comprehensive income.

*** Borrowing costs of Shs186 million were capitalized in the year and included in the additions for the year.

19. Indefeasible rights of use (IRUs)

(a) Group	TEAMS	SEACOM	KPLC	ETISALAT	TATA	EATCL	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended March 31, 2016							
Opening net book amount	2,761,161	1,150,318	621,959	84,140	139,477	91,450	4,848,505
Amortisation charge	(162,650)	(76,743)	(41,916)	(7,419)	(12,262)	(47,181)	(348,171)
Closing net book amount	2,598,511	1,073,575	580,043	76,721	127,215	44,269	4,500,334
At March 31, 2016							
Cost	3,253,011	1,534,853	838,312	111,280	183,914	91,450	6,012,820
Accumulated amortisation	(654,500)	(461,278)	(258,269)	(34,559)	(56,699)	(47,181)	(1,512,486)
	2,598,511	1,073,575	580,043	76,721	127,215	44,269	4,500,334
Year ended March 31, 2017							
Opening net book amount	2,598,511	1,073,575	580,043	76,721	127,215	44,269	4,500,334
Amortisation charge	(162,650)	(76,743)	(41,916)	(7,419)	(12,261)	(44,269)	(345,258)
Closing net book amount	2,435,861	996,832	538,127	69,302	114,954	-	4,155,076
At March 31, 2017							
Cost	3,253,011	1,534,853	838,312	111,280	183,914	91,450	6,012,820
Accumulated amortisation	(817,150)	(538,021)	(300,185)	(41,978)	(68,960)	(91,450)	(1,857,744)
	2,435,861	996,832	538,127	69,302	114,954	-	4,155,076

(b) Company	TEAMS	SEACOM	KPLC	ETISALAT	TATA	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended March 31, 2016						
Opening net book amount	2,761,161	1,150,318	621,959	84,140	139,477	4,757,055
Amortisation charge	(162,650)	(76,743)	(41,916)	(7,419)	(12,262)	(300,990)
Closing net book amount	2,598,511	1,073,575	580,043	76,721	127,215	4,456,065
At March 31, 2016						
Cost	3,253,011	1,534,853	838,312	111,280	183,914	5,921,370
Accumulated amortisation	(654,500)	(461,278)	(258,269)	(34,559)	(56,699)	(1,465,305)
	2,598,511	1,073,575	580,043	76,721	127,215	4,456,065
Year ended March 31, 2017						
Opening net book amount	2,598,511	1,073,575	580,043	76,721	127,215	4,456,065
Amortisation charge	(162,650)	(76,743)	(41,916)	(7,419)	(12,261)	(300,989)
Closing net book amount	2,435,861	996,832	538,127	69,302	114,954	4,155,076
At March 31, 2017						
Cost	3,253,011	1,534,853	838,312	111,280	183,914	5,921,370
Accumulated amortisation	(817,150)	(538,021)	(300,185)	(41,978)	(68,960)	(1,766,294)
	2,435,861	996,832	538,127	69,302	114,954	4,155,076

20. Investment property

Group and Company	2017	2016
	Shs'000	Shs'000
As at 1 April	845,000	-
Transfer from property, plant and equipment (Note 18)	-	1,211,859
Fair value loss	-	(366,859)
As at March 31	845,000	845,000

The investment property relates to Land Title No. 164259 and Title No. 164260; located in the Nairobi area. In 2016, management changed the purpose for which the land was held and therefore transferred it from property, plant and equipment to investment properties.

The fair value measurement of the investment property as at March 31, 2017 was performed by registered and independent valuers. They are members of the Institute of Surveyors of Kenya, have appropriate qualifications, relevant and recent experience in the fair value measurement of properties in various locations in Kenya.

The fair value was determined by reference to market evidence of recent transactions for similar properties. In estimating the fair value of the properties, the highest and best use of those similar properties was assumed.

Details of the Company's investment property and information about fair value hierarchy as at March 31, 2017 is as follows:

Non- financial asset	Fair Value as at March 31, 2017 Shs'000	Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Investment property	845,000	Level II	Open market value basis - highest and best use model	Not applicable	Not applicable

21. Intangible assets

(a) Group	Goodwill	Licence fees	Total
	Shs'000	Shs'000	Shs'000
Year ended March 31, 2016			
Opening net book amount	219,151	9,863,354	10,082,505
Amortisation charge for the year	-	(1,141,793)	(1,141,793)
Closing net book amount	219,151	8,721,561	8,940,712
At March 31, 2016			
Cost	219,151	16,465,833	16,684,984
Accumulated amortisation	-	(7,744,272)	(7,744,272)
Net book amount	219,151	8,721,561	8,940,712
Year ended March 31, 2017			
Opening net book amount	219,151	8,721,561	8,940,712
Additions (LTE licence)	-	2,516,738	2,516,738
Impairment and amortisation	(219,151)	(1,123,349)	(1,342,500)
Closing net book amount	-	10,114,950	10,114,950
At March 31, 2017			
Cost	-	18,982,570	18,982,570
Accumulated amortisation	-	(8,867,620)	(8,867,620)
Net book amount	-	10,114,950	10,114,950

21. Intangible assets (continued)

Impairment of goodwill

The goodwill arose from the historical acquisition of One Communications Limited (OCL) and is allocated to the Group's cash generating units (CGU). On an annual basis, the goodwill is tested for impairment. For the purposes of assessment of impairment of goodwill, OCL business is viewed as the CGU. The recoverable amount of OCL has been determined based on value-in-use calculations. Management has reviewed the three year business plans of OCL and discounted cash flows for the same period to assess the value in use.

A discount rate of 10.8% (2016: 9.25%), being the Company's cost of capital, has been used.

Revenue growth rates of 2.5% (2016: 2%) in the first year followed by 2.5% (2016: 2.5%) in the second and third year have been used. From the assessment carried out, the goodwill of Shs219 million has been impaired as at March 31, 2017 (2016: Nil). OCL is a continuing operation.

(b) Company	Licence fees	
	2017 Shs'000	2016 Shs'000
Opening net book amount	8,712,350	9,852,859
Additions (LTE licence)	2,516,738	-
Amortisation charge	(1,122,163)	(1,140,509)
Closing net book amount	10,106,925	8,712,350
Cost	18,960,307	16,443,569
Accumulated amortisation and impairment	(8,853,382)	(7,731,219)
Net book amount	10,106,925	8,712,350

22. Investments

(a) Investment in subsidiaries

All subsidiaries are unlisted and have the same year end as the Company (except for Safaricom Money Transfer Services Limited, which has a December 31 year-end). They are all incorporated in Kenya. The investments relate to cost of shares held in the subsidiaries.

	Company	
	2017 Shs'000	2016 Shs'000
At start of year	857,341	837,341
Safaricom Money Transfer Services Limited	-	20,000
Impairment (East African Tower Company Limited)	(10,890)	-
At end of year	846,451	857,341

The Company's interest in its subsidiaries was as follows:

	Year end	% Interest Held	Company	
			2017 Shs'000	2016 Shs'000
One Communications Limited and its subsidiaries*	March 31,	100	741,941	741,941
Packet Stream Data Networks Limited	March 31,	100	-	-
IGO Wireless Limited	March 31,	100	-	-
Instaconnect Limited	March 31,	100	3,950	3,950
East Africa Tower Company Limited	March 31,	100	80,560	91,450
Safaricom Money Transfer Services Limited	31 December	100	20,000	20,000
			846,451	857,341

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

22. Investments (continued)**(a) Investment in subsidiaries (continued)**

The investments in subsidiaries are carried at cost. These investments were assessed for impairment indicators as required as at March 31, 2017 and the directors concluded that the investments are not impaired (2016: Nil).

Safaricom Money Transfer Services Limited has a December 31 year end and derives its revenues from the provision of international money transfer services. The fluctuation of the results of the subsidiary is not expected to have a significant impact on the results of the Group. As such, the unaudited 3 months results have been incorporated to the Group's financial statements as at March 31, 2017.

(b) Investment in associate

The movement in investment in associate is as follows:

	2017	2016
	Shs'000	Shs'000
At start of year	115,908	11,819
Share of profit after tax	18,757	104,089
At end of year	134,665	115,908

The investment in associate represents the investment of 32.5% (2016: 32.5%) of the ordinary shares of The East African Marines Systems Limited (TEAMS). TEAMS is a private company and there is no quoted market price available for its shares. TEAMS's place of business and country of incorporation is Kenya. There are no contingent liabilities relating to the Group's interest in the associate.

TEAMS has a June 30 year end and derives its revenues from the provision of a submarine fibre optic cable system. Changes in the risk and fluctuation of the results of the associate is not expected to have a significant impact on the results of the Group. As such, the unaudited 9 months results for the associate have been incorporated in the Group's financial statements. Set out below is the summarised financial information for TEAMS as at March 31, 2017 and 2016 which is accounted for using the equity method.

Summarised statement of financial position

	2017	2016
	Shs'000	Shs'000
Total equity	323,028	390,135
Non-current assets	11,210	13,484
Current assets		
Cash and cash equivalents	688,096	588,538
Other current assets	19,445	31,892
Total current assets	707,541	620,430
Current liabilities	(395,723)	(243,779)
Net current assets	311,818	376,651
Total assets	323,028	390,135

22. Investments (continued)**(b) Investment in associate (continued)****Summarised statement of comprehensive income for the 9 months period ended March 31¹**

	2017	2016
	Shs'000	Shs'000
Revenue	354,163	287,690
Operating expenses	(259,384)	(177,479)
Administrative expenses	(56,421)	(38,909)
Total expenses	(315,805)	(216,388)
Profit before tax	38,358	71,302
Income tax expense	-	(21,391)
Profit after tax	38,358	49,911
Share of profit before tax (32.5%)	12,466	23,173
Profit for the 3 months ended June 30 (2016 and 2015 respectively)	6,291	80,916
Total assets	18,757	104,089

The information above reflects the amounts presented in the management accounts of the associate and not Safaricom Limited's share of those amounts, adjusted for differences in accounting policies between the Company and associate. The results of TEAMS do not have a material impact on the Group's results.

23. Prepaid operating lease rentals - Group and Company

Prepaid operating lease rentals relate to payments made in advance for the rental of sites on which the Company's equipment is located. The analysis of prepaid operating lease rentals is as follows:

	2017	2016
	Shs'000	Shs'000
At start of year	483,317	443,564
Additions	1,125,142	961,590
Amortisation charge for the year	(1,113,799)	(921,837)
At end of year	494,660	483,317
Current portion reflected in prepayments	(493,356)	(482,840)
Prepaid operating lease rentals	1,304	477

24. Inventories - Group and Company

Handsets and accessories	948,910	640,598
Scratch cards	115,731	94,364
Starter packs	278,387	195,783
Stationery and other stocks	7,164	5,617
Set top boxes	25,201	114,249
Less: Provision for obsolescence	(135,476)	(234,218)
Inventory work-in-progress	1,239,917	816,393
	130,854	-
	1,370,771	816,393

25. Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Current:				
Trade receivables	6,389,731	5,834,473	6,308,319	5,343,556
Less: Provision for impairment losses	(1,229,873)	(1,585,390)	(1,229,873)	(1,585,390)
	5,159,858	4,249,083	5,078,446	3,758,166
Receivable from related parties (Note 29 (viii))	2,417,902	2,283,134	2,071,426	2,672,758
Less: Provision for impairment losses	(8,421)	(1,987)	(8,421)	(1,987)
	2,409,481	2,281,147	2,063,005	2,670,771
Other receivables	2,806,829	1,808,636	2,785,367	1,833,912
Less: Provision for impairment losses	(2,507)	(15,310)	(2,507)	(2,154)
	2,804,322	1,793,326	2,782,860	1,831,758
Prepayments	3,160,657	3,019,618	3,135,214	3,000,746
Construction and maintenance contract receivable	4,468,698	9,279,818	4,468,698	9,279,818
Less: Provision for impairment losses	(169,477)	-	(169,477)	-
Net construction and maintenance contract receivable	4,299,221	9,279,818	4,299,221	9,279,818
	17,833,539	20,622,992	17,358,746	20,541,259

Movements on the provision for impairment of trade and other receivables are as follows:

	Group		Company	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	1,602,687	1,031,454	1,589,531	1,018,298
Provisions made in the year				
- trade and other receivables	1,945,924	734,605	1,945,924	734,605
- related parties	8,421	1,987	8,421	1,987
Release prior year provisions	(1,753,256)	(31,281)	(1,753,256)	(31,281)
Receivables written off during the year as uncollectible	(393,488)	(134,078)	(380,332)	(134,078)
	1,410,288	1,602,687	1,410,288	1,589,531

The carrying amounts of the above receivables approximate their fair values.

In connection with the National Police Service contract, bills have been raised for both the construction and maintenance service as per the contract terms. An amount of Shs7.5 billion was received during the year and the outstanding balance at the year end was Shs4.47 billion. Due to the extended payment terms of the contract, a provision for impairment of Shs169 million has been made in arriving at the outstanding receivable.

26. Cash and cash equivalents and restricted cash**a) Cash and cash equivalents**

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Cash at bank and in hand	5,955,513	5,243,702	5,821,052	4,908,939
Investment in short term treasury bills	-	976,303	-	976,303
	5,955,513	6,220,005	5,821,052	5,885,242

b) Restricted cash

Restricted cash	2,172,695	2,281,051	2,172,695	2,281,051
Fair value adjustment at inception (c)	(835,069)	-	(835,069)	-
	1,337,626	2,281,051	1,337,626	2,281,051

c) Deferred restricted cash asset

Fair value adjustment at inception (b)	835,069	-	835,069	-
Amortisation	(42,013)	-	(42,013)	-
Net deferred restricted cash asset	793,056	-	793,056	-

Restricted cash relates to deposits held with Housing Finance Group Limited (formerly known as Housing Finance Company of Kenya Limited). The cash is used as a backup to the staff mortgage loans and its withdrawal is restricted.

The deposit earns interest below the market rate and therefore the need to fair value at inception. The fair value of the restricted cash on initial recognition was determined using the discounted cash flow method. The difference between the actual cash held as deposits and the fair value (i.e. the deferred restricted cash asset) is amortised over the term of the deposit. The Group reported the restricted cash at fair value for the first time in the current financial year.

Subsequently, the restricted cash is carried at amortised cost using the discounted cash flow method. The fair value adjustment at inception is amortised over the period of the staff's mortgage.

27. Trade and other payables

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Trade payables	3,177,395	3,210,969	3,097,609	2,943,672
Amounts due to related companies (Note 29 (ix))	868,505	883,497	1,045,470	1,140,487
Accrued liabilities				
- Network infrastructure	6,618,855	8,981,584	6,618,855	8,981,584
- Customer loyalty credits	3,804,516	3,229,945	3,804,516	3,229,945
- Deferred revenue	3,930,183	2,757,763	3,930,183	2,757,763
- Inventory	535,516	359,961	535,516	359,961
- Other Expenses	10,522,377	9,969,745	10,515,235	9,932,652
Other payables				
- Indirect and other taxes payable	2,897,525	6,851,483	2,878,803	6,838,271
- M-PESA agent accrual	1,699,243	1,469,850	1,699,243	1,469,850
- Other accrued payables	2,513,183	2,354,185	2,513,333	2,618,151
	36,567,298	40,068,982	36,638,763	40,272,336

27. Trade and other payables (continued)

All customer loyalty credits (Bonga Points) that form a separate component of the sales transaction are reported as deferred revenue and form part of accrued liabilities. The accrued liability relating to customer loyalty credits of Shs3,323 million (2016: Shs3,230 million) is expected to be recognised into revenue as customers redeem their points. Also included in the customer loyalty credits is an amount of Shs482 million earned by Enterprise Business customers which will be redeemed on maturity of their revenue contracts.

Deferred revenue Shs3,390 million (2016: Shs2,758 million) relates mainly to unused airtime and bundled resources which will be recognised as revenue upon customer usage. This also includes an amount of Shs243 million (2016: Nil) for managed services to be rendered in the next financial period under the National Police Service contract.

The carrying amounts of the current trade payables and accrued expenses approximate to their fair values. Refer to Note 3 (i) for the sensitivity analysis in relation to the customer loyalty credits and Note 3 (iii) for the impact of the customer loyalty credits and deferred revenue balances on the net current liability

28. Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

	Group	
	2017	2016
	Shs'000	Shs'000
Profit before income tax	70,632,073	55,762,505
Adjustments for:		
Interest income (Note 8)	(1,423,076)	(1,341,725)
Interest expense (Note 9)	914,992	838,157
Depreciation on property, plant and equipment (Note 18 (a))	29,215,294	24,662,315
Impairment charge on property, plant and equipment (Note 18 (a))	2,331,357	1,790,267
Amortisation of intangible assets (Note 21 (a))	1,123,349	1,141,793
Share of profit from associate (Note 22 (b))	(18,757)	(104,089)
Amortisation of IRUs (Note 19 (a))	345,258	348,171
Movement in non-current prepaid operating lease rentals (Note 23)	(827)	525
Profit on sale of property, plant and equipment (Note 6)	(116,481)	(27,445)
Fair value loss on investment properties (Note 20)	-	366,859
Fair valuation of restricted cash (Note 8)	42,013	-
Impairment of goodwill (One Communication Limited)	219,151	-
Changes in working capital		
- receivables and prepayments	2,789,453	(10,321,349)
- inventories	(554,378)	7,442,208
- payables and accrued expenses	(3,501,684)	(1,354,917)
Cash generated from operations	101,997,737	79,203,275

29. Related party transactions

Vodafone Kenya Limited incorporated in Kenya, whose ultimate parent is Vodafone Group Plc, incorporated in the United Kingdom, is the largest single shareholder, with an interest of 40% of the Company. Safaricom Limited is therefore an associate of Vodafone Group Plc. There are other companies in the Vodafone Group that are related to the Company through common shareholdings or common directorships.

The following arrangements exist and form the basis of various transactions within the Group.

(a) The Company has roaming agreements with Vodafone affiliated companies in many countries around the world, including the UK.

(b) The Company operates the M-PESA business on a licence basis. M-PESA is an innovative mobile payment solution that enables users to complete money transfer transactions pay for goods and services by use of mobile phone for which the Company earns a commission based on the amounts transacted. The Company also uses the M-PESA platform to sell airtime to M-PESA account holders as well as run the M-Shwari and KCB M-PESA product as detailed out in Note 2(e).

Vodafone Sales and Services Limited (VSSL), which owns the M-PESA solution, has entered into a managed services agreement with the Company under which VSSL agrees to provide the M-PESA solution to the Company against which a licence fee is charged quarterly. The license fee is based on 5% of the M-PESA transaction revenue effective August 1, 2015.

M-PESA Holding Company Limited acts as the trustee for M-PESA customers and holds all funds from the M-PESA business in trust to ensure that those funds are safeguarded at all times.

(c) The Company has signed an agreement with Vodafone Sales and Services Limited, a company incorporated in England. The agreement was effective from April 1, 2011 to March 31, 2014, renewable annually. Under the agreement, Safaricom Limited will have access to Vodafone's global price book and supply chain resources for purposes of procurement, terminals management, Vodafone technical expertise, best practice systems and processes, Vodafone knowledge bank, benchmarking reports, Vodafone Global Enterprise customers to increase revenues, Vodafone business assurance and the business and consumer products and marketing support. The participation fee is fixed at an annual amount equal to six million, nine hundred thousand euros (EUR 6,900,000).

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

The following relationships exist within Safaricom Limited Group:

Related parties	Held by	Percentage of interest held as at March 31	
		2017	2016
Subsidiaries			
One Communications Limited	Safaricom Limited	100%	100%
Instaconnect Limited	Safaricom Limited	100%	100%
Packet Stream Data Networks Limited	Safaricom Limited	100%	100%
Safaricom Money Transfer Services Limited	Safaricom Limited	100%	100%
East Africa Tower Company Limited	Safaricom Limited	100%	100%
IGO Wireless Limited	Safaricom Limited	100%	100%
Flexible Bandwidth Services Limited	One Communications Limited	100%	100%
Comtec Training and Management Services Limited	One Communications Limited	100%	100%
Comtec Integration Systems Limited	One Communications Limited	100%	100%
Associate			
The East African Marines Systems Limited (TEAMS)	Safaricom Limited	32.5%	32.5%

29. Related party transactions (continued)

The following transactions were carried out with related parties:

(i) Sale of goods and services

	Group	
	2017	2016
	Shs'000	Shs'000
Vodafone Roaming Services S.à r.l	61,438	30,803
Vodacom Tanzania Limited	89,176	103,076
M-PESA Holding Company Limited	52,921,441	40,088,345
Vodafone Group Enterprises	122,770	142,824
	53,194,825	40,365,048

ii) Purchase of goods and services

Vodafone Sales and Services Limited	3,727,474	4,107,222
Vodafone Group Services Limited	720,830	531,137
Vodafone Roaming Services S.à r.l	115,812	16,152
Vodacom Tanzania Limited	327,776	449,766
	4,891,892	5,104,277

iii) Directors' remuneration

Fees for services as director	19,031	21,352
Other emoluments	287,142	257,812
Total remuneration of directors of the Company	306,173	279,164

iv) Key management compensation

Salaries and other short-term employment benefits	638,564	656,252
Employee Performance Share Award Plan	86,895	96,640
Pension contribution	13,577	12,266
Termination benefits	36,127	28,595
	775,163	793,753

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

v) Loans from shareholders

There are no loans from shareholders outstanding at March 31, 2017 (2016: Nil).

vi) Loans to directors of the Company

There are no loans to directors of the Company at March 31, 2017 (2016: Nil).

vii) Donations to Safaricom Foundation

Donations made during the year amounted to Shs381 million (2016: Shs414 million).

29. Related party transactions (continued)

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

	Group		Company	
	2017	2016	2017	2016
Current	Shs'000	Shs'000	Shs'000	Shs'000
Vodafone Roaming Services S.à r.l	10,776	3,287	10,776	3,287
Vodafone Group Enterprises	57,669	21,241	57,669	21,241
M-PESA Holding Company Limited	2,136,484	2,258,606	1,382,087	2,258,606
Vodacom Tanzania Limited	6,634	-	6,634	-
Vodafone Sales and Services Limited	206,339	-	206,339	-
One Communications Limited	-	-	52,661	106,907
Packet Stream Data Networks Limited	-	-	76,642	76,642
IGO Wireless Limited	-	-	7,934	10,406
Safaricom Money Transfer Limited	-	-	270,684	115,524
East Africa Tower Company Limited	-	-	-	80,145
	2,417,902	2,283,134	2,071,426	2,672,758

The receivables arise mainly from trading, are unsecured and bear no interest. A provision of Shs8.42 million (2016: Shs1.99 million) (Note 25) is held against receivables from related parties.

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

	Group		Company	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Vodafone Sales and Services Limited	98,511	785,730	98,511	785,730
Vodafone Group Services Limited	685,642	58,846	685,642	58,846
Vodafone Roaming Services S.à r.l	41,632	13,675	41,632	13,675
Vodacom Tanzania Limited	42,720	25,246	42,720	25,246
One Communications Limited	-	-	76,604	106,429
East Africa Towers Limited	-	-	100,361	147,126
IGO Wireless Limited	-	-	-	2,472
Safaricom Money Transfer Limited	-	-	-	963
	868,505	883,497	1,045,470	1,140,487

The payables to related parties arise mainly from purchase transactions. The payables bear no interest. Settlement of obligations between related parties is done in cash.

(x) Loan to related parties

	Company	
	2017	2016
	Shs'000	Shs'000
One Communications Limited	126,950	337,588
Safaricom Money Transfer Services Limited	347,403	500,000
	474,353	837,588

The loan due from its subsidiary company, One Communications Limited, is at an interest rate based on the 91 day Treasury bill rate plus 100 basis points. The repayment is based on future profit expected from One Communications Limited but has no fixed repayment terms. During the year, Shs20.6 million (2016: Shs65.3 million) was charged as interest on this loan and Shs210.6 million (2016: Shs295.8 million) was repaid towards the outstanding loan balance. The fair value of the loan approximates its carrying amount.

29. Related party transactions (continued)**(x) Loan to related parties continued**

In 2016, the Company gave a five-year revolving loan facility to its other subsidiary company, Safaricom Money Transfer Services Limited, at an interest rate based on the 91 day Treasury bill rate plus 500 basis points. During the year, Shs53.2 million was charged as interest on this loan (2016: Shs87.8 million) and Shs152.6 million (2016: ShsNil) was repaid towards the outstanding loan balance. The fair value of the loan approximates its carrying amount.

30. Contingent liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business.

At March 31, 2017, a guarantee of Shs20,000,000 (2016: Shs25,000,000) had been given to Citibank NA against credit cards for the use by senior staff during travel and a guarantee of Shs129,491,311 (2016: Shs387,412,232) to various suppliers for goods and services regularly provided to the Company.

The Company has outstanding matters with Kenya Revenue Authority and various ongoing legal cases from trade and contractual disputes arising from normal course of business.

The directors have assessed the status of the contingent liabilities and as a result do not anticipate any material liabilities that may have an impact on these financial statements.

31. Commitments**Capital commitments**

Capital expenditure contracted for at the statement of financial position date but not recognised in the financial statements is as follows:

	Group and Company	
	2017	2016
	Shs'000	Shs'000
Property, plant and equipment	7,532,330	5,783,488
Operating lease commitments		
Not later than 1 year	870,468	853,873
Between 1 year and 5 years	3,949,560	2,693,468
Later than 5 years	3,090,142	3,433,563
	7,910,170	6,980,904

Operating lease commitments relate to contracted leases for facilities and site rentals at the statement of financial position date. The lease terms are between 6 years and 20 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.

Principal shareholders

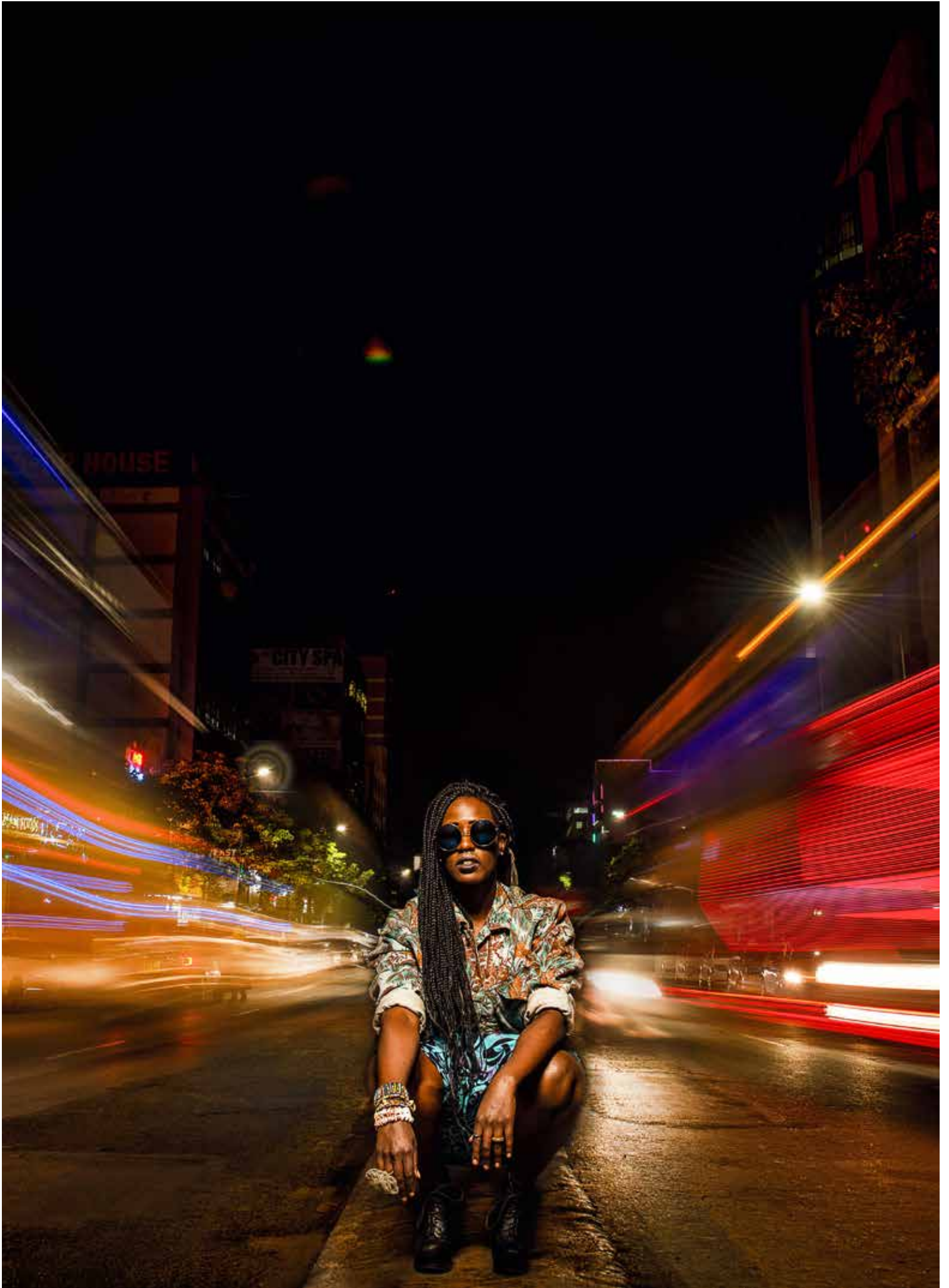
The 10 largest shareholdings in the Company (ordinary shares only) and the respective number of shares held as at March 31, 2017 are as follows:

Name of shareholder

<i>Name of shareholder</i>	<i>Number of shares</i>
1 VODAFONE KENYA LIMITED	16,000,000,000
2 CABINET SECRETARY TO THE TREASURY	14,022,572,580
3 STANDARD CHARTERED NOMINEES NON-RES.D. A/C 9069	755,940,082
4 STANDARD CHARTERED KENYA NOMINEES LTD,A/C KE19796	350,021,100
5 KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 1019D	238,200,100
6 STANDARD CHARTERED NOMINEES ACCOUNT KE14442	162,427,900
7 STANDARD CHARTERED KENYA NOMINEES LTD A/C KE20531	128,950,800
8 KENYA COMMERCIAL BANK NOMINEES LIMITED, A/C 915B	127,190,886
9 STANDARD CHARTERED KENYA NOMINEES LTD,A/C KE20435	111,607,100
10 STANDARD CHARTERED NOMINEES NON-RES.D. A/C 9866	109,866,999
11 OTHERS	8,058,650,453
Total	40,065,428,000

Distribution of shareholders

	<i>Number of shareholders</i>	<i>Number of shares</i>	<i>% Shareholding</i>
1 to 1000	377,352	227,027,165	0.57%
1001 - 10,000	182,116	521,212,643	1.30%
10,001 - 100,000	20,771	520,718,103	1.30%
100,001 - 1,000,000	1,854	512,158,092	1.28%
1,000,001 - 10,000,000	492	1,741,989,739	4.35%
10,000,001 - 100,000,000	179	4,435,329,811	11.07%
100,000,001 - 1,000,000,000	9	2,084,419,867	5.20%
1,000,000,001 - 100,000,000,000	2	30,022,572,580	74.93%
Total	582,775	40,065,428,000	100.00%



NOTICE OF THE ANNUAL GENERAL MEETING

TO ALL SHAREHOLDERS

NOTICE is hereby given that the Annual General Meeting of Safaricom Limited for the year 2017 will be held at Bomas of Kenya, Langata / Forest Edge Road, Nairobi on Friday, 15 September 2017 at 11:00 a.m. to conduct the following business:-

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Financial Statements for the year ended 31 March 2017 together with the Chairman's, Directors' and Auditors' reports thereon.
2. Dividend
To approve a final dividend of Kshs 0.97 per share for the Financial Year ended 31 March 2017 as recommended by the Directors. The dividend will be payable on or before 1 December 2017 to the Shareholders on the Register of Members as at the close of business on 15 September 2017.
3. Directors
 - a) To re-appoint Mrs Susan Mudhune who retires at this meeting in accordance with the provisions of Articles 90 and 91 of the Company's Articles of Association, and, being eligible, offers herself for re-election.
 - b) Dr Bitange Ndemo who retires at this meeting having been appointed in the course of the financial year, and, being eligible, offers himself for re-election.
4. In accordance with the provisions of Section 769 of the Companies Act, 2015, the following Directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:-
 - Mrs Susan Mudhune
 - Mrs Esther Koimett
 - Mr John Otty
 - Dr Bitange Ndemo
5. To approve the remuneration of the Directors for the year ended 31 March 2017.
6. To note that Messrs PricewaterhouseCoopers continue in office as Auditors by virtue of Section 721 (2) of the Companies Act, 2015 and to authorize the Directors to fix the Auditors' remuneration for the ensuing financial year.
7. Any other business of which due notice has been given.

SPECIAL BUSINESS

8. Change of Company Name
To consider and if thought fit to pass the following resolution as a special resolution, as recommended by the Directors:-
"That the name of the Company be and is hereby changed from "Safaricom Limited" to "Safaricom Plc" in compliance with Section 53 of the Companies Act, 2015 and with effect from the date set out in the Certificate of Change of Name issued in that regards by the Registrar of Companies".
9. Changes to the Company's Articles of Association
To consider and if thought fit to pass the following resolutions as special resolutions, as recommended by the Directors:-
 - 1) Article 1 - Preliminary
To expound the definition of VKL to include the underlined section:
"VKL - Vodafone Kenya Limited its subsidiary or its holding company or any subsidiary of such holding Company from time to time which definition shall attach to the legal entity incorporated in Kenya under certificate of incorporation number C79550 notwithstanding that VKL may change its name from time to time."
 - 2) Article 89 (a) - to add the underlined section so that Article 89 (a) will read as follows:-
"Unless and until otherwise from time to time determined by a special resolution of the Company, the number of Directors (excluding alternates) shall not be less than seven (7) nor more than ten (10) in number and shall include independent non-executive directors who shall be of Kenyan citizenship."
 - 3) Article 102 - To delete the proviso in Article 102 and replace it with the following proviso:-
"... PROVIDED ALWAYS THAT any resolution relating to the following matters shall not be deemed to have been passed unless at least seventy-five percent (75%) of the directors vote in favor of the resolution:
 - a) The approval of any business plan or the material modification of any existing business plan; or
 - b) The approval of the annual budget or the material modification to any part of an approved annual budget; or
 - c) The appointment of the Managing Director/Chief Executive Officer; or
 - d) The appointment of the Financial Director/Chief Financial Officer; or
 - e) Any material change to the Company's brand."

- 4) Article 103 – To add the underlined section so that the Article will read as follows:-

“The Directors may subject to the provisions of Article 102 from time to time appoint one or more of their body to the office of Managing Director or Manager for such period and on such terms and with such powers, and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way, and partly in another), as they may think fit and, subject to the terms of any agreement entered into in any particular case, may revoke any such appointment. Without prejudice to any right to treat such determination as a breach of any such agreement as aforesaid the appointment of such a Director to office as aforesaid shall be subject to determination ipso facto if he ceases from any cause to be a Director, or if the Company in general meeting resolves that his tenure of the office of Managing Director or Manager be determined. The Directors shall encourage the retention of a predominantly Kenyan character in the senior management and Executive Committee of the company.”

- 5) Article 108 – To include the following immediately after Article 108 section (b):-

“Notwithstanding the provisions of this Article:

- a) Directors that are appointed by VKL shall be excluded from voting on agreements directly related to M-PESA and the mobile money platform, to which a Vodafone group member and the Company are parties.
- b) Directors that are appointed by VKL shall, in consideration of expansion and investment decisions of the Company whose effect is to put the company directly or indirectly in competition with VKL Director’s interest, vote in the best interest of the Company with due regard to their fiduciary duties to the Company.”

- 6) Article 119

- a) To delete the words ‘Deputy Chairman’ and all references of the term ‘Deputy Chairman’ as contained in the Articles of Association of the Company.

- b) Article 119 - To add the underlined section so that the Article will read as follows:-

“The Directors may elect a Chairman for their meetings, who shall be a Kenyan citizen, and determine the period for which they are to hold office but if no such Chairman is elected, or if at any meeting the Chairman is not present within fifteen minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman of the meeting.”

BY ORDER OF THE BOARD



KATHRYNE MAUNDU (MS)
COMPANY SECRETARY
Date: 23 August 2017

NOTES:

- (i) A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company. A form of proxy may be obtained from the Company’s website www.safaricom.co.ke, or at Safaricom House, Waiyaki Way, Westlands, Nairobi, or from any of the Safaricom Shops countrywide.
- (ii) In the case of a member being a corporate, the proxy form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
- (iii) All proxy forms should be sent by post to Image Registrars, P O Box 9287, 00100 Nairobi. Alternatively, duly signed proxy forms can be scanned and emailed to info@image.co.ke in PDF format. Proxy forms must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting.
- (iv) In accordance with Article 145 of the Company’s Articles of Association, a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company’s website (www.safaricom.co.ke) from 24 August 2017 or from the Registered Office of the Company i.e. Safaricom House, Waiyaki Way, Westlands, Nairobi. An abridged version of the Financial Statements for year ended 31 March 2017 has been published with this notice.
- (v) Registration of members and proxies attending the Annual General Meeting will commence at 7.00 a.m. on 15 September 2017. Production of a National Identity Card, a passport, a current Central Depository Statement of Account for shares held in the Company, or other acceptable means of identification will be required.
- (vi) The preferred method of paying dividends which are below Kshs 70,000/- is through M-PESA. Shareholders who wish to receive their dividend through M-PESA and who have not registered for this mode of payment should contact Image Registrars (Tel: +254 724 699 667/ +254 735 565 666/ +254 770 052 116, Email: info@image.co.ke) or Safaricom Limited’s Investor Relations Team Mobile: +254 722 004233/4746, Email: investorrelations@safaricom.co.ke).
- (vii) Transport will be provided to Shareholders on the day of the meeting from the Kenyatta International Conference Centre (KICC) parking bay to Bomas of Kenya from 7.00 a.m. to 10.00 a.m. and back to KICC parking bay after the close of the meeting.

Corporate Information

Registered Office

Safaricom House Waiyaki Way, Westlands
P.O. Box 66827, 00800 Nairobi
Telephone: +254 722 00 3272
Website: www.safaricom.co.ke

Investor Relations

Safaricom House Waiyaki Way, Westlands
P.O. Box 66827, 00800 Nairobi
Telephone: +254 722 00 4524/3725/4746
Email: investorrelations@safaricom.co.ke
Website: www.safaricom.co.ke/investorrelations

Registrars

Image Registrars Limited
5th Floor, Barclays Plaza Loita Street
P.O. Box 9287, 00100 Nairobi
Telephone: +254 724 699 667 / +254 735 565 666
Email: info@image.co.ke
Website: www.image.co.ke

Auditors

PricewaterhouseCoopers
PwC Tower Waiyaki Way, Westlands
P.O. Box 43963, 00100 Nairobi
Tel: +254 (20) 285 5000
Fax: +254 (20) 285 5001
Email: PwC.kenya@ke.PwC.com

Company Secretary

Ms Kathryn Maundu, Livingstone Associates,
Deloitte Place Waiyaki Way, Westlands
P.O. Box 43963, 00100 Nairobi
Tel: +254 719 039 000 | +254 (20) 4230 000



Proxy Form

I/We: _____

Share A/c no _____

of (address) _____

Being a member(s) of Safaricom Limited, hereby appoint _____

or failing him/her the duly appointed chairman of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company, to be held on Friday, 15 September 2017. and at any adjournment thereof.

As witness I/We lay my/our hand(s) this _____ day of _____ 2017

Signature _____

Signature _____

Signature _____

NOTES:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a Limited Company this form must be completed under its common seal or under the hand of an office or attorney duly authorised in writing.
3. Proxies must be in the hands of the secretary not later than 48 hours before the time of holding the meeting.
All proxies should be sent by post to Image Registrars of P.O. Box 9287, 00100 Nairobi. Alternatively, duly signed proxies can be scanned and emailed to info@image.co.ke in PDF format.

WHERE WILL WE
GO NEXT?

safaricom.co.ke/gonext