SAFARICOM ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

WHERE WILL WE
GO NEXT?

Safaricom
Twaweza

WHERE WILL WE **GO NEXT?**

The 2017 Annual Report and Financial Statements highlight the achievements of Safaricom during the year.

It contains statements from the Chairman, the CEO and, for the first time, the CFO.

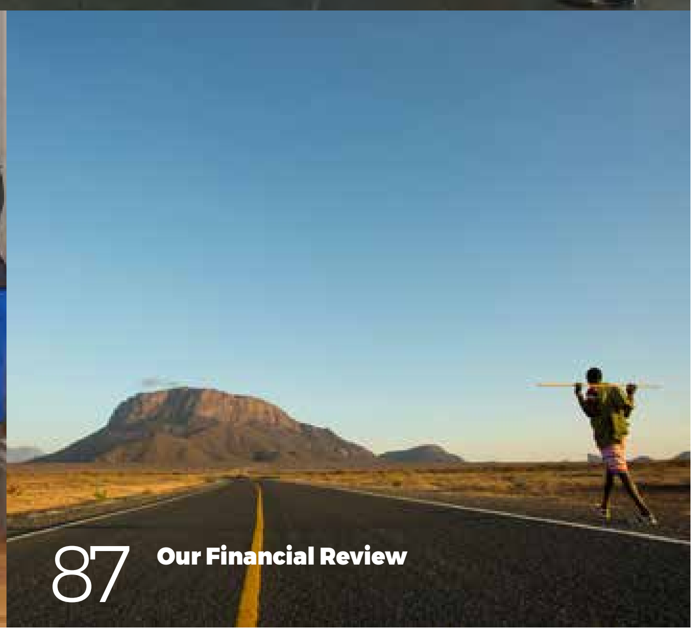
It is our hope that you will find the information useful.
You will also notice that the report includes pictures that portray Kenya's diversity.

This is the face of Kenya;
it is also the face of Safaricom.

Contents


CELLO


SAFARICOM FIBER FOR BUSINESS
NOW IN THIKA
Safaricom
BUSINESS



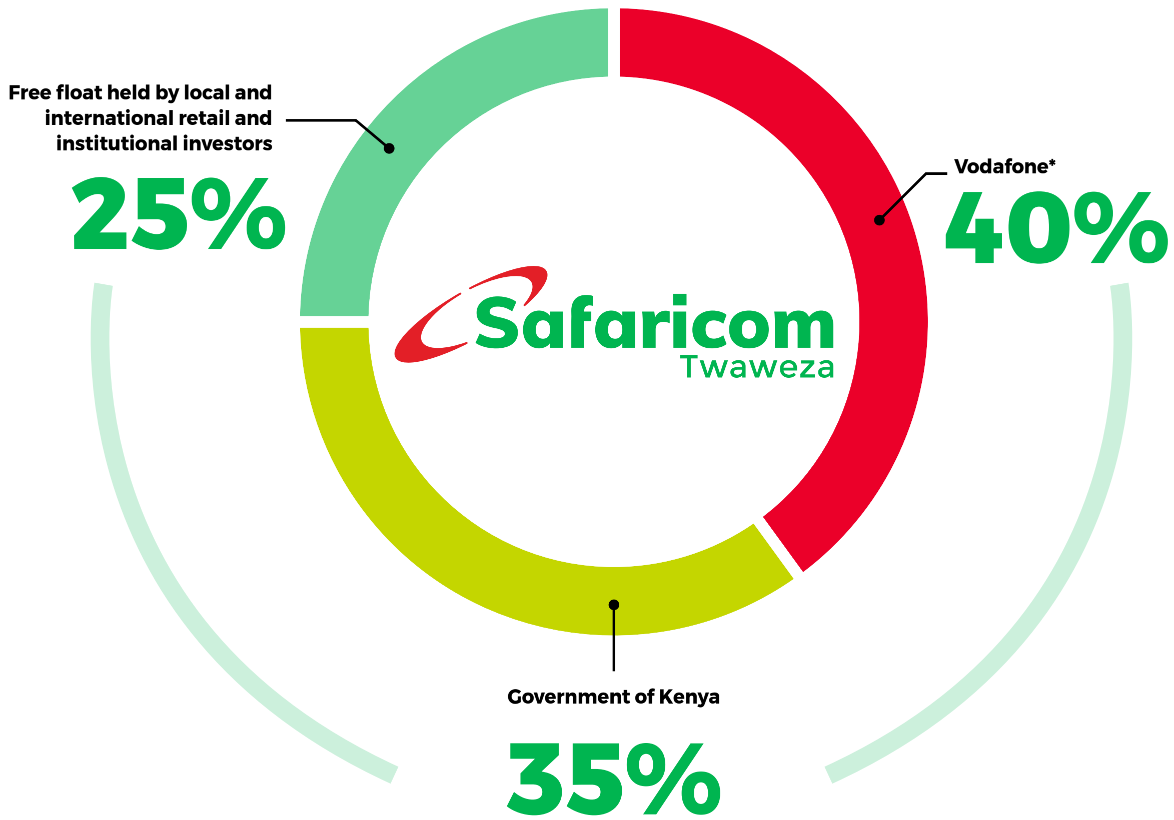
WHERE WILL WE
GO NEXT?

Our Business Highlights

Who We Are

Safaricom is a leading telecommunication services company in Kenya providing a comprehensive range of integrated solutions including voice and data (both mobile and fixed), SMS, internet and financial services.

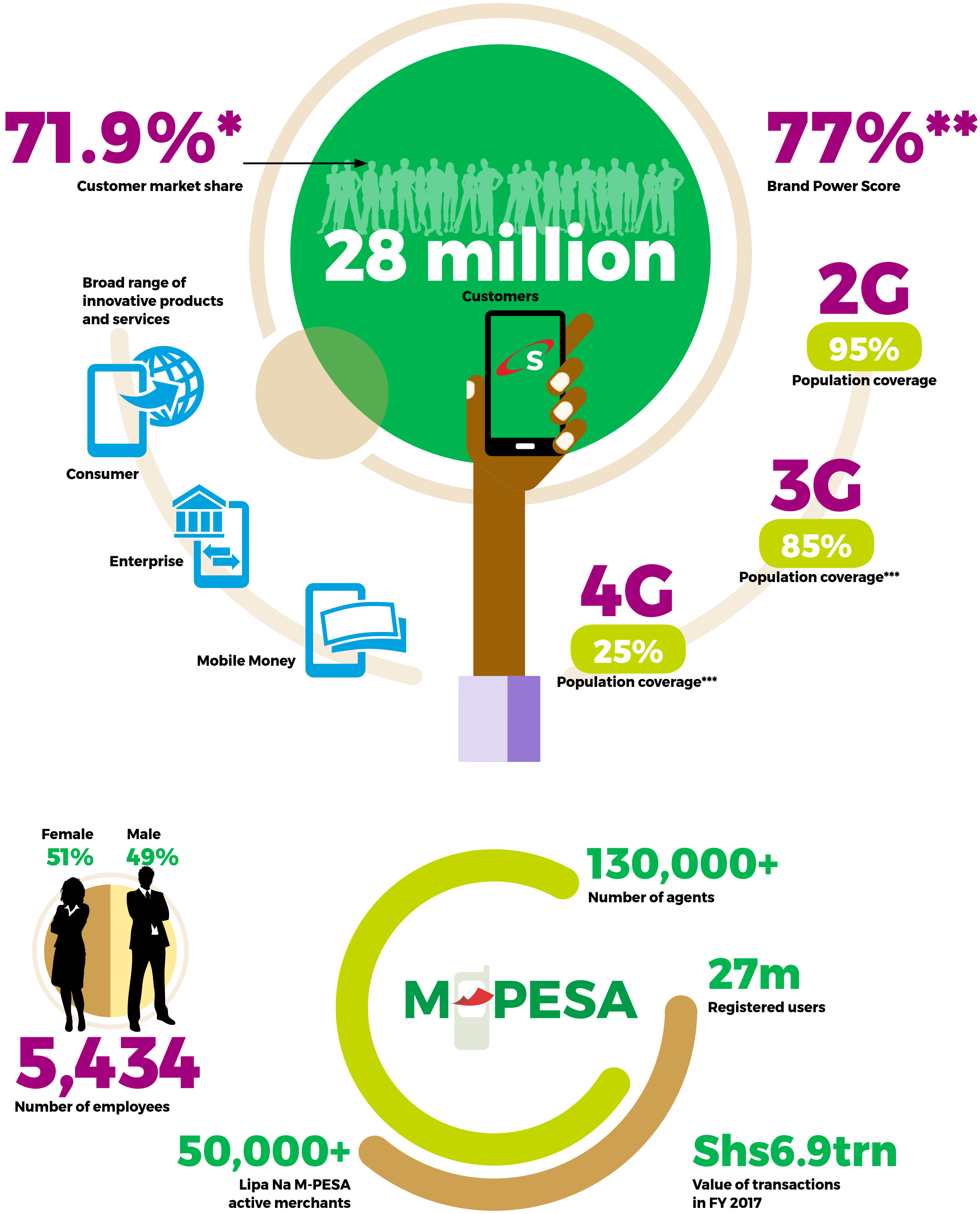
The company's shareholding structure is as follows:



Our purpose Why we exist	The Safaricom way How we do it	Our strategic pillars How we will do it
To transform lives	Speed	Customers first
	Simplicity, and Trust	Relevant products and services
		Operational excellence

*Vodafone has transferred a majority of its holding in Safaricom to Vodacom. Post transfer, effective shareholding is now at 5%

Safaricom at a Glance



***Source:** Communications Authority of Kenya (CA) December 2016 - March 2017 Quarterly Statistics report
****Source:** Internally commissioned research by Millward Brown
***Coverage is for speeds of at least 1mbps

Key Highlights

Operational highlights

11.8%
Increase in customer base

16.6m
Mobile Data Customers

M-PESA

19m
30 day Active M-PESA customers

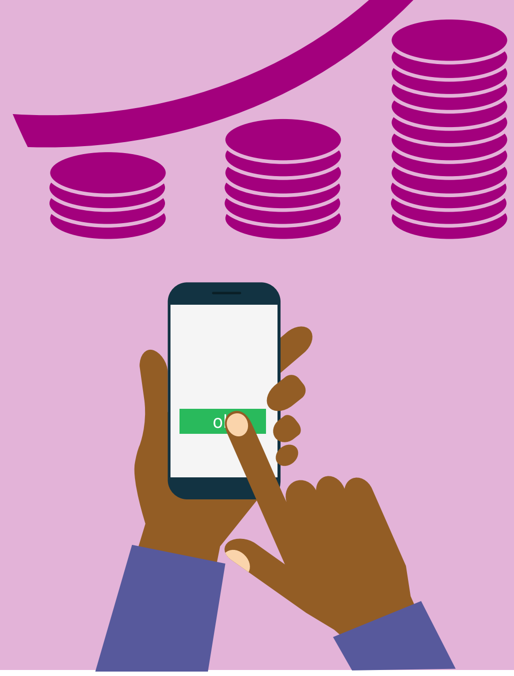
6.4%
Service ARPU up to Shs636

83,000+
Homes now passed with fibre

1,500+
Commercial buildings now passed with fibre

Financial indicators

14.8%
Service Revenue growth driven by M-PESA and Data



27.1%
Net Income increase

43.3%
Free cash flow growth

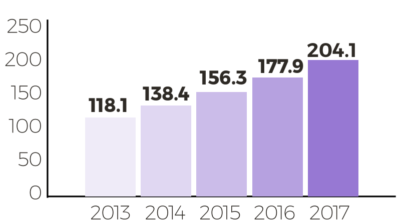
Shs0.97
Proposed final dividend per share

Five Year Historical Performance

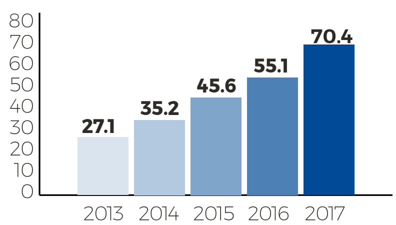
Income Statement - Shs' mn	*FY13*	*FY14*	*FY15*	*FY16*	*FY17*
Voice revenue	75,848	84,316	87,368	90,802	93,459
M-Pesa revenue	21,844	26,561	32,626	41,500	55,084
Mobile data revenue	6,611	9,314	14,823	21,154	29,289
Fixed data revenue	2,113	2,571	3,128	3,815	5,242
SMS revenue	10,147	13,620	15,671	17,328	16,679
Other service revenue	1,489	1,980	2,631	3,185	4,356
Service revenue	**118,051**	**138,361**	**156,247**	**177,784**	**204,109**
Handset and other revenue	6,236	6,312	7,117	8,621	8,700
Construction revenue	-	-	-	9,280	76
Total revenue	**124,288**	**144,672**	**163,364**	**195,685**	**212,885**
Other income	-	127	576	232	2,511
Direct costs	(47,174)	(51,964)	(56,709)	(62,310)	(66,750)
Construction costs	-	-	-	(9,280)	(76)
Contribution Margin	**77,114**	**92,835**	**107,231**	**124,327**	**148,570**
Operating expenses	(27,875)	(31,892)	(36,040)	(41,261)	(44,961)
EBITDA	**49,239**	**60,943**	**71,191**	**83,066**	**103,610**
Depreciation & amortisation costs	(22,139)	(25,787)	(25,570)	(27,943)	(33,234)
EBIT	**27,100**	**35,156**	**45,621**	**55,124**	**70,375**
Net finance costs	(1,452)	(355)	219	504	297
Forex Gain / (Loss)	(188)	168	206	398	(59)
Share of associate profit / (loss)	(10)	15	(4)	104	19
Assets purchase bargain gain	-	-	108	-	-
Fair value loss on investment property	-	-	-	(367)	-
EBT	**25,451**	**34,984**	**46,150**	**55,763**	**70,632**
Taxation	(7,911)	(11,967)	(14,278)	(17,658)	(22,188)
Net Income	**17,540**	**23,018**	**31,871**	**38,104**	**48,444**
Earnings per share (Shs)	**0.44**	**0.57**	**0.80**	**0.95**	**1.21**
Free Cash Flow (Shs mn)	14,507	22,692	27,524	30,360	43,515
Ordinary dividend (paid / proposed) (Shs mn)	**12,400**	**18,831**	**25,642**	**30,483**	**38,863**
Ordinary dividend per share (Shs)	0.31	0.47	0.64	0.76	0.97
Special dividend paid (Shs mn)				**27,244**	
Special dividend per share (Shs)				0.68	

Key financial performance

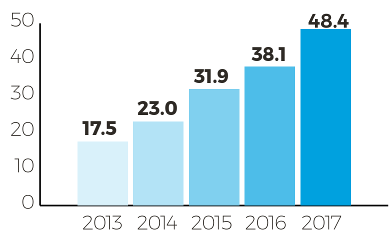
Service Revenue (Shs billions)



EBIT* (Shs billions)



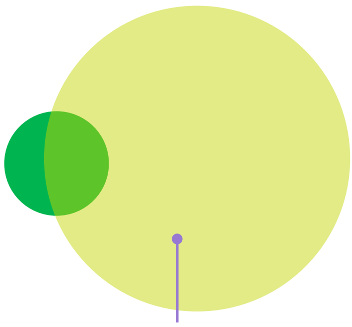
Net Income* (Shs billions)



*FY17 results include a one off benefit of Shs3.4bn

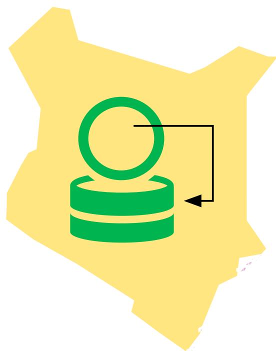
10 Years of Social Value

Over the last 16 years, we have built a company that has a wide impact on the Kenyan economy. To understand this impact fully, we engaged KPMG to conduct a True Value Study of our business over the last 10 years. What we discovered is that our impact on the Kenyan economy goes well beyond the investments we make or the returns made to our shareholders. Below is an overview of that impact.



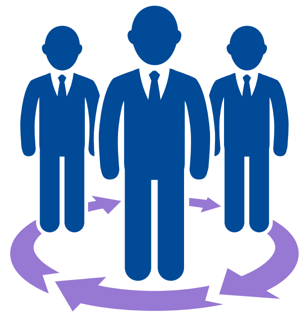
10x profit

Safaricom's "true earnings' over the past 10 years



6.5%

Safaricom's average annual contribution to GDP over the past 10 years



845,000

Jobs sustained in 2016

6%

Percentage of income generated from infrastructure investment and revenue that flowed to low income households over the past decade

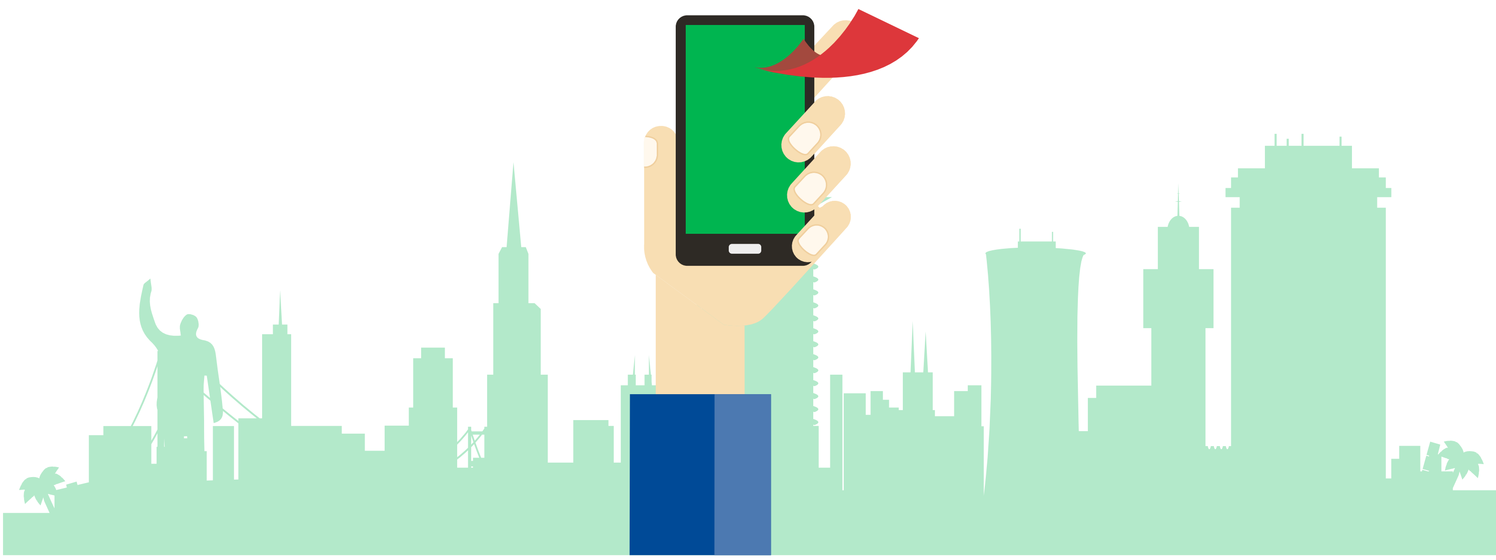
M-PESA

Shs185bn

Total social impact of M-PESA in 2016. Most of the value arose from M-PESA customers being able to receive, save and send money freely and and jobs created by M-PESA agents

Shs0.66

The estimated amount of money that Safaricom added to the Kenyan economy for every Shs1 invested in infrastructure development over the past decade



KPMG - Safaricom True Value Report
Ten Years of 'True Earnings'

Full report available for download at
https://www.safaricom.co.ke/images/Downloads/Resources_Downloads/True_Value_Booklet_Final.pdf

Our Social Impact

Through our Foundations (Safaricom and M-PESA Foundations) we have reached more than four million Kenyans through programmes that help fight poverty, that increase access to quality education, increase access to maternal health care and improve access to clean water. This extensive reach has been attained through partnerships with more than 1,200 organisations.

700,000

Children touched by the Safaricom and M-PESA Foundations

4 million+

Beneficiaries of our social impact programmes

230,000

Number of people reached through our community based income generating projects

300,000

People who now have access to clean water for domestic use though our programmes

1,000,000

Number of people who accessed health services through various health initiatives by the Safaricom and M-PESA Foundations

The above figures represent programmes and initiatives that the Foundations have been involved in since inception. M-Pesa Foundation was launched seven years ago, and Safaricom Foundation 14 years ago.

WHERE WILL WE **GO NEXT?**

Chairman's Statement

Nicholas Nganga Chairman

> **Our business ethos is grounded in the desire to deliver improved shareholder value, provide an unrivalled service offering to our customers and remain focused on the company's purpose of transforming lives.**

Transforming Lives the Safaricom Way

Overview

Despite political and macroeconomic uncertainties during the year, the business remained resilient and delivered solid results.

Of concern was the drought that affected parts of the country last year, creeping inflation, election year disruptions as well as regulatory pressure. I am however happy to report that despite these concerns, we are confident that we are well placed to manage the shifting economic landscape.

Regulatory environment

The fluctuating regulatory environment remains an area of utmost influence on our operations.

In the second half of the financial year, investors shared increasing concerns on the likely impact of regulatory interventions in the telecommunications sub-sector.

In May 2016, the Communications Authority of Kenya (CA) appointed Analysys Mason to conduct a study on competition within the telecommunication sub-sector.

The draft report suggested that Safaricom was dominant in a number of market segments. It proposed severe regulatory interventions against Safaricom despite the eventual conclusion that the company had not engaged in any anti-competitive actions.

We believe some of the proposals were inconsistent with international best practice. The proposed interventions around the separation of M-PESA from Safaricom, retail price controls, and mandated infrastructure sharing were particularly unfair.

These regrettable developments had an adverse impact on our share price.

However, the Government of Kenya's position that it does not support the structural separation of Safaricom calmed investors. Our share price has since recovered and continues to be resilient.

> **During the year, Vodafone, one of our shareholders, made a decision to transfer a significant portion of its shareholding to Vodacom, its South African subsidiary.**

Our investors drew comfort from this, and in the spirit of encouraging a more consultative process for these kind of initiatives, we will continue to proactively engage the industry regulator.

We support the development of a regulatory framework that promotes investment and innovation in the telecommunications sector as well as a sustainable business environment in accordance with international best practice.

Competitive landscape

We continue to witness shifts in the competitive landscape with new forms of competition continuing to emerge from non-telecommunication players. For instance, the integration of Fintech in the banking sector is a signal that competition from non-traditional players is going to be a major challenger to our legacy mobile money products, hence, the urgent need to embrace these threats through innovation.

Competition from other technology industry players also means we must continue differentiating our products, and delivering solutions to our customers that gives us an edge. We remain confident we will continue offering our customers a superior experience as we are a company that is known for its innovation and charting new paths.

Corporate governance

During the year, there were some changes to the board. Mr. Vivek Badrinath was appointed to the board as non executive director while Dr. Bitange Ndemo joined the board as an independent director. Ms. Serpil Timuray resigned from the board. I welcome the new directors and wish to sincerely thank Ms. Timuray for her contribution during her tenure on the board.

Outlook

Our business ethos is grounded in the desire to deliver improved shareholder value, provide an unrivalled service offering to our customers and remain focused on the company's purpose of transforming lives.

We remain steadfast in delivering on our strategy and growing shareholders' wealth. Sustaining the company's growth is key to the board and that is why we made a considered decision to extend the contract of the CEO, Bob Collymore, for an additional two years. He has successfully navigated our company through some of its most difficult years, whilst also venturing into new areas of business that will shape this company's future. The board has full confidence in him and pledges its support.

During the year, Vodafone, one of our key shareholders, made a decision to transfer a significant portion of its shareholding to Vodacom, its South African subsidiary. We see this as an opportunity for Safaricom to take services such as mobile payments into other African countries.

We recognise that we would not exist without our people: both those who work for us and those who buy and use our products. We are extremely grateful and thankful to our staff, customers, business partners, stakeholders and the government for giving us the platform to move the business to the next level.

Nicholas Nganga
Chairman

WHERE WILL WE
GO NEXT?

Ripoti ya Mwenyekiti

Nicholas Nganga Mwenyekiti

> **Nia yetu ya utendaji kazi ina msingi katika lengo la kutoa thamani bora kwa mwenyehisa, kutoa huduma bora kwa wateja wetu na kuwa makini na lengo la kampuni la kubadilisha maisha.**

Kuboresha Maisha Mtindo wa Safaricom

Licha ya kuwepo kwa mazingira magumu ya kiuchumi katika mwaka uliomalizika, biashara yetu ilisalia kuwa thabiti na yenye matokeo mazuri.

Yaliyotutia wasiwasi mwaka huo ni pamoja na kiangazi kilichoathiri maeneo mbalimbali ya nchi, mfumko wa bei, kutokuwa na uhakika na uchaguzi, pamoja na shinikizo za uthibiti. Hata hivyo, ninafuraha kuwafahamisha kwamba licha ya changamoto hizo, tuna imani kwamba tuko imara kukabiliana na hali zozote za kiuchumi zinazojitokeza.

Mazingira ya kisheria

Hali ya mazingira ya uthibiti ambayo hubadilika mara kwa mara inasalia kuwa yenye umuhimu kwa uendeshaji wa biashara yetu.

Katika nusu ya pili ya mwaka huo wa kifedha, wawekezaji walielezea kuongezeka kwa hofu kutokana na athari za hatua za kisheria zilizopendekezwa katika sekta ndogo ya mawasiliano ya simu.

Katika mwezi wa Mai mwaka wa 2016, Mamlaka ya Mawasiliano nchini (CA) iliteuwa kampuni ya Analysys Mason kufanya utafiti kuhusu hali ya ushindani katika sekta ndogo ya mawasiliano.

Ripoti yao ilionyesha kwamba kampuni ya Safaricom ina ushawishi mkubwa katika vijisehemu kadhaa vya sekta ndogo ya mawasiliano. Ripoti hiyo iliendelea kupendenkeza masharti makubwa ya kisheria kwa Safaricom ijapokuwa ilihitimisha kwamba kampuni ya Safaricom haikupatikana kutumia vibaya ushawishi mkubwa sokoni.

Tunaonelea baadhi ya mapendekezo hayo hayaambatani na kanuni bora zinazozingatiwa kwingineko duniani. Mapendekeza kama vile kutenga M-PESA mbali na Safaricom, udhibiti wa bei za huduma na kushurutishwa kugawa miundombinu yetu na kampuni pinzani yalionekana yasiyo na usawa.

Mapendekezo hayo hayakufaa na yaliathiri bei ya hisa zetu.

Lakini hakikisho kutoka kwa serikali kwamba haiungi mkono mwito huo wa kutenganisha Safaricom lilituliza hofu ya wawekezaji. Hatimaye bei ya hisa zetu iliimarika na inaendelea kustawi.

Wawekezaji wetu waliridhika na msimamo huo, na ili kuunga mkono harakati zinazohusisha mashauriano panapo mambo kama haya tutaendelea kushauriana na Mamlaka ya Mawasiliano nchini (CA).

Tunaendelea kuunga mkono kubuniwa kwa mwongozo wa kisheria ambao unatilia mkazo uwekezaji na ubunifu katika sekta ya mawasiliano ya simu na vilevile mazingira endelevu ya kibiashara kulingana na vigezo vya kimataifa vya utendakazi bora.

Mandhari ya ushindani

Tunaendelea kushuhudia mabadiliko katika mazingira ya ushindani, ambapo aina mpya za ushindani zimeendelea kuibuka hata kutoka kwa mashirika yasiyokuwa ya mawasiliano ya simu. Kwa mfano, kujumuishwa kwa teknolojia ya kifedha (Fintech) katika huduma za benki, hasa katika utumaji na upokeaji wa pesa, ni ishara dhahiri kuwa ushindani kutoka kwa mashirika yalisoyo ya sekta hii inatulazimu tuendelee kuwa wabunifu.

Ushindani kutoka kwa mashirika mengine ya kitekinolojia unatubidi kuendelea kutoa bidhaa ambazo ni bora na tafauti na pia utoaji wa huduma bora kuliko washindani wetu. Tunaamini tutaendela kuwapa wateja wetu thamani zaidi kama kampuni inayotambulika kwa ubunifu na uvumbuzi.

Usimamizi wa kampuni

Katika mwaka huo kampuni ya Vodafone, mmoja wa wenyehisa wakuu, iliamua kuhamisha kiwango kikubwa cha hisa zake kwa kampuni ya Vodacom - Afrika Kusini

Katika mwaka huo, kulikua na mabadiliko katika Bodi. Bw Vivek Badrinath aliteuliwa kwenye Bodi kama mwanachama asiyesiyekuwa mtendaji. Naye Dkt Bitange Ndemo aliteuliwa kama mwanachama huru. Bi Serpil Timuray alijiuzulu kutoka kwa Bodi. Ninawakaribisha wakurugenzi hawa kwenye Bodi na kumshukuru Bi. Timuray kwa mchango wake kwa wakati akiwa kwenye Bodi.

Mustakabali

Nia yetu ya utendaji kazi ina msingi katika lengo letu la kutoa thamani bora kwa mwenyehisa, kutoa huduma bora kwa wateja wetu na kuwa makini na lengo la kampuni la kubadilisha maisha.

Tuko imara katika utekelezaji wa mkakati wetu na kuendelea kukuza utajiri wa wenyehisa wetu. Kudumisha ustawi wa kampuni hii ni muhimu kwa Bodi na hiyo ndiyo maana tuliamua kuongeza mkataba wa Afisa Mkuu Mtendaji, Bob Collymore, kwa miaka miwili zaidi. Bob amefanikiwa kuongoza katika nyakati ngumu, na ameendelea kutafuta fursa mpya za kibiashara ambazo zitaelekeza kampuni miaka ijayo. Bodi hii ina imani naye na inaahidi kumuunga mkono.

Katika mwaka huo kampuni ya Vodafone, mmoja wa wenyehisa wakuu, iliamua kuhamisha kiwango kikubwa cha hisa zake kwa kampuni ya Vodacom - Afrika Kusini. Tunaona hii ni nafasi ya kibiashara hususan kwa Safaricom kusambaza huduma za malipo kwa kutumia simu za rununu katika mataifa mengine ya bara la Afrika.

Tunatambua kwamba hatuwezi kuishi bila watu wetu: iwe ni wafanyakazi au wateja wetu. Tuna furaha na tunatoa shukrani kwa wenye hisa, wafanyakazi, wateja, washirika wetu wa kibiashara, serikali na wadau wengine kwa kutupa fursa ya kuendeleza biashara yetu.

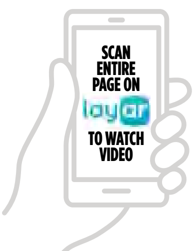
Nicholas Nganga
Mwenyekiti

WHERE WILL WE
GO NEXT?

CEO's Commentary

Bob Collymore Chief Executive Officer

We especially believe in our people, as they are an integral part of our transformative agenda.



Our Country, Our Story

Safaricom exists to fulfill a purpose. That purpose is to transform lives, and over the past year, we have continued to implement transformative strategies that touch the lives of our shareholders, customers, staff members and other stakeholders.

We believe this is what drove over three million new customers to join our network during the year.

Today, 95% of Kenyans have access to a mobile phone. This small gadget has now become a way of life for many Kenyans, be it for making a phone call, carrying out monetary transactions, accessing healthcare, improving agricultural output or accessing education.

We invested heavily in building the network that will power Kenya's future growth.

We also have nurtured partnerships to provide life-changing solutions in the health, education and energy sectors through products like M-TIBA, Eneza and M-KOPA.

For instance, beyond providing mobile money services, our M-PESA network is delivering drops of hope to over 80,000 customers in Kibera, where we have supported the installation of the world's first aerial water piping system. This partnership with SHOFCO aims to scale up the provision of clean water to the Kibera community in Nairobi, without disturbing life patterns in the settlement.

In camps in northern Kenya, we are providing refugees with the opportunity to purchase their own food courtesy of a mobile food voucher system known as Bamba Chakula.

In addition, through the Safaricom Foundation, we invested in over 120 projects in the last financial year that have impacted the lives of Kenyans beyond our traditional business.

All of these interventions align with our long-term objective of creating a more equitable society. We have linked our growth strategy to the UN's 17 Sustainable Development Goals (SDGs), out of which we have adopted nine.

This will help us in becoming a more sustainable company, creating meaningful impact on the communities that we have been given the opportunity to serve. These are the "small" actions that we believe will cumulatively transform the lives of our customers.

Our Brand

We recently refreshed our brand, giving it a more forward-looking perspective through the vision of "Twaweza," which is captured in the brand belief that when we come together, great things happen.

A human network

We especially believe in our people, as they are an integral part of our transformative agenda. We empower them to give their best. We show appreciation to them by providing the right working conditions that improve their well-being. We continue to work towards building an environment that is inclusive of all cultures.

Delivering the strategy

Creating social value grounds our strategy, which is founded on three pillars: Putting the Customer First, Delivering Relevant Products, and Optimising Operational Excellence.

During the year, we dedicated more effort to building personalised relationships with our customers. We fine tuned our service delivery, by creating and launching products that leverage a more intimate understanding of our customer needs. This is what informed our strategic decision to launch BLAZE, a youth proposition that attracted over 1.6 million users by the close of the financial year.

None of these achievements would be possible without sustained focus on building a future-proof network. Our core business remains to deliver first-class connectivity for voice, SMS, data, M-PESA and deepen enterprise use of technology.

Looking ahead

The ICT Ministry is currently undertaking a review of the Policy Framework in which we operate and in particular, looking at new and emerging opportunities to accelerate the deepening of new technologies in the country.

We support this initiative as we think convergence, investment and innovation will provide a springboard for future growth of the economy.

At the same time, the Communications Authority of Kenya is currently engaged in a study to determine the levels of competition in the different market segments of the industry.

While Safaricom's market share in some segments remains high, this has been attained through prudent investments and continuous innovation - both of which are central to our strategy.

For equitable growth in the sector, we feel it is important that our competitors are held up to the same standards so that our policy of sustained investment is not punished. We will continue to invest in our business and pursue new business interests.

We are committed to enhancing the position of Kenya as the leading mobile money market in the world by proactively launching interoperability in the country, expanding our offering through products like 1Tap, and exploring potential opportunities for taking M-PESA outside Kenya.

We are excited about the planned launch of an E-Commerce platform and the growth of our Home business, which will evolve to include smart home solutions.

We value partnerships because we realise we cannot achieve success on our own. We also know that we have the right mix of talent and technology to provide transformative innovation, with one goal in mind: Transforming lives.

Twaweza

We recently refreshed our brand, giving it a more forward-looking perspective through the vision of "Twaweza," which is captured in the brand belief that when we come together, great things happen

Bob Collymore
Chief Executive Officer

WHERE WILL WE **GO NEXT?**

Ripoti ya Afisa Mkuu Mtendaji

Bob Collymore Afisa Mkuu Mtendaji

> **Tuna imani kubwa katika wafanyakazi wetu kwani ni sehemu muhimu ya ajenda yetu ya uendelevu unaoleta mabadiliko.**

Nchi Yetu, Stori Yetu

Kusudi la Safaricom ni kubadilisha maisha. Katika kipindi cha mwaka mmoja uliopita, tumeendelea kutilia mkazo na kutekeleza hatua na mikakati mbalimbali ambayo imebadilisha maisha ya wenyehisa wetu, wateja, wafanyakazi na wadau wengine.

Tunaamini kwamba hili ndilo liliyochangia ongezeko la wateja milioni tatu kwenye mtandao wetu katika kipindi hicho cha mwaka uliopita.

Leo hii, asilimia 95 ya Wakenya wanatumia simu ya rununu. Kifaa hiki kidogo sasa kimegeuka kuwa njia ya maisha kwa Wakenya wengi, iwe ni kuongea, kupokea au kutuma pesa, kupata huduma za afya, kuimarisha mavuno ya kilimo au hata kupata elimu.

Tumewekeza vilivyo kwenye mtandao ambao utainua taifa la Kenya mpaka kiwango cha juu kimaendeleo katika siku za usoni.

Tumeshirikiana na kampuni zingine ili kuwapa wateja wetu suluhu mbali mbali katika nyanja za afya, elimu, na kawi kupitia huduma kama vile M-TIBA, Eneza na M-KOPA.

Mbali na kusambaza huduma za kifedha, huduma yetu ya M-PESA na Ushirikiano na SHOFCO imewaletea wateja zaidi ya 80,000 mtaani Kibera, Nairobi tumaini. Tumewasaidia wenyeji kwa kuwawekea mabomba ya maji yanayopitia juu. Hii imewezekana bila ya kuhitilafiana na mpangilio wa makazi yao.

Katika kambi za wakimbizi kaskazini mwa nchi, tumewapa nafasi ya kununua chakula kupitia huduma spesheli ya simu za rununu almaarufu 'Bamba Chakula.'

Hali kadhalika, kupitia Wakfu wa Safaricom, tumewekeza katika zaidi ya miradi 120 kwenye kipindi cha mwaka uliopita ambayo imesaidia Wakenya wengi kwa njia zisizohusiana moja kwa moja na biashara yetu.

Juhudi hizi zinaambatana na nia yetu ya kuwepo kwa jamii yenye usawa. Tumeuratibu mkakati wetu wa kibiashara uambatane na "UN's 17 Sustainable Development Goals (SDGs)", ambapo tumetwaa lengo tisa kati ya zote kumi na saba.

Hii italifanya shirika hili kuimarika zaidi, na kuleta maendeleo ya kudumu katika jamii ambazo tumepewa fursa ya kuzihudumia. Haya ni mambo yanayoonekana kuwa madogo lakini kwa jumla yanabadilisha maisha ya wateja wetu.

Nembo Yetu

Hivi maajuzi, tulibadili nembo yetu na kuipa mtazamo unaoegemea mbele na wenye maono ya "Twaweza". Kauli hii imebeba imani yetu kuwa tunapoungana tunaweza kutimiza mengi.

Wafanyakazi wetu

Tuna imani kubwa katika wafanyakazi wetu kama sehemu muhimu ya ajenda yetu ya kuleta mabadiliko. Tunawapa motisha kufanya vyema zaidi na kuwatambua kwa kuwapa mazingira bora ya kufanyia kazi na yanayowaendeleza kibinafsi. Tunaendelea kuhakikisha kuwa tuna mazingira ya kufanyia kazi ambayo yanafaa tamaduni zote.

Utekelezaji wa mkakati

Kuimarisha thamani kwa jamii ndio lengo la mkakati wetu, ambao unaongozwa na nguzo tatu kuu: Wateja wetu Kwanza, Kutoa Bidhaa na Huduma zinazofaa, na Kuboresha utendakazi wetu.

Katika mwaka uliomalizika, tulijizatiti zaidi katika suala la uboreshaji wa uhusiano wetu na wateja wetu na kupanua kuelewa kwetu mahitaji yao. Kuambatana na hayo, tulielekeza bidii katika kuzingatia mahitaji yao ya ndani. Hili ndilo lililotuwezesha kuzindua huduma ya BLAZE, inayolenga vijana. Huduma hii iliwavutia zaidi ya wateja milioni 1.6 kufikia mwisho wa mwaka huo wa kifedha.

Haya yote hayangewezekana bila kuangazia kikamilifu ujenzi wa mtandao utakaostahimili siku zijazo. Tunaendelea kuangazia utoaji wa huduma bora za mawasiliano ya sauti, SMS, data, M-PESA na kueneza utumiaji wa teknolojia kukuza biashara.

Twaweza

Tulibadili nembo yetu na kuipa mtazamo unaoegemea mbele na wenye maono ya "TWAWEZA". Kauli hii imebeba imani yetu kuu kuwa tunapoungana tunaweza kutimiza mengi.

Mtazamo wa siku zijazo

Wizara ya Teknolojia ya Habari na Mawasiliano (ICT) inatathmini upya Mwongozo wa Sera ambayo inatuelekeza katika utendakazi na hasaa katika kutafuta nafasi mpya ili kuharakisha usambaaji wa teknolojia mpya nchini.

Tunaunga mkono juhudi hizi na tunaonelea kuwa uunganishaji wa njia mbali mbali za kutoa huduma, uwekezaji na ubunifu utaendelea kuwa msingi bora wa kuimarisha uchumi katika siku zijazo.

Vile vile Mamlaka ya Mawasiliano nchini (CA) inatayarisha ripoti ya kuonyesha viwango vya ushawishi katika sehemu tofauti tafuati za utoaji wa huduma za mawasiliano.

Hata kama ushiriki soko wa Safaricom ni wa juu katika sehemu kadhaa za sekta hii. Haya yamejiri kutokana na juhudi za uwekezaji wenye busara na kuendeleza ubunifu, ambao ni muhimu kwa mkakati wetu.

Ili kuwe na usawa katika ukuaji wa sekta hii, ni muhimu pia kampuni pinzani zipimwe kwa kiwango sawa nasi ili tusiadhibiwe kwa kuendeleza sera za uwekezaji wenye busara. Tutaendelea kuekeza katika biashara yetu na kutafuta fursa mpya.

Tumejikakamua kuimarisha nafasi ya Kenya kama mojawapo ya nchi zinazoongoza kwenye matumizi ya huduma za kifedha kutumia simu za rununu kwa kufanikisha ushirikiano wa mitandao nchini, kuzindua huduma mpya kama vile 1Tap, na kutafuta nafasi za kueneza huduma ya M-PESA katika mataifa ya kigeni.

Tunafurahia uzinduzi tunaotarajia wa soko ya mtandao (e-commerce) na ukuaji wa biashara ya kutoa huduma za kisasa manyumbani (smart home solutions).

Tunathamini ushirikiano, na tunafahamu kwamba hatuwezi kustawi kikamilifu tukijitenga. Tuna uhakika kwamba tunao mseto sahihi wa talanta na teknolojia kuendeleza uvumbuzi, huku tukilenga kusudi moja tu: kubadilisha maisha.

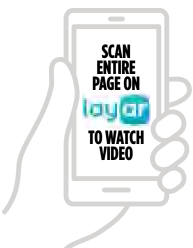
Bob Collymore
Afisa Mkuu Mtendaji

WHERE WILL WE **GO NEXT?**

CFO's Review

Sateesh Kamath Chief Finance Officer

> **To maintain an edge in our business, we invested Shs38 billion on improving network coverage, capacity and quality of our network. This included Shs2.5 billion to acquire 10Mhz of LTE spectrum and the record rollout of more than 500 new sites**



A Year of Strong Financial Performance

We continued to deliver strong financial results this year, with growth posted in all the main business segments.

This was attributed to our targeted investment in our network, our systems and our customer focused and innovative business model. We remained attuned to the needs of our customers and we believe this played a big role in boosting our performance.

Business performance

Our service revenue grew at 14.8% year-on-year (YoY) in the financial year 2017, compared to the 13.8% posted in the financial year 2016.

In the first half of the year, we had a one-off adjustment resulting in a Shs3.4 billion upside to our profit. Excluding this one-off adjustment, underlying Earnings Before Interest and Taxes (EBIT) was Shs67 billion, a growth of 21.6% from the previous year.

Thanks to the strong trading performance, underlying net income improved by 18.3% YoY while free cash flow recorded a 43.3% YoY growth.

Our voice revenue defied global trends and continued to grow despite the growth achieved in mobile data.

Five years ago, outgoing voice and SMS both constituted 73% of our revenues. Today, these two businesses represent 54% of revenue. Our revenue is now well diversified with our data and M-PESA businesses acting as key drivers of growth.

In line with global trends, the average rate per minute for voice fell by 8% in the financial year, following a 14.6% reduction in the 2016 financial year.

Mobile data contributed to just under one-third of the overall service revenue growth, where an increase in both the number of data subscribers as well as data usage more than offset the reduction in the rate per Mega Byte (MB).

The average rate per MB for data reduced by 22% in the year, following a 33% reduction in the previous financial year. These price drops are supported by a corresponding growth in the amount of data used by the customer. Mobile money continues to power the economy and drives financial inclusivity with Shs6,869 billion of value transacted on M-PESA, an increase of 29.7% compared to the previous year.

Over the past five years, the values transacted in the M-PESA system have enjoyed a compounded annual growth rate of 27%.

This is part of the reason why M-PESA is our largest revenue growth driver today, contributing just over half of our total service revenue growth.

During the year, we introduced M-PESA "Kadogo", where transactions under Shs100 do not attract a service fee. This has further strengthened our position as pioneers in entrenching financial inclusion in Kenya.

To maintain an edge in our business, we invested Shs38 billion on improving network coverage, capacity and quality of our network. This included Shs2.5 billion to acquire 10Mhz of LTE spectrum and the record rollout of more than 500 new sites.

A fifth of our capital expenditure was invested in building IT systems and customer analytic tools that we believe enhance our ability to understand and respond better to our customers.

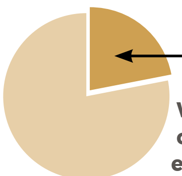
Analytics have enabled us to tailor our products and promotions, providing customers with an opportunity to enjoy a more personalised portfolio of products.

Our business was funded by cash from operations and debt that stood at Shs16.5 billion as of the end of the year.

We paid Shs30.5 billion in normal dividends during the year and the strength of our balance sheet enabled us to also pay a special dividend of Shs27.2 billion.

It's worth noting that 35% of the dividends are paid to the government of Kenya which holds 35% shareholding. This is in addition to taxes and fees that amounted to Shs84.3 billion in the past financial year.

M-PESA is currently our largest revenue growth driver, contributing to just over half of our total service revenue growth.



22%

We continue to pass on the benefit of economies of scale to our customers and in the period under review reduced the effective price of data by 22%.

Shs38bn

Amount of money we invested to improve the coverage, capacity and quality of our network.

Outlook

Like any other business, the country's macro economic issues may impact on our operations. The impact of the drought, reduced credit growth, the elections and the rising inflation experienced towards the end of the financial year may affect our operations in the short term.

Despite this, we feel we are well placed to continue to deliver sustainable growth this year thanks to our strong operational core, continuous investment in our network, our systems and our people and the expansion of our capabilities through innovation. Data and M-PESA continue to be our main growth drivers, and we see immense opportunities in these areas as Kenya continues to embrace the digital economy.

Sateesh Kamath
Chief finance officer

WHERE WILL WE
GO NEXT?

Our Strategic Pillars

Delivering the Promise

We believe we exist to Transform Lives. Our corporate strategy is guided by three key pillars that have helped us grow our loyal customer base and produce excellent results across our key financial and commercial performance indicators, and provide a positive impact on the lives of the customers we serve.

Delivery of our vision is made possible by our network, which goes beyond traditional connectivity to provide essential services such as health, education and financial inclusion.

This is why we continually invest in our network. We currently have the widest reach in the country with 4,677 sites providing 95% population coverage for 2G; and 3,517 3G sites with a population coverage of 85%.

Our fibre network now connects key cities and towns, spanning 4,700 kilometres.

Our upgraded M-PESA platform now delivers 99.9% availability and processes an average of 900 transactions per second.

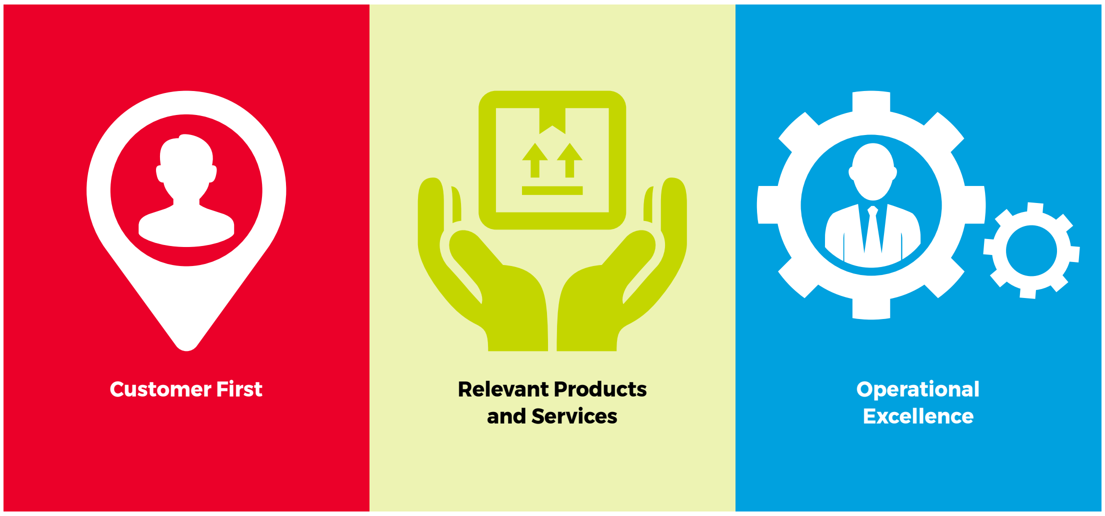
These efforts have seen our Average Revenue Per User (ARPU) increase by 6.4%.

We extend these benefits back to our customers by offering them enhanced value for their money.

99.9%

Our upgraded M-PESA platform now delivers 99.9% availability and processes an average of 900 transactions per second

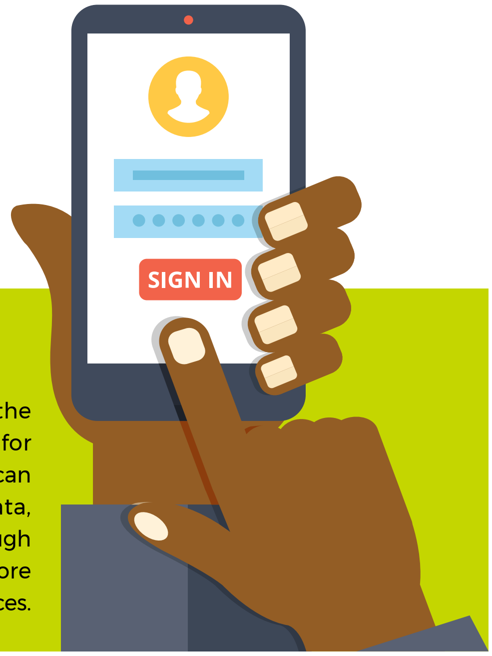
Our Strategic Pillars



Customer First

We are establishing a new relationship with each of our customers by investing in understanding their needs better.

During the year, we continued to invest in tools and products that are designed to give our customers more choice and control over how they use our voice, data or value added resources on the network. Segmenting their needs led to the development of products like FLEX and M-PESA Kadogo. We enhanced their ability to control network use through tools like My Data Manager and My Subscription Manager.



My Data Manager

With data use on the rise, our insights into customer needs inspired us to create a simple tool that would enable the customer to control data bundle usage. Using a friendly interface, My Data Manager resolves instances where a customer's data bundle runs out and the network switches automatically to airtime.

My Subscription Manager

With a growing portfolio of products, the need to manage active subscriptions for our customers is paramount. Customers can now manage their subscriptions to Data, SMS, Skiza or premium rate services through My Subscription Manager by adding more services or unsubscribing from active services.

Care for the Customer

In April 2016, we rolled out the CARE program companywide to ensure Safaricom delivers on its promises to the customer around the four arms of Connectivity, Always in Control, Reward and Loyalty and Ease of Access. We also enhanced our call centre capacity by increasing number of customer care staff by 40 percent

Bonga Everywhere

Bonga Everywhere allows customers to redeem Bonga Points with a variety of products outside of the Safaricom ecosystem.

Lipa na M-PESA

Buy Goods tariffs were revised for transactions of up to Shs200, which now attract zero charges. Chargeable Buy Goods transactions now attract a maximum 0.5% transaction fee in a move aimed at bringing more small and microenterprises into the M-PESA ecosystem. This will make small businesses more receptive to digital payments, and promote broad economic participation and growth.

M-PESA Kadogo

Person to Person (P2P) M-PESA transactions of Shs100 and below no longer attract a fee in a move that was hailed as democratising M-PESA.

Zero charges

P2P M-PESA transactions below Shs100 do not attract charges. Buy Goods tariffs for transactions of up-to Shs200 attract no charges also.

Relevant Products and Services

A large part of our focus is to ensure that we create the most relevant products for our customers, whose needs are evolving in line with the rapidly changing technology sector.

We have learned that the one size fits all model is no longer practical in a world where the customer needs are shifting fast.

This has led us to leverage analytics to fine tune our services and develop new propositions that match the customer's requirements such as FLEX and BLAZE.

BLAZE

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

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

BLAZE also includes access to a suite of products and initiatives that are exclusive to the youth, such as branded 3G and 4G devices and youth empowerment summits.

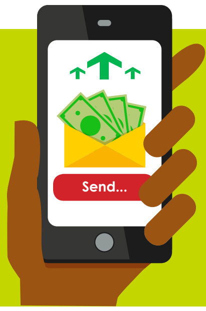
BLAZE BY SAFARICOM
THE YOUTH NETWORK

18-26

The demographic group that the Blaze platform targets

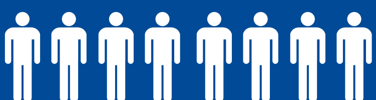
M-PESA on the Safaricom App

The Safaricom App allows customers to access services such as Hakikisha, which allows customers to see who they are sending money to before they initiate a transaction. This has greatly reduced the risk of human error when inputting numbers.



M-PESA Statements

M-PESA customers continue to enjoy the convenience of receiving monthly M-PESA statements. This enhances transparency and accountability for users. By the close of the financial year, over 1.2 million customers had registered for the service.



1.2 million

Registered customers for the M-PESA statements service.

Enhancing M-PESA

Bill Manager is an innovation that enables easier bill management from a single portal.

As the Lipa na M-PESA ecosystem continues to evolve, and with a growing number of utility payments made on the platform, the service will allow customers to set automatic reminders and save Paybill numbers in order to enhance the customer experience.

Other improvements to M-PESA include a new, easy-to-use menu that consolidates M-Shwari and KCB M-PESA, M-PESA statements, PayBill services, Real Time Settlements for merchants, and API functionality that enables developers to integrate M-PESA into their applications and websites.

FLEX Your World

Designed for the customer who demands the most from their mobility, FLEX allows customers to choose how they allocate airtime for calls, SMS or data services.

Customers are able to subscribe to daily, weekly or monthly packages that offer value beyond typical bundles in order to maximise on their spend.

In a unique market development, customers can roll over any unused FLEX units by renewing their existing FLEX bundles before expiry.

Operational Excellence

We remain focused on ensuring our customers can access our products and services when they want them and how they want them.

We partnered with Flytxt, a mobile consumer analytics solution provider, to better understand our customers' needs, and enable us to realise our goal of delivering a differentiated, customer specific expericence.

This has provided us with actionable insights that help in taking quick decisions across business work flows and touch points. These solutions have enabled us to personalize our services to customers.

A report by P3, an independent analyst, found that our network is ranked the best compared to other networks in Africa.

Best Network For You

We are committed to building a better network for our customers. This is a continuous effort that aims to provide seamless coverage across the country. It is a mission that keeps us focused on the best ways of covering the entire country with a strong and reliable signal.

A report by P3, an independent analyst, found that our network is ranked the best compared with other networks in Africa.
These improvements are a reflection of our smart network deployment and continuous investment in building robust systems, which is translating to a world-class experience for our customers.

Our network remains the largest and the most expansive, with 95% 2G population coverage and 85% 3G population coverage.

We continue accelerating Fibre-To-The-Home (FTTH) rollout with the aim of tapping into a rapidly growing segment.

Regional Operations

Our Regional Sales and Operations Department is inspired by our desire to put the Customer First and provide Operational excellence in line with our strategic pillars.

Through a strategic investment strategy, our Regional team has been tasked with gaining more intimate knowledge of our customers by getting closer to them. This has continued to strengthen our ability to acquire new customers and retain them on the network.

Our regional operations continue to deliver value to our customers through improved network coverage and quality as a result of faster decision making.

260,000

active retail outlets selling our airtime.

130,000+

Number of M-PESA Agents who ensure accessibility of M-PESA services to our customer base

Other factors that lead to its success are continued focus on new customer acquisition strategies through region-specific promotions and offers and more channel empowerment especially for dealers to serve customers better through Safaricom care desks. As it stands, we have over 109 care desks and 140 empowered dealer outlets offering customer care and other services to customers.

Our Regional Sales and Operations Department has brought us closer to our customers and allowed us to provide close support for their needs. We now have over 260,000 active retail outlets, with over 45 retail shops providing airtime, device and customer support services.

With over 136,000 M-PESA agents and 400 dealers supporting over 1,900 dealer outlets, we are ensuring that access to our M-PESA services continue to expand in line with demand.


Panasonic

WHERE WILL WE
GO NEXT?

Our Sustainable Future

WHERE WILL WE **GO NEXT?**

Our Sustainable Future

A Sustainable Safaricom

Below is our sustainability progress in figures

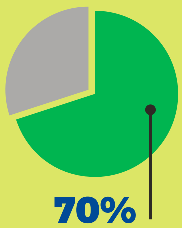
Developed a bio-degradable carry bag for our retail packaging

100+
Sites powered by renewable energy

Cost of energy consumed per site per month
↓ 3%

120+
Projects creating meaningful impact in health, agriculture and education

630
↑ +47% Tonnes of e-waste recycled as at end of FY17

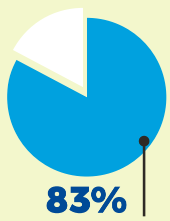


70%
Safaricom staff dedicating their time to community projects

Built over **35,000** partnerships across all industries to drive change

98%
Suppliers signed up to the Code of Ethics for Businesses in Kenya

98%
Staff trained in ethics and anti-corruption



83%
Staff members familiar with the UN Sustainable Development Goals**

** SEMA Survey

4
Fatalities

Two employees, one contractor and a third party

Only **30%** of senior management are women (Directors & Heads of Departments)

1.4% are minorities / people with disabilities

52
↑ +225%
Dismissals for fraud

Carbon emissions
↑ 1% to
80,406** (tCO2e)

Diesel consumption
↑ 4% to
10,124,632** litres

Fined
Shs270,056,720
by the Communications Authority of Kenya*

Water consumption
↑ 2%
to **96,650 m3*****

*Company was fined for not complying with Quality of Service (QoS) threshold
**Growth due to increase in sites and delays in connecting some of the new sites to the national grid
***Driven by a 14% increase in employees and opening of regional facilities

Integrating the Sustainable Development Goals into our Strategy

We aspire to use our products and services to contribute to sustainable living throughout Kenya.

Central to achieving this vision is our commitment to managing our operations responsibly and ethically. Our vision is based on the twin pillars of building a responsible and ethical business, matched with transformational products and services.

We recently became the first company in Kenya to integrate the Sustainable Development Goals directly into our day to day operations.

The first phase of this process involved asking each division within the company to select the Goals which they felt were areas where Safaricom could make an impact.

We selected nine SDGs to integrate into our business operations.

Our focus going forward will be to report on SDG-related targets and, ultimately empower individuals to set their own SDG-related objectives.

We are pleased to report that an independent survey found that 83% of staff members now understand the relevance and purpose of integrating SDGs into the business.

The Safaricom SDG purpose statement

"We commit to deliver connectivity and innovative products and services (SDG9) that will meet the needs of Kenyans by enabling access (SDG10) through our technologies and partners (SDG17) and by exploring opportunities in health (SDG3), education (SDG4) and energy (SDG7). We will do so by managing our operations responsibly (SDG12) and ethically (SDG16). This will stimulate growth and generate value for our company, society and the economy (SDG8)."

Our Material Matters

Our sustainability material matters are the most important environmental, social, economic and governance risks and opportunities for our organisation and stakeholders. Our four material matters are; Network Quality, Innovation, Governance Risk and Regulation and Environmental Responsibility

We have identified four critical areas that form our focus areas for improvement within the business.

In this report, we will highlight our environmental impact.

Smarter Energy Consumption

One of the key ways in which we monitor and manage our environmental impact is through our energy consumption targets (electricity and diesel).

As part of our commitment to SDG 7, we developed an energy policy during the year that guides our ongoing efforts and prioritise our research and investment in clean energy technologies.

Net Zero by 2050

We have committed to becoming a net zero carbon-emitting company by 2050. We are one of the few companies in Africa to have made this commitment. To achieve this goal, we have started rolling out renewable energy solutions across our network and facilities.

We are also considering carbon offset proposals for sources where renewable energy may not be feasible with current technology – for example, planting trees and providing subsidised domestic solar energy solutions.

For the last six years, we have tracked and published our carbon footprint.

To drive a more personalised commitment to SDG 7, we ran internal awareness creation campaigns during the year to expose our staff members to numerous domestic energy-efficient solutions available from our business partners. We partnered with Huawei, Broadband, Delta Green Solutions and Knight and App Limited for the initiatives.

The exhibited solutions were purchased by members of staff for use in their homes.

To build a more sustainable approach to energy use, we have adopted more clean, sustainable energy sources and constantly monitor consumption patterns to reduce our carbon footprint.

In practice, this means phasing out the use of diesel generators wherever possible, either by ensuring that Kenya Power energy is available at a site or by deploying alternative energy solutions. Our performance statistics describe the mix of energy sources used throughout our network.

The number of 24/7 diesel generator sites increased during the year because of external delays in connecting national grid energy to sites, especially those in more rural locations. We have begun a programme of prioritising the use of solar-based energy solutions at smaller capacity sites (as opposed to critical coverage sites) and we will continue to intensify our efforts in this regard in the year ahead.

There are already 90 clean sites planned for FY18 and we are exploring partnership models in remote areas that will enable local residents to purchase any excess or surplus power.

Ecofriendly Packaging

In line with SDG 12, we reflected on what we produce and consume in our business operations, including our use of plastics.

Safaricom has taken the bold decision to do away with plastic bags used in our shops countrywide, replacing them with environmentally friendly packaging materials that can be reused for multiple uses and purchases.

While Kenya's ban on plastics continues to elicit debate, we recognise the need to take action that will ensure a sustainable future because we believe that our actions today have a bearing on future generations.

By phasing out plastic carry bags, we seek to reaffirm our moral and corporate responsibility to manage our environmental impact, recognising that environmental considerations are not separate from our core business but are an integral part of our overall business strategy.

Looking Ahead

We will continue to integrate the Sustainable Development Goals across the business as well as track and report progress against the goals.

For more details on the sustainability material matters refer to our Sustainability Report.

WHERE WILL WE **GO NEXT?**

Our People

Investing in our People

We believe that we can only be at our best if our people are at their best. Our employees are crucial to our success and that is why we have undertaken several initiatives to inspire and get the best out of them.

Being 100% human at work

In alignment with the SDG strategy and the mission of The B Team - Africa, we launched the **100% Human at Work** programme during the year. The programme is an expression of The B Team belief that it is time for businesses to stop looking at people as 'resources' and to start looking at them as 'human beings'. It represents a move away from focusing solely on maximising profits and profitability to how we can help our people reach their highest potential and purpose, which will naturally have a positive impact on the bottom line.

> **We strongly believe that work should have a purpose and that the workplace should be a place of belonging**

Through 100% Human at Work we are aiming to create a work environment that celebrates diversity and inclusion, enables talent and career growth, promotes employee wellbeing, as well as providing equal status, rights and opportunities to all employees in the Safaricom ecosystem. We strongly believe that work should have a purpose and that the workplace should be a place of belonging that facilitates human interaction, collaboration and creativity.

The programme seeks to introduce a 100% Human culture in the workplace using five key values: equality, respect, growth, belonging and purpose. During the year, a series of training sessions were held to raise awareness of the programme.

We are excited and passionate about inititiaves that improved the workplace and motivate our people.

As part of our focus on wellbeing and in response to work-life concerns raised by staff in the last 'SEMA Survey', we partnered with Thrive Global, a wellbeing and productivity group founded and led by Arianna Huffington, and launched the **Thrive Global Programme** midway through the year. The Thrive Agenda

seeks to make companies truly human organisations in the digital age and focuses on four main areas: Body (wellbeing), Mind (wisdom), Heart (wonder) and Soul (purpose). This programme requires a full cultural transformation, championed by the leadership team and it covers the entire workforce to improve the overall health and wellbeing of the entire Safaricom team, tackling physical health, stress management, burnout prevention and emotional wellbeing.

The initial implementation was scheduled to run from January 2017 to March 2018 and features: company-wide awareness sessions, interactive live training, weekly curated email content, webinars and e-courses. The programme's impact on the employees is also measured to track and optimise their wellbeing and engagement.

This year also saw the development of an **Adoption Policy** to guide child adoption by employees. In terms of benefits, employees adopting children are now entitled to two months of maternity leave if the child is younger than two years of age and one month if the child is older than two years of age. As part of this process, we also ran awareness sessions with managers to share with them best practices in terms of handling maternity leave and flexible working hours.

Rewarding our people

To remain a competitive employer and continue to transform the lives of our employees, we reviewed our mortgage benefit to support staff at all levels of the organisation. We are pleased that during the period, we achieved a 50:50 gender pay parity in the organization.

Talent

The continuous development of our employees remains a cornerstone of our company's growth, and Safaricom aims to make learning more accessible, relevant, and aligned more closely with our business.

In the year under review, we continued to deliver value through various programmes such as the Line Manager Toolkit. This is an initiative with modules designed to help managers look after their teams efficiently and consolidate the human resources guidelines, support, and tools needed in one place.

To facilitate knowledge transfer and expand the experience of our staff we facilitate secondments both to and from other markets within the Vodafone group.

The Graduate Management Trainee Programme continues to deliver a truly global proposition in the local job market and enables greater talent mobility within the business. 16 potential leaders went through a programme dubbed Development Centre that focused on leadership and behavioral capabilities to sharpen their current leadership strengths and identify development areas.

Living the Safaricom way

We continue to celebrate individuals and teams that role model the Safaricom way of doing things: Speed, Simplicity and Trust. In the year 2016/2017, we recognised over eight individuals and teams who consistently role modeled the Safaricom way in everything they do. The one thing all these heroes have in common is that they are people who have gone beyond the requirements of their role in the organisation to make positive changes.

Diversity and Inclusion

We have embarked on company-wide roadshows to prioritise on key focus areas of – customer focus, innovation and diversity and inclusion (D&I).

Safaricom strongly believes in giving everyone an equal opportunity to play their rightful role in the organisation.

By engaging in the workplace with people from different backgrounds, experience and environments, we create a pool that bubbles with creativity, leading to better informed decisions that then drive a high-performing culture in the organisation.

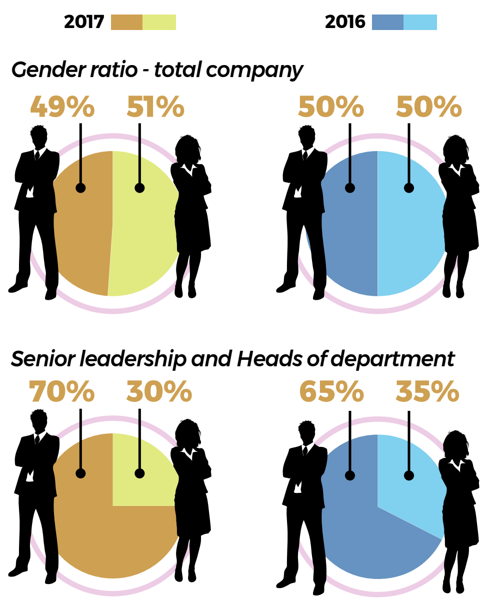
We believe that embracing diversity will enable the company to remain relevant by aligning with the latest global trends, which will in turn give us a competitive edge.

In the year under review, we accelerated our efforts towards diversity and inclusion by focusing on two strategic dimensions: gender and disability.

To support women in the organization to perform optimally, we have started Safaricom Women in Leadership programme. This aims to consolidate the various internal and external initiatives in place which include Mentorship and Coaching programmes, Women in Technology and Women Doing Business with Safaricom.

These are some of our initiatives that are geared towards creating a solid platform where issues can be raised, articulated and discussed in a bid to optimise the potential of our employees.

Gender ratios in the organisation



> **The continuous development of our employees remains a cornerstone of our company's growth**
>
> **In the year under review, we decided to accelerate efforts towards D&I by focusing on two strategic dimensions: Gender & disability.**

Supporting people living with disability

Currently, approximately 1.4% of our workforce are people living with disabilities and we are working towards closing the year at 2%. We have embarked on a programme to bring on board 20 visually impaired people as we work towards achieving a target of 5% by 2020.

Communication is an integral part of our ecosystem and therefore we have continued to explore various engagement channels to ensure we are relevant to all our stakeholders. All our key company events have sign language interpretation. In addition, we have trained more than 350 people in sign language across the company.

1.4%

Percentage of our workforce living with disabilities. We are working towards closing the year at 2%.

WHERE WILL WE
GO NEXT?

Our Social Impact

Partnering with Communities

Today, more than one million customers can now access healthcare services through M-Tiba at more than 350 clinics and hospitals

Our Foundations

Since its inception in 2003, the Safaricom Foundation has contributed to the improvement of health, education, economic empowerment, water, environmental conservation, disaster relief, arts and culture projects.

Over the past year, the Safaricom Foundation has invested in more than 120 projects that aim to impact Kenyan lives beyond the network, through different projects spread across the 47 counties. These projects impacted 752,066 people directly and 3,760,330 indirectly.

On the other hand, the M-PESA Foundation was created to shift the focus from investing in several, distinct and small scale projects as is typical with CSI (Corporate Social Investment) to a model that embraces the idea of large scale, transformative projects. This vision is brought to life at the M-PESA Foundation Academy in Thika, where 290 children – six from each county – are receiving world class, technology-oriented learning in one of Africa's premier schools.

The M-PESA Foundation has also implemented programmes in different parts of the country. These include the Kinango Integrated Disaster and Livelihood programme in Kwale County which has impacted over 17,000 people by providing them with a dam that has vastly improved their livelihoods.

Through the Uzazi Salama project in Samburu on maternal and newborn health, we have given over 224,000 mothers, 350 health workers and 500 community health workers access to critical health information, facilities and resources.

The pioneering Mau Eburu project hopes to restore one of the country's green lungs through a community driven initiative in the Mau Forest ecosystem.

Through a partnership with PharmAccess and Carepay, we have created a world-first in M-Tiba, which is a mobile-based health savings product. Today, more than one million customers can now access healthcare services through M-Tiba at more than 350 clinics and hospitals that have been quality assured for service delivery.

17,000+

Number of people impacted by the Kinango Integrated Disaster and Livelihood programme in Kwale

224,000+

Number of people impacted by the Uzazi Salama project on maternal and newborn health in Samburu

Mobilising Health for Good

Good health and development go hand in hand. This is one of the reasons why Safaricom Foundation conducts monthly medical camps around the country.

Through these camps, medical practitioners raise awareness of the various medical issues affecting communities. The camps also help link communities to health care providers.

During the year, the Foundation conducted 11 medical camps, with three targeted at children. These were held in Makueni, Kiambu, Taita Taveta, Kilifi , Murang'a, Nakuru, Kakamega, and Uasin Gishu Counties.

We reached 20,422 people through the medical camps. Corrective surgery was performed on 107 people who were totally blind while 349 who were suffering from partial blindness were successfully operated on.

20,422

Number of people reached through the medical camps

Through the medical camps, the Foundation was able to reach at least 300,000 people with health messages.

Other services offered included screening and referrals for cancer and other non- communicable diseases.

The children's camps focused on paediatric diabetes, aiming to test and advise on treatment as well as raise awareness. Parents, guardians and teachers also got information and skills in diabetes self-management.

Through the medical camps, the Foundation was able to reach at least 300,000 people with health messages.

The end result has been taking much needed health services to the people, especially those who do not have access to public facilities and improvement in the health centres that caters to thousands.

Nurturing Thinkers. Doers. Leaders

The M-PESA Foundation Academy is a one of a kind institution that provides first-class education to gifted but economically challenged children from all over Kenya.

The school opened its doors in 2016 to 96 students and in 2017 the institution admitted 194 students in its second intake.

Driven by an emphasis on leadership, entrepreneurship, technology and innovation, the academy empowers students with demonstrated potential.

The school focuses on moulding future leaders and entrepreneurs by incorporating the core values of Curiosity, Leadership, Accountability, Innovation, Responsible Citizenship and Excellence (CLAIRE) into every sphere of learning.

Smart Learning

The academy applies a mix of innovative approaches such as collaborative learning, self-directed learning and experiential learning to ensure that students not only excel in academics but also develop relevant life skills.

As part of the day-to-day syllabus, students at the Academy use an integrated, technology-driven solution that provides content on the students iPad and connects the classroom through a Learning Management System.

Students also take part in several indoor and outdoor co-curricular activities, entrepreneurship, STEM and leadership activities.

The institution has also set up a farm that supplements all of the food requirements for the school and allows students to practically learn how to manage an agricultural project.

297

Number of students at M-PESA Foundation Academy.

"The school focuses on moulding future leaders and entrepreneurs by incorporating the core values of Curiosity, Leadership, Accountability, Innovation, Responsible Citizenship and Excellence into every sphere of learning.

Transforming Refugees Lives, One Meal at a Time

It's well known that M-PESA has tripled financial access levels in the country from 20% ten years ago to over 70% presently.

Voice and data are not the only services that can empower our community, we are also learning that M-PESA is much more than a money transfer service.

In the camps of Kakuma and Daadab, M-PESA is restoring dignity to thousands of refugees.

Through a partnership with the World Food Programme, we are leveraging M-PESA to help more refugees access food, through a product known as "Bamba chakula."

M-PESA has enabled us to digitise food delivery for over 100,000 households at the camps.

It has eliminated chances of corruption, and reduced the cost of distributing relief aid, created employment and business opportunities for people in refugee camps.

For these refugees, M-PESA is more than a mobile money service; it is the only way they can avoid having to endure the indignity of queuing for food rations.

100,000

Number of refugee households that are now getting food under the Chakula Bamba chakula programme

This initiative has shown us that our business can help bridge critical gaps for our society.

One of the biggest challenges of the business today is how to create sustainable growth and at the same time leave no Kenyan behind in our growth story.

The benefits of 'Bamba Chakula' are four-fold, removing the opportunity for corruption by eliminating middle-men, reducing the cost of distributing relief aid, creating employment and business opportunities for people in refugee camps, and giving refugees the opportunity to choose what they prefer to eat within their circumstances instead of lining up for food rations.

Technology for Development

We believe our technology gives us the power to drive positive change and touch lives in many areas of society. This is in addition to what we are already making possible through our traditional telco operations. To create even more impact on society we have embedded Sustainable Development Goals into our corporate strategy. Here are a few examples of how we are using technology to promote social development.

> **Every day, a life is transformed by the ubiquity of the mobile phone. And the mobile phone will be the tool that defines Africa's future. This is why at Safaricom, we have made a strategic decision to place purpose before profit. Our purpose is to transform lives, and we truly believe that when we work for our customers, great achievements can be unlocked. This is part of the reason why we were inspired to embed the SDGs directly into our business strategy. We are currently the only Kenyan company to have done so. We have embedded nine of the SDGs into our day-to-day operations to guide us towards becoming a more responsible business. These goals are a daily reminder that we cannot grow alone and that we exist to create growth for everyone to benefit, not just the privileged few. We have committed to leave no one behind.**
>
> — Bob Collymore, CEO, Safaricom

4 QUALITY EDUCATION

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

Eneza

Many children in Kenya lack access to relevant learning materials which can affect performance in school.

Eneza leverages simple SMS and USSD technology to provide primary and secondary school students with learning content developed by teachers for revision purposes.

The platform, which has almost two million active users, offers learners unlimited lessons and assessments at Shs10 per week.

Shs10

Amount that users pay per week to access lessons

Instant Network Schools

Through a partnership between Safaricom, the Vodafone Foundation, Huawei and United Nations High Commissioner for Refugees the Instant Network Schools uses virtual teaching to deliver digital educational content.

Over 42,000 students and 600 teachers benefit from Instant Network Schools every month.

M-Tiba

Two out of every five Kenyans who need healthcare services do not seek treatment because they lack money.

This is a heavy burden to many families as illness not only affects the person who is sick, but weighs down the entire family.

Today, more than one million customers can access healthcare services through the mobile health savings product M-TIBA, redeeming their saving at more than 350 clinics and hospitals.

Fertiliser e-subsidy

2 ZERO HUNGER

The fertiliser e-subsidy programme is designed to enable the government to plan for future requirements for fertiliser.

Through an innovative electronic voucher solution, farmers can request, redeem and reconcile vouchers via the mobile phone and pay for the fertiliser by M-PESA.

So far, we have 21,000 farmers registered in three counties on the system, with 30,000 bags of fertiliser having been redeemed to date.

Incubating Lasting Partnerships

The Safaricom Spark Venture Fund was started to help tech startups develop their businesses. The Fund seeks to develop techpreneurs by offering them access to funds, mentorship and resources to expand their businesses.
The Fund has invested in six Kenya-based startups in agriculture, education, logistics and E-Commerce.

Sendy

1 Founded by Meshack Alloys, Malaika Judd, Evanson Biwott and Dan Okoth, Sendy seeks to make delivery simple, fast and transparent.

The logistics firm has a population coverage of over 6 million Kenyans having launched so far in Nairobi, Kisumu, Mombasa, Thika and have cracked the essence of the fast growing e-commerce segment by doing last mile delivery for consumer (home) and enterprise (office) deliveries using motorcycles, pickups, vans and 3-ton trucks.

mSurvey

2 Founded by Kenfield Griffith and Louis Majanja, mSurvey provides a platform for conducting mobile based surveys and seeks to simplify access to credible, on-demand, real-time customer data to their clients.

Over 17 million unique consumers have interacted with the platform to-date.
The mSurvey platorm is used regionally for first hand customer intimacy surveys by Pan-African banks, hospitals, energy companies and others.

Safaricom has also partnered with mSurvey to offer Net Promoter Score to Lipa Na M-Pesa merchants.

eneza education
spreading education everywhere

3 Eneza was founded in 2012 by Kago Kagichiri and Toni Maraviglia to provide affordable education to primary school pupils through the mobile phone. Through the platform, the learners can access exams, lessons, textbooks and even ask questions to teachers. There are approximately 2 million users on the Eneza platform. Some 4.6 million questions have been taken on the platform to-date.

Lynk

4 Founded by Adam Grunewaldand and Johannes Degn, who saw an opportunity to link their customers with professionals in various fields, such as farmhands, house helps, waiters, chefs or carpenters.

Lynk enjoy great success with over 90% of their customers coming back for new services. The company leverages on data analytics to determine customer needs and develop relevant offerings.

4.6m

Some 4.6 million questions have been taken on the Eneza platform to-date.

30,000

Number of farmers on the IProcure platform

FarmDrive

5 This is the brainchild of Peris Bosire and Rita Kimani and offers an alternative credit scoring for small scale farmers to financial Institutions. Agriculture is the largest economic activity in Sub Saharan Africa where over 65% of the working population is employed.

They are demystifying and lowering the risk of lending by providing a model that helps small-scale farmers get access to financial services.

FarmDrive has won several awards including the inaugural Roddenberry Prize and Digital Africa Startup challenge sponsored by the French Development Agency

iProcure
FARM SUPPLY INNOVATION

6 Founded by Stefano Carcoforo and Nicole Galeta, iProcure serves more than 30,000 farmers in Kenya through co-operatives.

Using Data Analytics and Machine Learning, iProcure is able to get quality farm input to farmers at prices that are 15-30% lower than market tariffs.

The start-up has opened depots in Engineer, Bomet, Njabini and Kapsabet and hopes to open 20 more by the end of this year in Central, North Rift and Western Kenya.

WHERE WILL WE
GO NEXT?

Our Brand Assets

Safaricom in Music and Sports

We are passionate about music and sports as demonstrated by our support for various initiatives we are involved in across the country.

Music

Bringing global artists to the Nairobi Stage

Now in its 4th Year the Safaricom International Jazz Festival is the biggest jazz event in East and Central Africa. The Safaricom Jazz stage has been able to host several influential performers from across the world but most of all give Kenyans the chance to experience transformative music.

This platform has seen the growth of jazz culture in Kenya and the key highlight this year was the addition of the Jazz Week, broadening our reach and allowing us to connect with a diverse audience. Through the Schools Show we had over 2,000 students aged between 8 -16 years; and the main festival had over 7,000 people attend.

The key goal of the Festival is to transform the lives of children through music. To date we have raised over Shs28 million that has been used to support the Ghetto Classics, a non-profit music programme that seeks to provide opportunity for underprivileged children to explore their musical talent. We have engaged over 900 children in Nairobi aged between 9-18 years who receive mentorship and training from a team of professional music tutors every week. Key focus for 2017/18 is expanding the music programme to Mombasa where we are training over 300 children in 4 schools.

Nuturing musical talent the orchestra way

The Safaricom Youth Orchestra (SYO) started in April 2014 and continues to transform the lives of children- most of whom have been able to build their talent and create an opportunity to enhance their lives.

Under the guidance of talented volunteer tutors the orchestra members receive individual and sectional lessons while also participating in full orchestra ensemble work every Saturday for approximately 40 weeks a year.

Empowering Kenyan Gospel Industry

Groove with Safaricom is a modern youthful hip gospel music property that attracts Kenya's most celebrated and influential gospel musicians and seeks to celebrate and grow gospel talent in the country whilst at the same time allowing us to engage with our customers through SKIZA.

Sports

Safaricom's footprint in sports sponsorship in the country is expansive and includes Safaricom Marathon, Safaricom Athletics Series, Chapa Dimba na Safaricom (football) and Safaricom Rugby Sevens. We have had a long standing tradition of sponsoring major sporting events in the country including the Sportsman of the Year Awards (SOYA) that honours excellence in athletics.

Talent spotting

The Safaricom Athletics Series is an umbrella property that has merged different races across the country with the aim of transforming lives of athletes. Each year Safaricom sponsors various athletics events at which many young men and women have been discovered and have risen to become celebrated athletic stars.

Our key highlights of the year, was supporting over 3,000 athletes through six track & field and ten long distance races to the tune of Shs80 million – this included marathons, half marathons, road races and cross country as well as special needs categories including Henry Wanyoike Hope for the Future and Deaf Athletics Association of Kenya (DAAK) as well as the Para-Olympic Team. These races enabled us to engage with over 30,000 people in the community.

This year our focus will be to broaden our reach with emphasis on the long long distance races that are more popular.

Running for a good cause

The Safaricom Marathon is one of the flagship brand assets which was conceptualized around a campfire in 2000. It has so far raised over Shs420 million and gained a reputation as one of the toughest marathons in the world with a total of 1,400 runners from all over the globe participating each year. The Safaricom Marathon has played a significant role in transforming lives and the impact continues to grow with fewer wildlife being lost to poaching to communities benefiting from the various initiatives that the marathon supports.

Making a difference in communities we serve

As part of our strategy to broaden our reach to our diverse customers through sports, this year we will be supporting the East Africa Safari Classic Rally which is one of the worlds toughest rallies. It covers over 4,000km across Kenya and Tanzania and as fans come to experience the adventure of the rally they will get a chance to experience the beauty of our country and the breadth of Safaricom's network coverage and fast internet speeds as they follow the action.

1,400 runners from all over the world participate each year in the Safaricom Lewa Marathon.

Football is one of the most unifying tool in world and we are glad to be back in the game through our new brand asset Chapa Dimba Na Safaricom. This platform will give young people across the country, the opportunity to grow and exhibit their talent and in partnership with Football Kenya Federation (FKF) we seek to produce the next biggest Kenyan Football Stars.


DEDICATED
16
15
UNSHAKEABLE
Safaricom
SIDE-STEP
KENYA EEEH!
HOME OF HEROES

The M-PESA story

2 million

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

5 million

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

1 million

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

3 million

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

10 million

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

M-PESA is born - March 6, 2007

Send...

True Value Report

A report prepared by KPMG, which studied the impact of M-PESA, found that the social value generated by the service grew from Shs83 million to Shs185 billion over the past 10 years.

Shs 18

14 million

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

15 million

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

22 million

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

M-Shwari

21 million

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

23 million

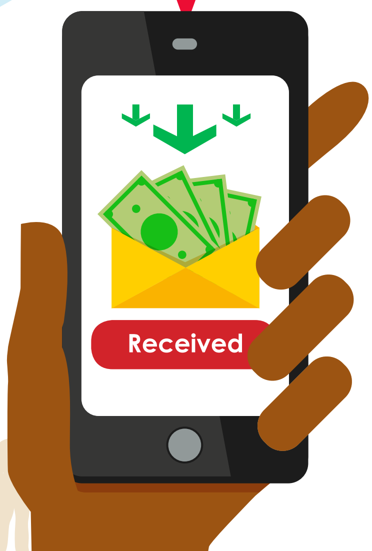
On December 22, 2015 M-PESA launched the M-Tiba
The mobile-centric platform approach that sought to provide better co-ordination of healthcare services between patients and providers. There were about 23 million active M-PESA customers.

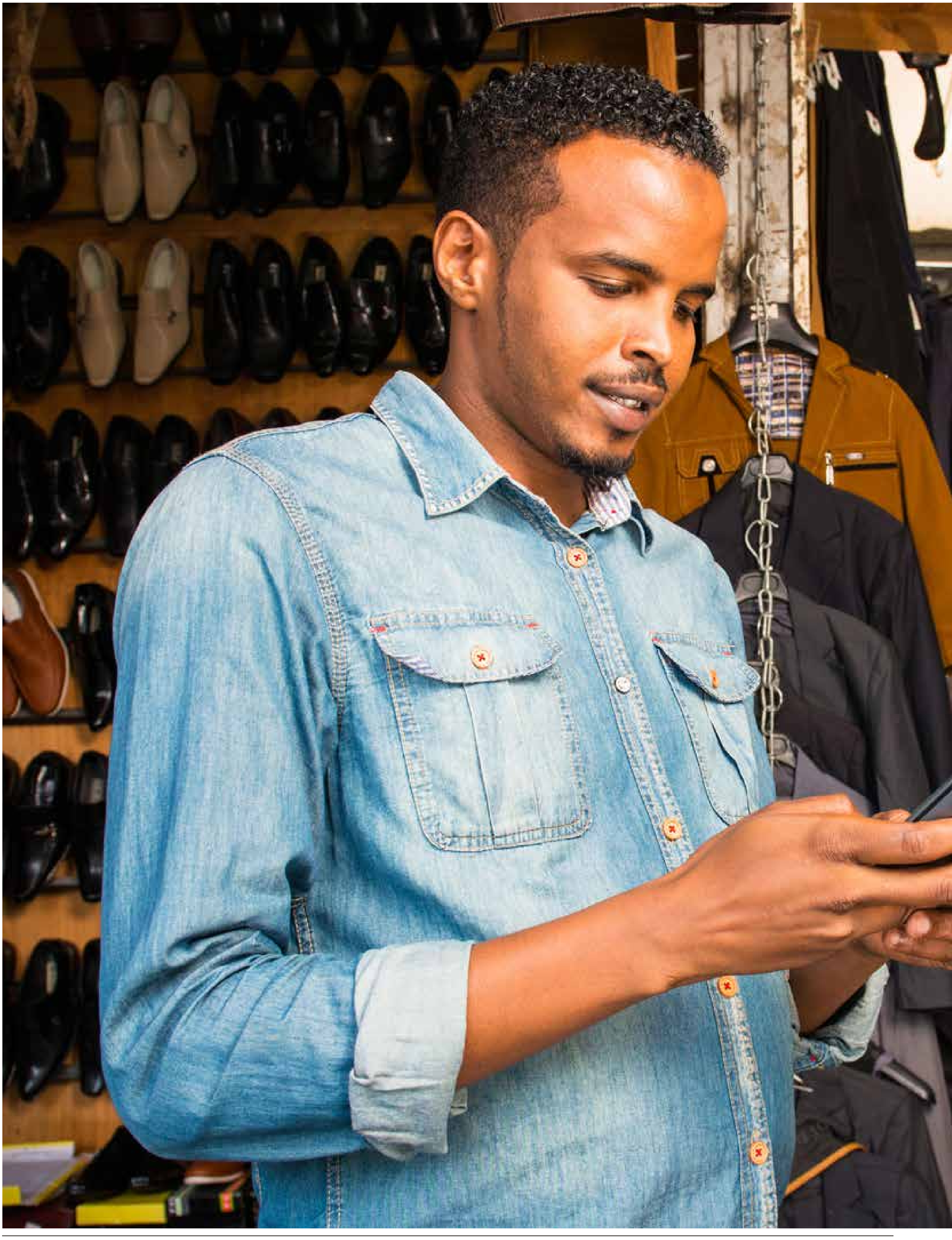
On the July 1, 2015, Realtime Settlements (RTS) was launched.
This platform allowed businesses that use Lipa na M-PESA to transfer funds from their Lipa na M-PESA accounts to their bank accounts.

27 million

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

35 billion





WHERE WILL WE
GO NEXT?

Our Technology

WHERE WILL WE **GO NEXT?**

Our Technology

Investing in the Network of the Future

Today, 95% of Kenyans have access to a mobile phone.

For many, a mobile phone is the only device they will use to access essential services such as health, education or financial products.

This is part of the reason why year on year, the contribution of the telecommunications sector continues to grow.

Currently, the mobile industry contributes about 8% of Kenya's GDP. These statistics demonstrate why we see our network as being complementary to the country's economic growth.

Our focus remains on ensuring that this economic progress is delivered to all Kenyans in a responsible manner – regardless of their gender, physical ability, age or socio-economic ability.

Our core business objective remains to deliver first-class connectivity for voice, SMS, data, M-PESA and deepen enterprise use of technology.

But the way in which our customers access the network is changing. Every day, demand for more intelligent networks that can manage the shifting mobile landscape increase.

Our customers want to do more with our network, which has prompted us to diversify our investment portfolio. Whereas in the past, our business was dominated by voice and data connectivity, we are now preparing for a future where financial payments, big data and E-Commerce will enhance our offering.

We spent Shs38 billion this year to build the most robust network in the region. There are over 4,600 sites on our network today, covering over 95% of the population.

Kenya's internet was recently ranked the fastest in Africa by Akamai in their State of the Internet report.

We have also started delivering the network of the future through 4G and fibre. Over 1,100 4G stations were rolled out by the end of the financial year, marking it the most rapid rollout of base stations in the company's history.

The sustained investment in our network is yielding benefits for our customers. Kenya's internet was recently ranked the fastest in Africa by Akamai in their State of the Internet report. The report notes that this is due to heavy network investment.

P3, an independent analyst, has found that our network is ranked the best when compared to other networks in Ghana, South Africa and Egypt.

Their tests covered all cities, key towns and major highways in Kenya, and we achieved an overall score of 733 out of 1,000, which is a 38% improvement from the previous years performance.

We are dedicated to ensure no one is left behind on this journey of digital transformation. As such, we will continue investing in building the network of the future.

How Safaricom is Powering Women in Technology

From the classroom to the boardroom Safaricom believes in promoting technology among learners.

Safaricom's Women in Technology (WIT) have partnered with Technovation to sponsor a 12-week app development and mentorship program aimed at cultivating interest in Science, Technology and Engineering and Mathematics (STEM) studies.

"We at Safaricom are passionate about this initiative because we've seen the mobile phone has the ability to transform lives in ways no other technology can, and would love to play a key role in nurturing the next generation of home-grown innovators who will have a direct impact in the society we operate," said Safaricom CEO Bob Collymore.

Last year, Safaricom engineers Anne Cheboi and Jematia Bett mentored girls from several schools under this program. Among them were girls from Precious Blood Riruta who were supported to develop the M-Safiri App which targets to ease the process of booking and paying for public transport. The App emerged second in the Technovation Challenge 2016 held in San Francisco, US.

We expect that this project will encourage other girls in Kenya and Africa to take part in the Technovation Challenge and encourage them to become inventors, designers, builders and entrepreneurs.

M-Safiri tied in second place with Go Green, an iOS app by a team from the US to minimise food wastage in restaurants. The winning app that clinched the US$100,000 prize, was OOL, developed by a group from Mexico to encourage citizens to volunteer for social work.

Over 700 high school students from more than 22 schools have participated in the program since 2014.

Technovation offers girls around the world the opportunity to learn the skills they need to emerge as tech entrepreneurs and leaders. Every year the girls identify a problem in their community, and are challenged to solve it. Girls work in teams to build both a mobile app and a business plan to launch that app, supported by mentors and guided by a curriculum.

We at Safaricom are passionate about this initiative because we've seen the mobile phone has the ability to transform lives in ways no other technology can, and would love to play a key role in nurturing the next generation of home-grown innovators who will have a direct impact in the society we operate,"

Safaricom CEO Bob Collymore.

Technovation's curriculum takes students through 4 stages of launching a mobile app startup, inspired by the principles of design thinking:

Ideation—Identify a problem in the community

Technology—Develop a mobile app solution

Entrepreneurship—Build a business plan to launch the app

Pitch—Bring the business to market

In August 2017, **Ivy Akinyi, Macrine Akinyi, Cynthia Awuor, Stacy Adhiambo and Purity Christine;** all students of Kisumu Girls High School will be attending the Tecnovation Challenge Finals in San Fransisco, where they will be presenting their app before world leaders and tech investors. They also have the opportunity to win guaranteed prize money of US$ 20,000 to launch their app if they become winners.

Partnering for Success

Safaricom has evolved from just offering traditional connectivity to developing a platform for solutions where customers can benefit from our ecosystem. We are now a partner of choice with a focus on digitising Kenya and preparing the public sector, large enterprises as well as small and medium enterprises for the digital future.

Unlocking Business Potential

With Safaricom Data and CCTV, business owners can now access information from anywhere in the world. This is part of our strategy to integrate and digitise businesses, and in particular SMEs who have in the past been locked out by high costs of installing and maintaining high speed connectivity. Fibre for Business is now available in over 15 towns and has been deployed in over 1,500 buildings across the country.

Additionally, over 4,000 SMEs are already enjoying the benefits of having fast and reliable Internet.

It also provides unlimited bandwidth capabilities. Other than the Internet connectivity, Fibre for Business comes with a free Wi-Fi capable router and the option of a landline telephone service.

The suite of services available also include the Connected Farmer Digital Solution, Easy Bundles and Ready Business.

We carried out a survey covering over 181,000 businesses in 21 counties which shows that lack of capital, cash flow management and inability to market products and services are some of the key challenges faced by small and medium enterprises.

The Ready Business platform bundles together various technology and advisory services to help entrepreneurs tackle some of these challenges.

15

Number of towns where Fibre For Business is available has been deployed

Business Index test taken by 1,200 SMEs places the level of ICT adoption by businesses in the country at a score of 54 out of 100.

The adoption of technology is higher among firms in the IT and communication, import, export sectors and those offering professional services compared to firms in the wholesale, retail, hospitality and agribusiness sectors.

Little Goes a Long Way

A partnership between Safaricom and Craft Silicon led to the creation of Little, an e-hailing app that has now become a leader in the taxi business in Kenya.

Little is a Kenyan innovation that provides an unrivalled experience to customers by giving them more value for their money in providing transport solutions.

By bringing together customers and taxi drivers, the app enables users to enjoy lower rates than if they were to use on-street options. Little is currently one of the most affordable options in the market.

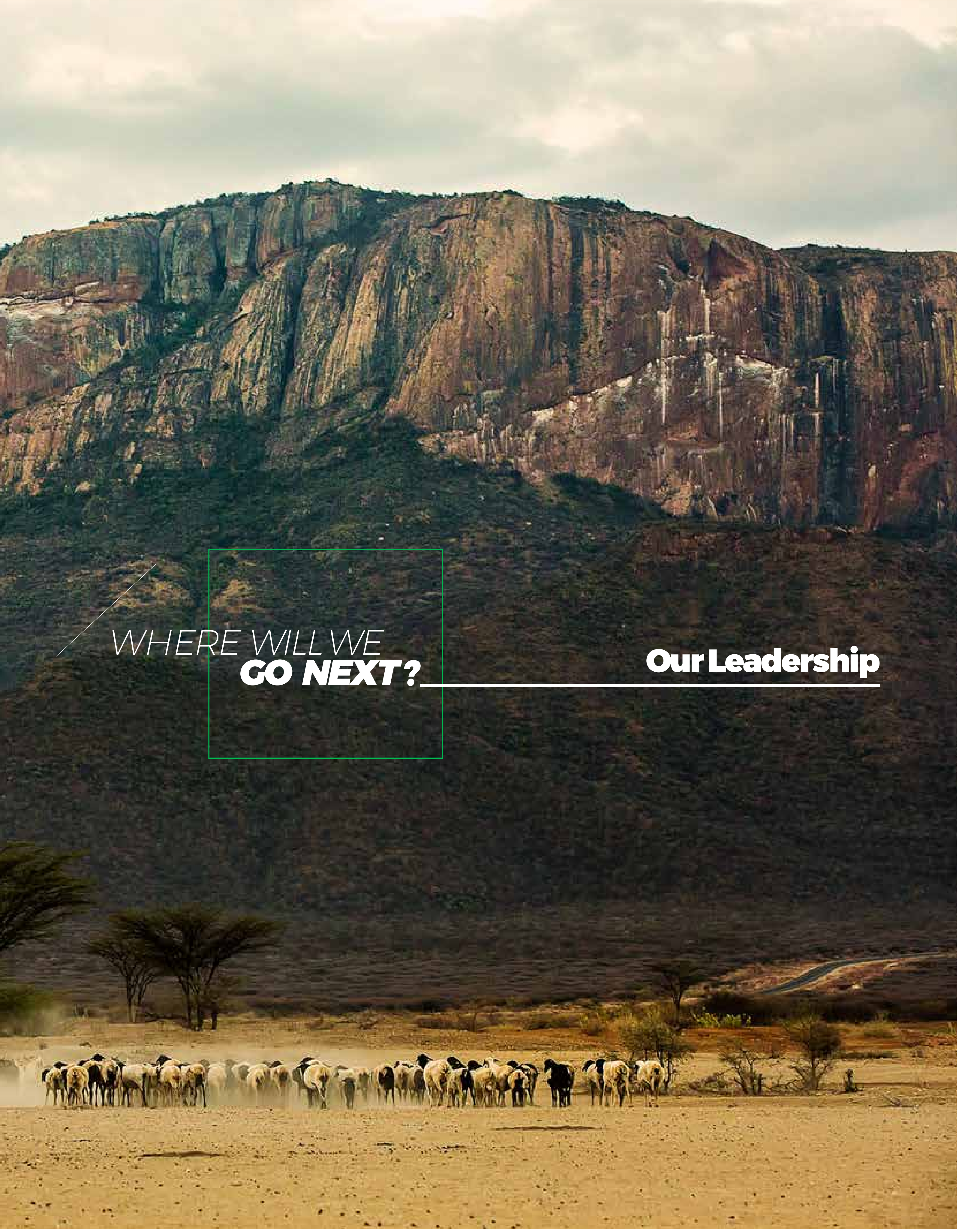
Customers are not the only ones benefiting from Little. Drivers too are getting a piece of the pie, seeing increased usage of their services on the back of the technology platform.

- **Free Wi-Fi – powered by Safaricom**
- **Access via USSD by dialing *826#**
- **Introduced Lady Bug, a first in Kenya and Africa**
- **Real-Time Driver information and live GPS enabled maps**
- **Customers can provide feedback on their ride.**

In the increasingly shrinking space of taxi e-hailing, Little is slowly carving out a niche through a series of innovative features tailored to make the customer's experience exemplary.

One of the key distinguishing features is the provision of free Wi-Fi services in every vehicle.

So far, thousands of Kenyans hail a cab every day using the Little App.



WHERE WILL WE **GO NEXT?**

Our Leadership

WHERE WILL WE **GO NEXT?**

Our Leadership

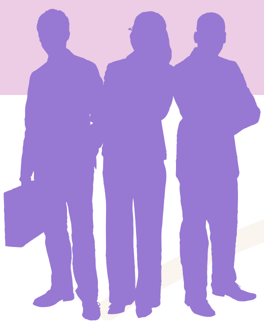
Our Governance Structure

We have a strong and effective governance system. Responsibility for good governance lies with the Board of Directors.

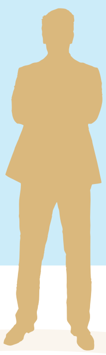
Chairman
Nicholas Nganga
Responsible for leadership of the Board and sets the Board's agenda.

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

Nomination and Remuneration Committee (RemCo)
Mandated with review of the Boards' balance, effectiveness and remuneration of directors and senior management as well as succession planning of the Board and senior leadership.



Chief Executive Officer (CEO)
Bob Collymore
Leads the business and oversees the implementation of strategies and policies approved by the Board. He also chairs the executive committee.



Audit Committee (AuditCo)
Provides effective oversight over the group's financial results; reviews the activity and performance of the internal audit function and external auditor; reviews the integrity, adequacy and effectiveness of the system of internal controls including the risk management framework and related compliance activities.

Board of Directors

Nancy W. Macharia
Non-executive Director and member of AuditCo.

John Otty
Non-executive Director and member of the AuditCo.

Sateesh Kamath
CFO and alternate to Bob Collymore.

Esther Koimett
Alternate to Henry Rotich. Member of both AuditCo and RemCo.

Nicholas Nganga
Chairman and non-executive Director. Chairman of RemCo.

Michael Joseph
Non-executive Director member of RemCo.

Kathryne Maundu
Company secretary.

Gianluca Ventura
Non-executive Director and member of RemCo.

Vivek Bidranath
Non-executive Director.

Bob Collymore
CEO and Executive Director.

Bitange Ndemo
(not in photo)
Non-executive and Independent Director.

Susan Mudhune
Non-executive and Independent Director. Chairperson of AuditCo and member of RemCo.

Senior Leadership Team

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

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

Steve Chege
Director, Corporate Affairs
Steve has a wealth of telecommunications professional experience spanning over 14 years in various organisations, including Vodafone Group UK. He has a deep background in Regulatory, Public Policy, Legal and High-Level Stakeholder Management.

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

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

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

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

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

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

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

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

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

Full profiles of the Senior Leadership team are available on www.safaricom.co.ke

WHERE WILL WE ***GO NEXT?***

Our Corporate Governance Statement

Corporate Governance Statement

Introduction

We remain committed to the highest standards of corporate governance and business ethics.

Good corporate governance practices are essential to the delivery of long term and sustainable stakeholder and shareholder value.

The company continues to adhere to its obligations as a public listed entity in Kenya in compliance with the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, In this regard, the Company undertook a review of its level of compliance as at 31 July 2017, with the provisions of the CMA Code of Corporate Governance for Issuers of Securities to the Public, 2015 and submitted its report to the CMA for review. The company also adheres to other regulations promulgated by the CMA and the Nairobi Securities Exchange and the ethical standards prescribed in the Company Code of Conduct. In addition, Safaricom abides by the tenets of the Constitution of Kenya and all other laws as a law-abiding corporate citizen.

We believe that good corporate governance is critical, not only at the corporate level but also at the national level. We require our partners to adhere to the highest level of integrity and business ethics in their dealings with us or with other entities.

In the financial year under review, we continued to achieve high levels of corporate governance by focusing on the following areas:

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

Board charter

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

- The separation of the roles, functions, responsibilities and powers of the board and its individual members;
- Powers delegated to the board committees;
- Matters reserved for final decision-making and approval by the board;
- Policies and practices of the board on matters of corporate governance, directors' declarations and conflict of interest, conduct of board and board committee meetings; and
- Nomination, appointment, induction, ongoing training and performance evaluation of the board and its committees.

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

Board size, composition and appointments

The constitution of the company's board is stipulated by the company's Articles of Association. It comprises of 10 directors of whom nine are non-executive directors and one is an executive director. Of the nine non-executive directors we now have two independent directors.

The non-executive directors, other than those appointed by Vodafone and the government of Kenya, are subject to retirement by rotation and must seek re-election by shareholders in accordance with the Articles of Association.

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

The role and responsibilities of the board

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

How the board works

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

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

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

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

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

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

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

Overall board meetings: Members' attendance for 2016/17

Board Member	*Position*	*10th May 2016*	*1st Sept 2016*	*3rd Nov 2016*	*2nd Mar 2017*
Nicholas Nganga	Chairman & NED	√	√	√	√
Michael Joseph	NED	√	√	√	√
Nancy Macharia	NED	√	√	√	√
John Otty	NED	√	√	√	√
Susan Mudhune	NED	√	√	√	√
Serpil Timuray	NED	√	√	√	N/A
Gianluca Ventura	NED	√	√	√	√
Esther Koimett	AD	√	√	√	√
Vivek badrinath	NED	N/A	N/A	N/A	√
Bob W Collymore	CEO & ED	√	√	√	√
John Tombleson	CFO & AD	√	N/A	N/A	N/A
Sateesh Kamath	CFO & AD	N/A	√	√	√
Kathryne Maundu	Company Secretary	√	√	√	√
Anne Eriksson	External Auditor	N/A	N/A	√	N/A

Key: ED - Executive Director, NED - Non-Executive Director, AD - Alternate Director

** John Tombleson (CFO) resigned on July 31, 2016 and was replaced by Sateesh Kamath on August 1, 2016*

***Vivek Badrinath joined the Board on January 12, 2017.*

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

The separation of the functions of the chairman (a non-executive director) and the CEO (executive director) supports and ensures the independence of the board and management.

The balance of power, increased accountability, clear definition of responsibilities and improved decision making are attained through a clear distinction between the non-executive and executive roles.

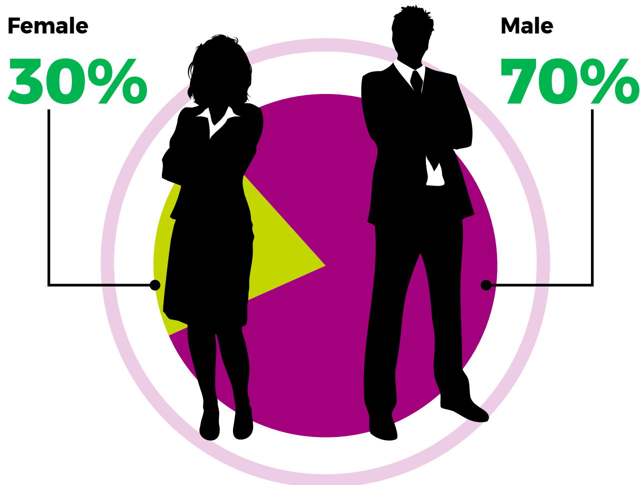
The chairman's responsibilities include the operation, leadership and governance of the board. The chief executive officer's roles and responsibilities remains the day-to-day management of the company's business and overseeing the implementation of strategy and policies approved by the board.

Board diversity

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

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

Board gender representation



Board and directors' effectiveness

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

Board induction and training

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

Access to independent advice

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

Nomination

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

Evaluation

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

Board committees

The board has two standing committees: an Audit Committee and a Nominations and Remuneration Committee. Each committee has formal and approved terms of reference.

The board periodically reviews the terms of reference for each of these committees to ensure they are in line with current legislation and best practice. The committees are provided with all necessary resources to enable them to undertake their duties effectively.

Audit Committee

Membership and functions of the Board Audit Committee

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

Functions of the Audit Committee

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

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

1. Risk management and internal controls

- Review and assess the company's risk management process and the adequacy of the overall control environment;

- Review reports on internal audits conducted from the Director of Internal Audit and ensure appropriate action is taken to address any weaknesses identified;

- Receive reports from the Director of Internal Audit, CFO or Director, Risk Management on any fraud, material or not, that involves management or other employees who have a significant role in the company's internal controls;

- Review results of the company's key controls questionnaire and ensure appropriate action is taken to address any weaknesses identified;

- Monitoring compliance with statutory and listing requirements for any exchange on which the company's shares and debt instruments are quoted.

2. Financial reporting and disclosure matters

- Review the published financial statements and recommend their approval to the board of directors;

- Review and discuss with management and the external auditor any significant events or transactions affecting the company's financial reporting;

- Consider findings from the external and internal auditors on material weaknesses in accounting and financial control systems.

3. External auditor oversight responsibilities

- Review the independence, objectivity and effectiveness of the external auditor including their quality control procedure and steps taken to respond to changes in regulatory and other requirements;

- Review the scope and extent of both audit and non-audit services provided to the company by the external auditors and any associated fees and terms of engagement, including the assessment of the non-impairment of the auditor's judgement and independence;

- Ensure that the external auditor submits a formal written statement delineating all relationships between themselves and the Company;

- Review and discuss with management and auditors the preliminary results, interim information and annual financial statements.

4. Internal audit oversight responsibilities

- Oversee the activity and credentials of the company's internal audit division, including a review of the internal audit charter, code of ethics, plans, resource requirements, staffing and organisational structure;

- Consider the appointment, replacement or dismissal of the director of internal audit and make recommendations to the board;

- Approve the annual audit plan ensuring its consistency with the company business plan;

- Receive reports on the status of significant findings, recommendations and management's responses.

A summary of Audit Committee meeting members' attendance is shown below;

Audit Committee meetings: Members' attendance for 2016/17

Board Member	*Position*	*9th May 2016*	*31st Aug 2016*	*2nd Nov 2016*	*1st Mar 2017*
Susan Mudhune	Chairperson	√	√	√	√
Esther Koimett	Member	√	√	√	√
Nancy W Macharia	Member	√	√	√	√
John Otty	Member	√	√	√	√
Bob W Collymore	CEO & ED	√	√	√	√
Nicholas Mulila	Director, Risk	√	√	√	√
Denish Osodo	Director, Audit	√	√	√	√
Sateesh Kamath	CFO & AD	N/A	√	√	√
John Tombleson	CFO & AD	√	N/A	N/A	N/A
Kathryne Maundu	Company Secretary	√	√	√	√
Anne Eriksson	External Auditor	√	√	√	√

Nominations and Remuneration Committee

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

Membership and functions of the Nominations and Remuneration Committee

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

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

- Monitoring the size and composition of the board and its succession plans;

- Recommending individuals for nominations as members of the board and its committees;

- Reviewing executive appointments, succession and development plans and

- Proposing the remuneration structures of executive and non-executive members of the board.

The summary of the Nominations and Remuneration Committee meetings attendance is shown below;

Nominations and Remuneration Committee meetings: Members' attendance for 2016/17

Board Member	*Position*	*9th May 2016*	*31st Aug 2016*	*2nd Nov 2016*	*1st Mar 2017*
Nicholas Nganga	Chairman	√	√	√	√
Susan Mudhune	Member	√	√	√	√
Esther Koimett	Member	√	√	√	√
Gianluca Ventura	Member	√	√	√	√
Michael Joseph	Member	√	√	√	×
Bob W Collymore	CEO & ED	√	√	√	√
Maria Shipiri	Director, Resources	√	√	√	N/A
Joseph Ogutu	Director (Ag), Resources	N/A	N/A	N/A	√
Kathryne Maundu	Company Secretary	√	√	√	√

Special committees

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

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

Role of the Company Secretary

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

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

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

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

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

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

Directors' shareholding

Directors can purchase or sell shares of the company in the open market. None of the directors as at the end of financial year under review held shares in their individual capacity of more than 1% of the company's total equity. The breakdown of the directors' personal shareholding in the company as at March 31, 2017 is as follows:

Name of Director	*2017*	*2016*	*Change*
Nicholas Nganga	855,100	855,100	-
Robert Collymore	1,518,600	1,222,200	296,400
Michael Joseph	1,178,600	1,178,600	-
Esther Koimett	517,600	517,600	-
Susan Mudhune	51,200	51,200	-
Henry Rotich	2,200	2,200	-
Nancy Macharia	70,000	43,000	27,000
Sateesh Kamath	50,000	N/A	N/A

Board remuneration

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

Details of the fees for the non-executive directors and remuneration of the executive directors paid in the financial year under review are set out on page 131 in note 29 of the financial statements part of the annual report.

Conflict of interest

The directors are obligated to fully disclose to the board any real or potential conflict of interest, which comes to any director's attention, whether direct or indirect.

The statutory duty to avoid situations in which the directors have or may have interests that conflict with those of the company has been observed by the board in the financial year under review.

All business transactions with all parties, directors or their related parties are carried out at arm's length. An acknowledgement that should it come to the attention of a director that a matter concerning the company may result in a conflict of interest, obligates the director to declare the same and exclude himself / herself from any discussion or decision over the matter in question.

Relationship and communication with shareholders

Safaricom remains committed to relating openly with its shareholders by providing regular as well as ad hoc information on operating and financial performance and addressing any areas of concern. This is achieved through the following:

Interim and annual results and publication of extracts of its financial performance in the daily newspapers, preparation of annual audited accounts and holding of the annual general meeting.

Copies of the annual reports are made available to shareholders at least 21 days before the date of the AGM and they are free to raise questions to the board during the meeting.

Safaricom responds to daily queries from shareholders, their representatives and financial analysts through a dedicated investor relations team.

The Safaricom website has a specific webpage dedicated to the information requirements of the shareholders and investment analysts.

Investor briefing sessions are held immediately after the announcement of interim and full year results.

Local and international investor road shows are held after interim and full year results announcements; representatives of the company's senior leadership team in collaboration with known stock brokerage firms organise meetings with institutional investors, individual shareholder groups and financial analysts.

Ethics and code of conduct

Safaricom directors and employees are expected to act with honesty, integrity and fairness in all their dealings with one another and with stakeholders and to respect the diverse cultures of the Kenyan people

Safaricom has a code of conduct that binds both directors and employees. When joining Safaricom, every employee is provided with a copy of the code and must commit to abide by its requirements as part of the employment contract with the company.

Whistle blowing policy

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

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

Corporate Social Responsibility

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

Procurement policies

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

Insider trading policy

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

Going concern

The board confirms that the financial statements are prepared on a going concern basis and is satisfied that the company has adequate resources to continue in business for the foreseeable future.

In making this assessment, the directors consider a wide range of information relating to present and anticipated future conditions, including future projections of profitability, cash flows, capital and other resources.

WHERE WILL WE
GO NEXT?

Our Risk Management

WHERE WILL WE ***GO NEXT?***

Our Risk Management

How we Manage Risk

Risk Management Governance

Safaricom remains committed to robust risk management practices as an integral part of good management.

The Board
It has overall responsibility for the Company's risk management and internal control systems.

The Audit Committee
Reviews Risk Management initiatives including; Company risks and mitigating controls, Safaricom compliance to requisite laws and regulations, and ethical environment.

The Ethics Committee
Leads Ethics and Compliance initiatives and is chaired by the CEO. It plays an oversight role and offers strategic guidance on ethical matters in the business.

The Chief Executive Officer
Responsible for prioritising, aligning and arbitrating on risk management across the company while senior management are responsible for implementing appropriate risk management policies and procedures.

The Risk Management Division
Responsible for coordinating the risk management function in the business and works closely with the Internal Audit Division. The Director, Risk Management is a member of the Ethics Committee and has a dotted reporting line to the Audit Committee.

Our Risk Management Framework

We are guided by the ISO 31000 in our Risk Management Framework. This requires us to continuously review our risk management framework which provides the foundation and organisational arrangements for designing ,implementing, monitoring, reviewing and continually improving risk management throughout the organisation. The key components of the framework are outline below;

Communication and Consultation
We have adopted a continuous and iterative process to provide, share and obtain information with / from our stakeholders which aid in the improvement of our overall Risk Management.

Establishing the context
We begin by defining the external and internal parameters to be taken into account when managing risk and setting the scope and risk criteria for the risk management policy.

Our external context
Includes our external stakeholders, local, national, and international environment, and other external factors that influence our objectives.

Our internal context
Includes our internal stakeholders, our approach to governance, our contractual relationships, and our capabilities, culture, and standards.

Risk Assessment
Risk assessments are conducted twice a year, in conjunction with the business units and other stakeholders. The assessments identify various risks, their probability of occurrence, potential impact and the adequacy of controls that are in place to manage them.

Risk Treatment
We select and implement one or more treatment options: Avoid, Reduce, Transfer, Retain. For example, to reduce ethics risks we have implemented the following initiatives; a code of ethics supported by detailed policies, ethics awareness for both staff and business partners, a whistle blowing platform, investigation of ethical breaches and taking corrective action including tightening controls and disciplinary action against offenders.

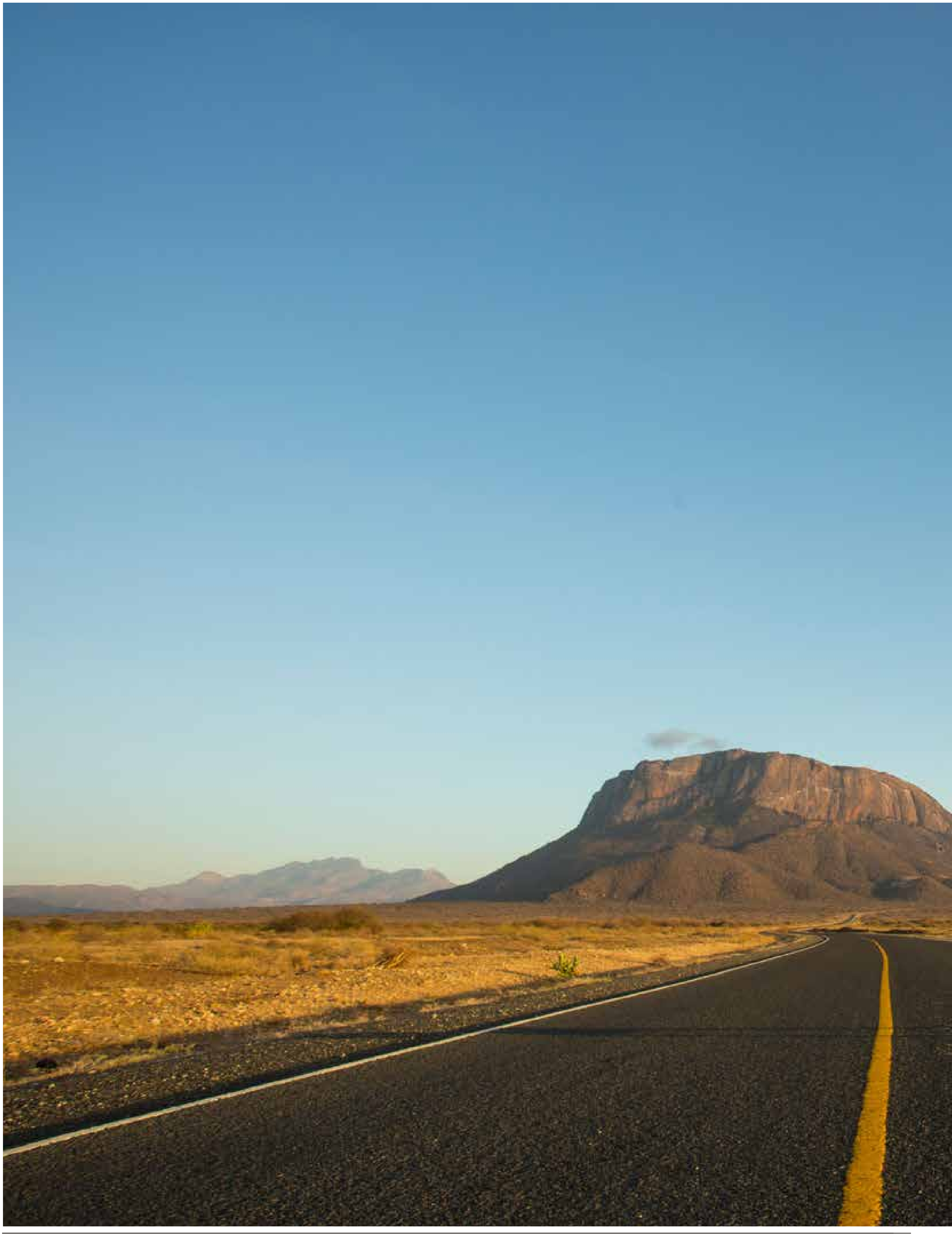
Monitoring and Review
We continually check, supervise, critically observe and determine performance levels while reviewing the suitability, adequacy and effectiveness of our risk management process and recommend improvements thereof.

Our Principal Risks and what we are doing about them

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

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

Strategic risks	
Regulatory environment The regulatory environment that Safaricom operates in is complex and remains a key area of focus. The dominance debate continues to receive a lot of attention and we are closely monitoring developments. The nature of the products and services that we provide requires we comply with a wide range of rules and laws from our key regulators, namely the Communications Authority, the Competition Authority of Kenya and the Central Bank of Kenya.	**Mitigation** We continue to build constructive relationships with the regulators and other stakeholders as well as contribute to discussions on emerging legislation and regulations as we prepare to comply with the same. Our products and services are carefully and continuously monitored to ensure they do not contravene competition/ dominance and other regulations.
Economic growth prospects Kenya from time to time experiences challenges related to changes in currency exchange rates, inflation and interest rates. The 2017 general election is also likely to cause uncertainty among investors who may shy away from local investment opportunities.	**Mitigation** We continue to proactively monitor these factors, implement measures to mitigate the effects and cushion the business from adverse effects.
Competition The industry has become increasingly competitive in terms of product and service offerings such as: Over-The-Top (OTT) players offering voice calls through the Internet such as WhatsApp and rollout of digital and mobile payments platforms such as PesaLink that offer near real-time transfer of funds. Other competitive threats are from Mobile Virtual Network Operators offering mobile money services off the network and local fibre operators offering home Internet and entertainment such as television on demand.	**Mitigation** We focus on growing and retaining our customers by offering quality services and leveraging strategic partnerships with different players to ensure we provide our customers with relevant products and services.
Operational risks	
Security Sporadic terrorist activity in parts of the country remains the key security concern. This impacts negatively on the economy and introduces shifting of priorities with greater spending on security.	**Mitigation** We have invested in the appropriate systems and infrastructure to ensure our staff, contractors and assets are protected and we continue to work closely with law enforcement authorities to ensure our customers' interests are well protected. In addition, we carry out proactive intelligence gathering, screening and security surveillance to enhance our preparedness. We continue to invest in security training and awareness as well as maintenance and improvement of our security infrastructure and tools.
Information and cyber threats An external cyber-attack, insider threat or supplier breach (malicious or accidental) could result in service interruption and/or the breach of confidential data, with resulting negative impact on customers, revenues and reputation, and potential costs associated with fraud and/or extortion.	**Mitigation** Safaricom has enhanced its capacity to handle cybercrime incidents and technology related crime. Of particular note are robust cyber security controls complemented by the 24/7 Security Operations Centre to ensure we safeguard the services that we offer. Our ISO 27001 Information Security Certification is an independent confirmation to our customers that we have implemented appropriate processes and controls relating to our M-PESA, billing, mobile data, customer support and cloud services to protect the privacy of their information.




WHERE WILL WE
GO NEXT?
Our Financial Review

Our Financial Review

Profit

Revenue

Operating profit

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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.

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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.

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- 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.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi
9 May 2017

		Year ended March 31	
	Notes	***2017***	***2016***
		Shs'000	***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*
Equity attributable to owners		*Shs'000*	*Shs'000*
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

		At March 31	
	Notes	**2017**	**2016**
Equity		***Shs'000***	***Shs'000***
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

		Year ended March 31	
	Notes	2017	2016
		Shs'000	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.

i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing April 1, 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 others site rentals. Site rental revenue is billed monthly and is based on the number of sites and equipment hosted per site.

(f) Property, plant and equipment

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

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

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

Network infrastructure	3 - 10 years
Equipment and motor vehicles	3 - 5 years
Fibre	25 years
Leasehold improvements,	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) license;
- Applications Services Provider (ASP) licence;
- Content Service Provider (CSP) licence;
- International Gateway Systems and service (IGSS) licence;
- Spectrum licence 2G (900, 1800 MHz) license;
- Spectrum licence 3G (2100 MHz) license; and
- Spectrum licence 4G (800 MHz LTE) license.

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 Instaconnect 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 a classified as current assets. If not, they are presented as non-current assets.

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

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	***2016***	***2017***	***2016***
	Shs'000	***Shs'000***	***Shs'000***	***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*
At March 31, 2017:	***Shs'000***	***Shs'000***	***Shs'000***	***Shs'000***
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)

(b) Company	*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	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	2016	2017	2016
	Shs'000	Shs'000	Shs'000	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		
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
The following items are included within employee benefits expense:	Shs'000	Shs'000
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	Ordinary shares	Share premium	Total
	(Thousands)	Shs'000	Shs'000	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	March 31
	2017	2016
	Shs'000	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:

	Group and Company	
	March 31 2017 Shs'000	March 31 2016 Shs'000
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:

	Group	
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 (SOCI) are attributable to the following items:

		Charged/ (credited) to SOCI	
	1.4.2016		**31.3.2017**
Year ended March 31, 2017	**Shs'000**	**Shs'000**	**Shs'000**
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)

		Charged/ (credited) to SOCI	
	1.4.2015		**31.3.2016**
Year ended March 31, 2016	**Shs'000**	**Shs'000**	**Shs'000**
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:

	March 31	March 31
	2017	**2016**
	Shs'000	**Shs'000**
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*
Year ended* March 31, *2016	*Shs'000*	*Shs'000*	*Shs'000*
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:

			Company	
	Year end	***% Interest Held***	***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 31`

	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	2016	2017	2016
	Shs'000	Shs'000	Shs'000	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	2016	2017	2016
	Shs'000	Shs'000	Shs'000	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:

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	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

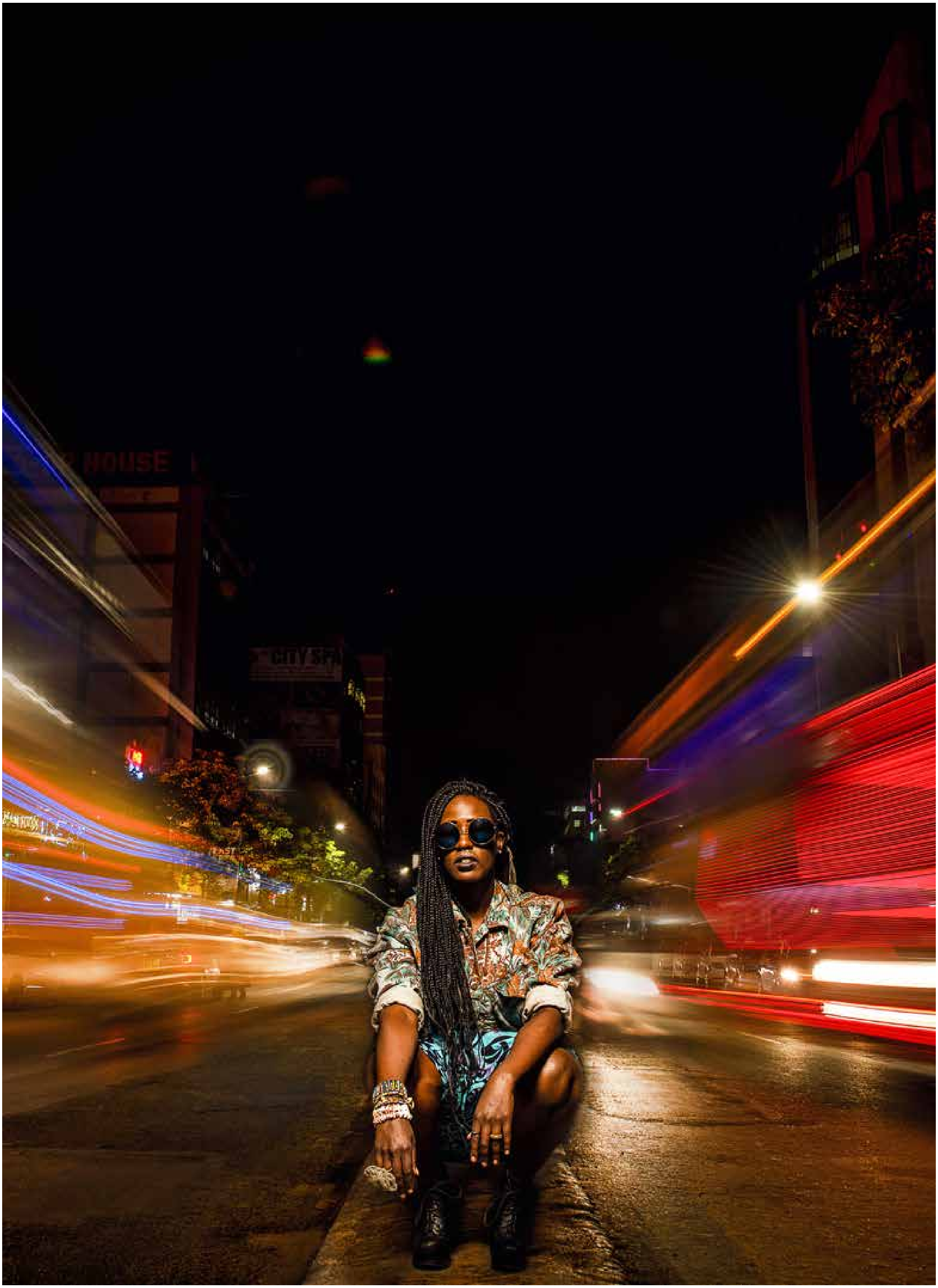
The 10 largest shareholdings in the Company (ordinary shares only) and the respective number of shares held as at March 31, 2017 are as follows:

Name of shareholder

	Name of shareholder	*Number of shares*
1	VODAFONE KENYA LIMITED	16,000,000,000
2	CABINET SECRETARY TO THE TREASURY	14,022,572,580
3	STANDARD CHARTERED NOMINEES NON-RESD. A/C 9069	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-RESD. A/C 9866	109,866,999
11	OTHERS	8,058,650,453
	Total	40,065,428,000

Distribution of shareholders

	Number of shareholders	*Number of shares*	*% Shareholding*
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%


HOUSE

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 <u>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."</u>

   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 <u>and shall include independent non-executive directors who shall be of Kenyan citizenship."</u>

   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 Kathryne 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.

Notes