



INNOVATION

As a technology-based company, if we are not constantly innovating, we are, effectively, stagnating and losing ground. Many of our customers are quick to embrace new developments, becoming ever more sophisticated and demanding, and each generation expects to accomplish more. If we do not keep up with customer sophistication, we run the risk of losing market share and revenue. As a result, innovation is central to achieving our strategic objectives, retaining our competitive edge and ensuring that we continue to grow. Innovation allows us to transform the lives of all types of customers, nonetheless, by developing tailored and transformational products and services to meet all kinds of needs.

OUR FOUR DIFFERENT TYPES OF INNOVATION



SOCIAL

Improving the lives of Kenyans directly (health, education, agriculture, disaster response)



FINANCIAL INCLUSION

Actively participating in improving financial inclusion and growing the wealth of Kenyans (providing formal financial services to the unbanked)



YOLO

(Youthful, Original, Local, Outstanding)
Servicing the specific demands of the growing youth sector (18-24 year olds, 60% of the population)



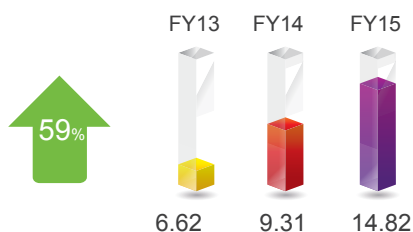
NEW PRODUCTS AND SERVICES

Developing transformational products and services relevant to different customer segments

PERFORMANCE HIGHLIGHTS

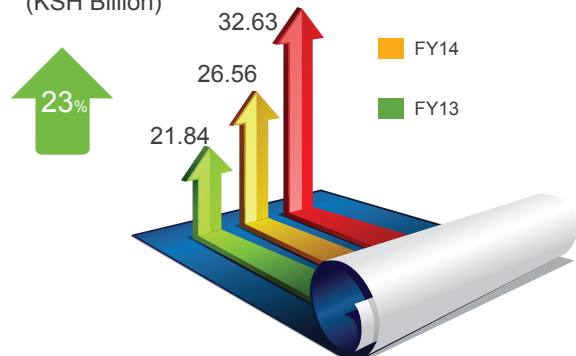
Mobile Data Revenue

(KSH Billion)



M-PESA Revenue

(KSH Billion)



			FY15	FY14	FY13
Net Promoter Score *					
Consumer- Overall	▲ 15%		53	46	45
Youth	▲ 30%		57	44	43
Brand Equity†					
Overall	▲ 1%		86	85	84
Youth	▼ 7%		79	85	82

* Assessment of customer satisfaction. Research performed by TNS.

† Assessment of the physical presence or 'visibility' of our brand. Research performed by Millward Brown.

MANAGEMENT APPROACH

We consider innovation to be an essential part of our business and fundamental to our continued success and sustainability. Our Innovation Department is tasked with cultivating our pipeline of new ideas and bringing these to fruition, and with embedding a culture of innovation throughout the organisation through our 'four lenses' training programme.

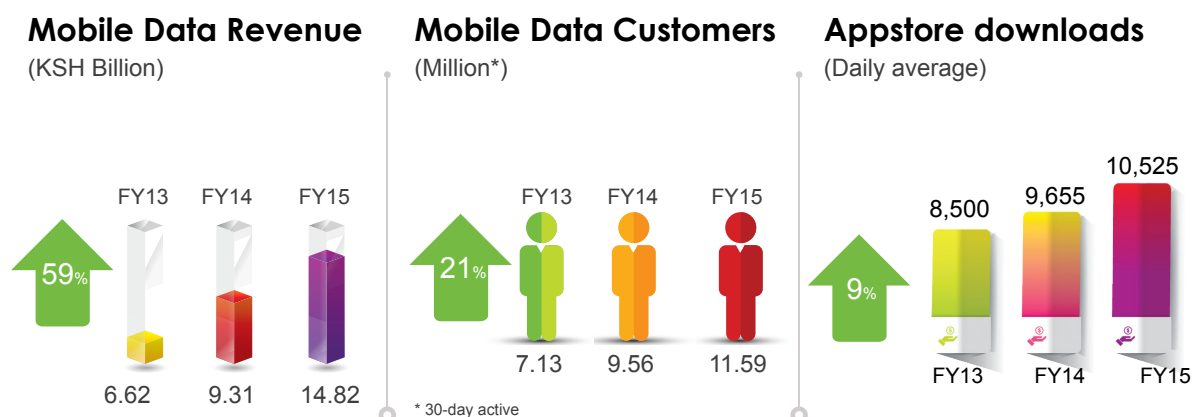
Our approach to managing this material matter is guided by our Innovation Policy, which has been approved by the Safaricom CEO and Executive Committee and is available on the company intranet. A reflection of the importance with which we view continuous innovation, our Policy outlines our three focus areas (core, transformational and emerging business) and our development procedures (the gate process).

Our response to this multi-dimensional material matter is primarily managed through four sets of indicators. The

first set is mobile data usage and growth, which provides us with insight into how well our data-related product and service innovations are being adopted and used. As our M-PESA platform is the main way we drive financial inclusion, we use M-PESA usage and revenue indicators to help manage this aspect of innovation. Thirdly, we use our NPS and Brand Equity scores to track customer satisfaction with, among other things, our new products and services and, in particular, how well we are servicing the specific demands of the growing youth sector. Lastly, we use numbers of active users/subscribers to manage our social innovations.

The Innovation Department is the central administrative hub for ideas relating to innovation within Safaricom. It co-ordinates the development of new ideas with teams in other departments, such as the Technology and Corporate Responsibility Departments and the various Business Units within the organisation. The Innovation Department forms part of the Strategy and Innovation Division and the Director sits on the Executive Committee.

MOBILE DATA USAGE GROWTH



We are delighted to be able to report that our mobile data revenues grew by a pleasing 59% to KSH 14.82 billion during the year. In many respects, we are reaping the rewards of our continued investments in 3G technologies. As a result, we currently have 11.6 million

mobile data users (who have been active within the last 30 days), representing 50% of our total customer base and, of the 11.6 million users, around 3.7 million (32%) are smart phone users (2G-, 3G- and 4G-enabled).



As well as enabling customers to purchase internet-capable devices, we have been actively helping them to experience the possibilities of the internet through a variety of acquisition and stimulation campaigns. Among the successful campaigns run during the year were the following:

NAME	PURPOSE	IMPACT
Coca-Cola Campaign	Free data bundles to customers who purchased a bottle of Coca-Cola (code under bottle cap)	1.7 million customers accessed data (through 15.7 million transactions since launch)
Okoa Internet Bundles	Data bundles available on credit	5.2 million customers have used this service (150,000 transaction daily)
YouTube Bundle	Free access to YouTube (up to 40 MBs)	1.6 million customers accessed bundles

As a result of these and similar campaigns, the number of highly active (daily) mobile data users we have has grown to 4.5 million and there has been an increase of 37.9% in mobile data usage per customer. At the same time, the bundles have provided greater value for customers and boosted affordability, reducing the average price per MB by 8.3%.

YOUTH APPEAL OF BRAND

Young people are open to innovation, adapt and adopt quickly and drive change in technology and business, which is why this segment remains a key focus area for

us from an innovation perspective. This is reflected in our strategic objective to be 'Youthful, Original, Local and Outstanding' (YOLO). As a result of our activation and stimulation campaigns we made good progress in this regard during the year and acquired an additional 1.28 million subscribers from the youth segment. Our progress as a brand that appeals to the youth segment is an area where there is still plenty of work to be done, however, we have made significant strides as reflected by the increased Youth NPS scores. This achievement can be attributed to increased youth customer engagement programmes, such as Active8 and Campus Connect.

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ZINDUA CAFÉ PORTAL LAUNCH

One of our major initiatives during the year was the revamp and launch of Zindua Café, our online ideas submission portal. The portal allows members of staff, application developers and members of the public to share their ideas for new applications or services with us easily and conveniently. The submissions are reviewed by the Innovation Department and, if the idea shows potential, the staff member is rewarded with 'Zindua stars', which can be redeemed for rewards, and external parties are offered commercial contracts.

As well as streamlining the idea submission and review process, the portal helps idea originators and inventors to protect their intellectual property. We partnered with the Kenya Industrial Property Institute and the Kenya Copyright Board (KECOBO) for the launch and provide users with information on patents, trademarks and copyright. The new portal was re-launched internally in December 2014 and launched externally in January 2015, through media campaigns and a series of roadshows to 'innovation hubs' like universities.



VENTURE CAPITAL FUND LAUNCHED

An exciting development this year was the launch of the 'Safaricom Spark Fund', which has been designed to complement our successful annual AppWizz Challenge. Our AppWizz Challenge identifies and incubates developers and start-up firms with potential. The Spark Fund is a venture capital fund that aims to support the successful development and scale up of high-potential

late seed to early- growth- stage start-ups in Kenya, through investment and in-kind support.

The fund seeks to invest between KSH 6- 22 Million per start-up, for a minority stake in portfolio companies. In addition to the funding, Safaricom provides in kind support such as mentorship, technical assistance and access to Safaricom services such as SMS, SSD, Cloud hosting and marketing opportunities.

M-PESA CONTINUING TO DEEPEN FINANCIAL INCLUSION

		FY15	FY14	FY13
M-PESA Revenue (KSH Billion)	▲ 23%	32.63	26.56	21.84
M-PESA Customers (Million)*	▲ 14%	13.86	12.16	10.54

* 30-day active

M-PESA continues to grow from a simple money transfer service to a robust payment platform and a driver of financial inclusion. One striking example of this is that the number of active Lipa na M-PESA merchants (traders that can accept electronic payments and collections) grew by 105% to 49,413 during the year. In terms of the volume of transactions through this service, in March 2015 these merchants made payments of KSH 11.6 billion.

We are also pleased to be able to report that the M-Shwari, which makes it possible for Kenyans to save, earn interest and borrow money using their mobile phones and the M-PESA service, has now grown to 5.8 million active customers and has facilitated KSH 5.5 billion in deposits and KSH 2.1 billion in loans at 2.0% interest. During the year, we partnered with Kenya Commercial Bank (KCB) to offer customers an

alternative to M-Shwari and it has already attracted 1.4 million customers and KSH 120 million in deposits and KSH 950 million in loans.

We also launched three other new services during the year:

- **Okoa Stima:** An emergency loan facility that helps customers pay for electricity. A product developed from an idea submitted through the Internal Innovation portal, by a Safaricom Staff member. The product has allowed customers without credit to obtain a loan facility for power; and is available for both Postpaid and Pre-paid customers.
- **International money transfer to Tanzania** through a partnership with Vodacom Tanzania;
- **Safaricom M-Ledger:** An application developed with external innovators through the Safaricom Appwiz Challenge that allows M-PESA customers to manage their statements. Since its launch the application has gained over 100,000 active users.

IMPROVING THE QUALITY OF LIFE FOR KENYANS

We take our promise to transform lives and contribute to sustainable living throughout Kenya very seriously and are committed to improving the quality of life of Kenyans wherever possible. From a social innovation perspective, we continue to build on our work in areas such as agriculture, education and health, where technology is a critical tool that can make a significant difference to people's lives. Among the applications we continued to develop during the year were the following:

PROJECT	DESCRIPTION	IMPACT
Jihusishe	SMS and USSD-based platform that helps citizens learn about the roles and responsibilities of local government and to exchange information and ideas with local politicians.	Currently piloting the service in 5 counties with 18,760 users.
Mtiba	E-wallet to enable low income earners to save towards their healthcare expenses and donors to target funds accurately and confidently.	Currently piloting the service with 10,000 low income mothers in Nairobi.
Fertiliser E-subsidy	Enables small-holder farmers to access government fertilizer subsidies directly.	Currently developing the programme and, in FY16, we will pilot the service. The target is to enroll 500,000 farmers during the pilot.

LOOKING AHEAD

From an innovation perspective, the focus next year will be on further developing and maximising the potential of our current strategies. Overall, the goal will be to expand our innovation pipeline, increasing the number of new ideas we generate and receive, as well as improving the quality and success rate of the ideas. We intend to bolster our ongoing initiatives, such as the popular AppStar and AppWizz challenges, with several new awareness campaigns in the coming year. Among these will be roadshows targeted at innovation hubs like universities and incubation centres. Safaricom also intends to make investments in Kenyan Start-ups through the Safaricom Spark Fund.

In terms of growing mobile data customers and usage, we will continue with similar successful strategies, including promoting 3G- and 4G-enabled devices, running an Instagram Bundle campaign and exploring partnerships with local and international content providers. We also intend to exploit the growth of our fibre networks by commercialising the Safaricom Home Broadband proposition 'The Big Box'. Similarly, from an M-PESA perspective, the focus will be to continue to drive the growth of Lipa na M-PESA and M-Shwari services, while exploring other ways of leveraging the new G2 M-PESA platform.

The challenge still remains understanding our customer needs and responding to their needs with relevant solutions to match their requirements, as opposed to flooding the market with untargeted products that are commercially driven and not focused on specific customer needs.