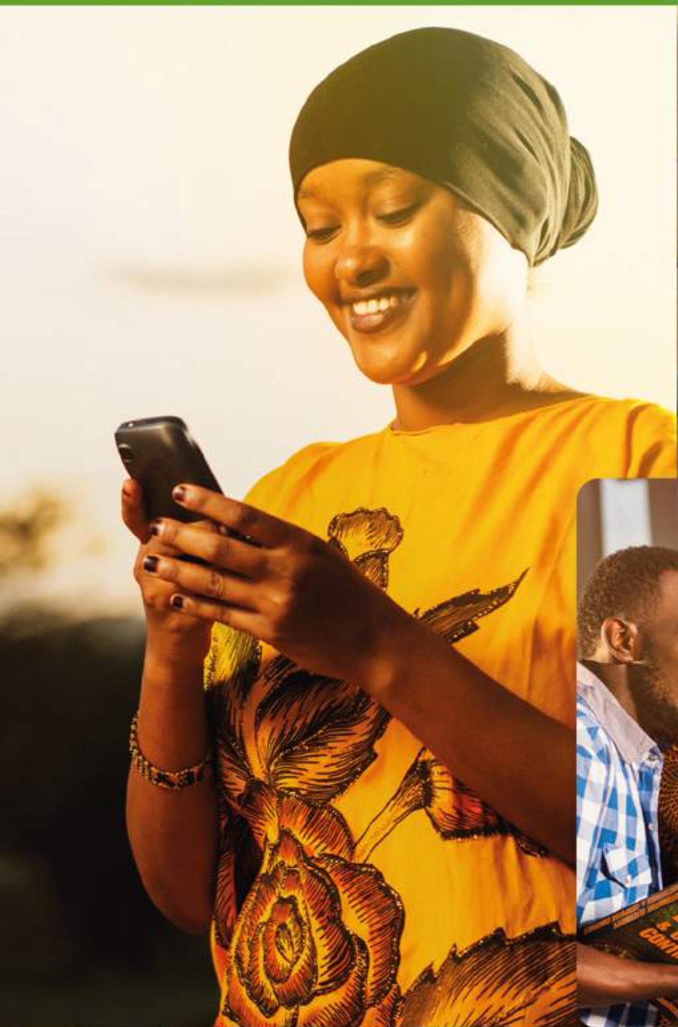
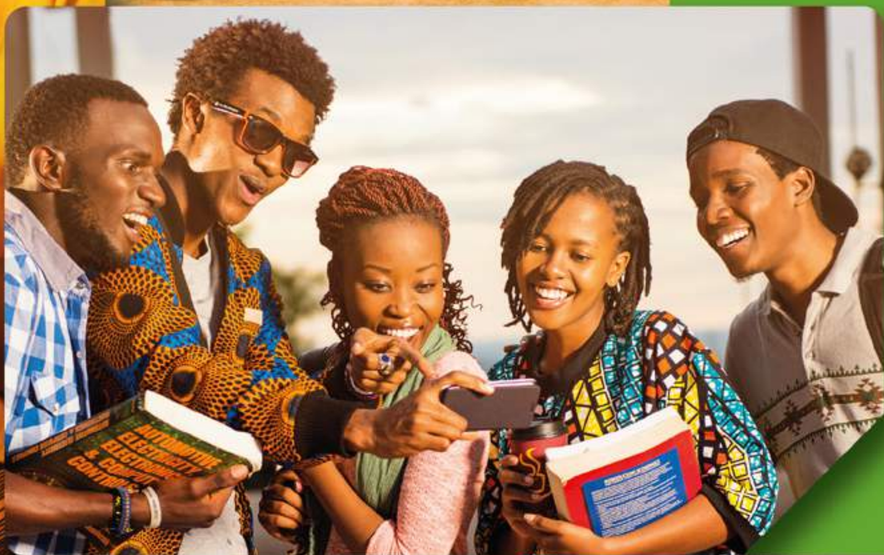
SAFARICOM LIMITED
Annual Report 2016





Safaricom Annual Report **2016**

Contents

01 highlights

02 business review

03 strategic review

04 financial review

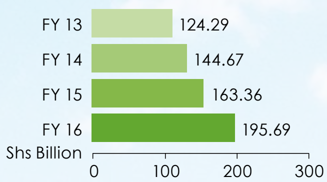
05 additional information

highlights

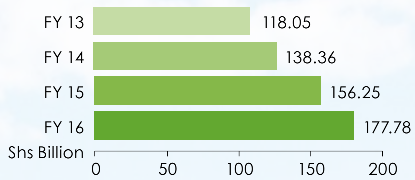
Performance at a glance

During the year the company recorded strong financial and commercial performance. This was driven mainly by growth in non-voice service revenue and continued focus on cost reduction initiatives.

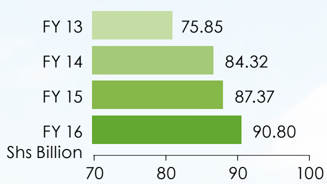
TOTAL REVENUE



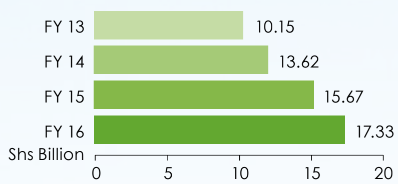
SERVICE REVENUE



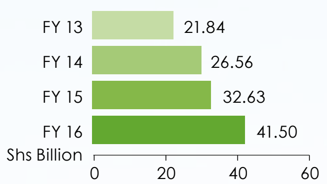
VOICE REVENUE



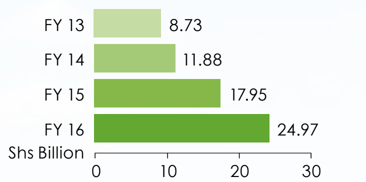
MESSAGING REVENUE



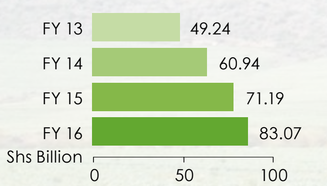
M-PESA REVENUE



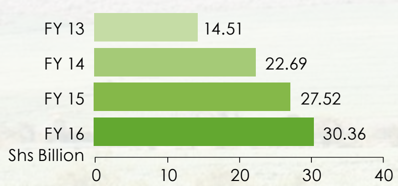
MOBILE DATA & FIXED SERVICE REVENUE



EBITDA

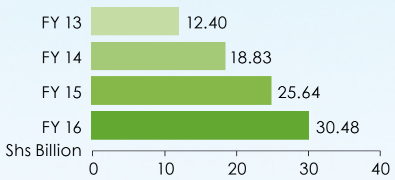


FREE CASH FLOW

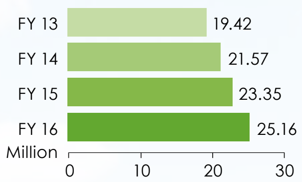


Another year of impressive performance supported by increased usage of services and efforts to achieve operational excellence.

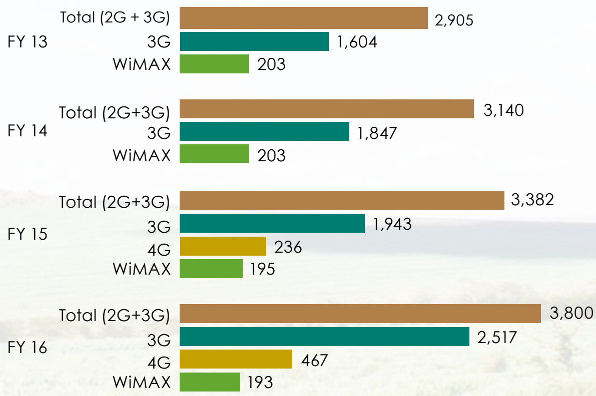
TOTAL DIVIDEND



TOTAL CUSTOMERS



BASE STATIONS



Five year financial performance summary

Shs (million)	2012	2013	2014	2015	2016
Voice service revenue	68,122	75,848	84,316	87,368	90,802
M-PESA revenue	16,874	21,844	26,561	32,626	41,500
Mobile data revenue	5,223	6,611	9,314	14,823	21,154
Fixed service revenue	1,371	2,113	2,571	3,128	3,815
Messaging revenue	7,768	10,147	13,620	15,671	17,328
Other service revenue	836	1,489	1,980	2,631	3,185
Service revenue	**100,193**	**118,051**	**138,361**	**156,247**	**177,784**
Handset and other revenue	6,803	6,236	6,312	7,117	8,621
Construction revenue	-	-	-	-	9,280
Total revenue	**106,996**	**124,288**	**144,672**	**163,364**	**195,685**
Other income	-	-	127	576	232
Direct costs	(42,742)	(47,174)	(51,964)	(56,709)	(62,310)
Construction costs	-	-	-	-	(9,280)
Contribution margin	**64,254**	**77,114**	**92,835**	**107,231**	**124,327**
Operating expenses	(26,761)	(27,875)	(31,892)	(36,040)	(41,261)
EBITDA	**37,493**	**49,239**	**60,943**	**71,191**	**83,066**
Depreciation & amortisation costs	(17,340)	(22,139)	(25,787)	(25,570)	(27,943)
Net finance costs	(1,702)	(1,452)	(355)	219	504
Net forex gain/(loss)	(1,082)	(188)	168	206	398
Fair value loss on investment property	-	-	-	-	(367)
Share of associate profit / (loss)	1	(10)	15	(4)	104
Assets purchase bargain gain	-	-	-	108	-
EBT	**17,370**	**25,451**	**34,984**	**46,150**	**55,763**
Taxation	(4,742)	(7,911)	(11,967)	(14,278)	(17,658)
Net income	**12,628**	**17,540**	**23,018**	**31,871**	**38,104**
Earnings per share (Shs)	**0.32**	**0.44**	**0.57**	**0.80**	**0.95**
Free cash flow (Shs million)	9,350	14,507	22,692	27,524	30,360
Ordinary dividend (paid / proposed) (Shs million)	**8,800**	**12,400**	**18,831**	**25,642**	**30,483**
Ordinary dividend per share (Shs)	0.22	0.31	0.47	0.64	0.76

"Focus on our three strategic pillars continues to reward us with strong financial and commercial performance."

Chairman's statement

It is with great pride that I report yet another year of solid growth and stellar financial performance for the Company. Execution of the three strategic pillars continues to reward us with strong financial and commercial performance.

In the year under review, Kenya's Gross Domestic Product (GDP) grew by an estimated 5.6 percent in 2015 compared to 5.3 percent in 2014. The performance was driven by a stable macroeconomic environment and significantly improved performance of agriculture, construction, finance, insurance and real estate sectors. This was despite inflationary pressures and volatility in foreign exchange rates.

The ICT sector grew by 7.3 percent in 2015 which was lower than 14.6 percent growth achieved in 2014. The growth in 2015 was on account of resilient expansion in mobile telephony network and increased uptake of internet services. We remain confident that the sector is on course to attain the Vision 2030 target of contributing 10 percent to the country's GDP by 2017. The telecommunications sub-sector continues to be a significant contributor of this growth with Safaricom and other players supporting economic growth.

In March 2016, inflation was at 6.45 percent compared to 6.31 percent recorded in March 2015. In the second half of the year, we witnessed stability in interest rates with the 91-Day Treasury Bill Rate declining to 8.97 percent as at March 2016 from 20.6 percent recorded at the end of the first half of the financial year.

In the period under review, the foreign currency exchange market improved, the local unit stabilised at Shs 101.33 to the US Dollar compared to a high of Shs 105.29 recorded in the first half of the financial year. We remain upbeat of monetary policy measures currently in place which continue to support the local unit and to anchor inflation expectations.

In light of the strong financial performance, the Board recommended a dividend of Shs 30.48 billion, an increase of 18.9% from previous year. This is once again the largest dividend in Kenyan corporate history.

Key regulatory highlights

The regulatory environment remains an area of importance to our business and below are a few highlights on some of the regulatory issues in the subsector.

Review of the ICT policy

Government through the ICT Ministry has commenced a review of the 2006 National ICT Policy. Safaricom is currently engaging Government in this process and a new policy is expected within the course of 2016.

Universal Service Fund

In the previous financial year, the CA commenced a USF Access Gap Study which seeks to provide details of USF Projects to be taken up by the industry. The key projects include Broadband connectivity to secondary schools as well as voice services infrastructure gaps project. Safaricom and other Stakeholders are engaging CA on the implementation of USF projects.

Corporate governance

In the year under review Ms. Kathryne Maundu joined the Board as a non-executive member in the capacity of the Company Secretary, replacing Mrs. Enid Muriuki who resigned during the year. I welcome Kathryne to the Board and look forward to her support to the effective functioning of the Board.

Looking forward

The financial year under review was a great one for the business. We gave our shareholders a good return for their investments by focusing on improved customer experience and offering relevant products and superior services.

Our Commitment to transform lives remains strong. With our strategy in place, we are confident that we shall continue creating value for our shareholders and customers.

MR. NICHOLAS NGANGA

CHAIRMAN

Taarifa ya Mwenyekiti

Najivunia mno kuwa na fursa ya kuripoti kwenu mwaka mwingine wa ukuaji imara na mafanikio makubwa ya utendaji wa kifedha wa kampuni yetu. Kuendelea kwetu katika kuzingatia utekelezaji wa nguzo tatu za mkakati wetu kunazidi kututuza na matokeo imara ya utendaji wa kifedha na wa kibiashara.

Katika kipindi cha mwaka tunaoukariria, jumla ya pato la taifa (GDP) la Kenya lilistawi na kukua kwa asilimia 5.6 katika 2015 ikilinganishwa na asilimia 5.3 katika 2014. Utendaji huu wa kuridhisha ulichangiwa na hali ya ukuaji wa uchumi kwa jumla na kuboreka kwa kiasi kikubwa katika sekta za kilimo, fedha, bima na ujenzi. Haya yalifikiwa licha ya kuweko kwa shinikizo la mfumko wa bei na hali tete katika soko la ubadilishanaji sarafu za kigeni.

Ukuaji katika sekta ya Teknolojia ya Habari na Mawasiliano (ICT) ulipungua hadi asilimia 7.3 mwaka wa 2015 ikilinganishwa na asilimia 14.6 mwaka wa 2014. Ukuaji huo ulisababishwa na upanuzi mkakamavu wa mtandao wa simu za rununu na kuongezeka kwa utumiaji wa huduma za internet. Tungali tuna matumaini kuwa sekta hii iko katika mwelekeo thabiti wa kufikia Malengo ya Ruwaza ya 2030 ya kuchangia asilimia 10% ya jumla ya Pato la Taifa (GDP) ifikapo 2017. Sekta ndogo ya mawasiliano inaendelea kuwa mchangiaji mkubwa wa ukuaji huu huku Safaricom na wahusika wengine binafsi au kwa jumla wakitekeleza jukumu kubwa katika kusaidia ukuaji wa uchumi.

Katika Machi 2016 mfumko wa bei ulifika asilimia 6.45 ikilinganishwa na 6.31 iliyorekodiwa katika Machi 2015. Katika nusu ya mwaka huo, tulishuhudia uimarikaji katika viwango vya riba huku kiwango cha Hati za Kifedha za siku 91 ikishuka hadi asilimia 8.97 ilipofika Machi 2016 kutoka asilimia 20.6 katika nusu ya mwaka wa kifedha.

Katika soko la ubadilishanaji pesa za kigeni, sarafu ya Kenya iliimarika ilipokaribia mwisho wa mwaka ikiwa Shilingi 101.33 kwa Dola ya Marekani ikilinganishwa na kiwango cha juu cha Shilingi 105.29 katika nusu ya kwanza ya mwaka. Tunaendelea kuunga mkono hatua za sera za kifedha zilizopo hivi sasa ambazo zinaendelea kuthibiti soko la ubadilishanaji wa pesa za kigeni na kuthibiti mfumko wa bei.

Kutokana na kuimarika kwa matokeo ya kifedha katika mwaka uliyopita, Wanabodi walipendekeza mgao wa Shilingi 0.76 kwa kila hisa, ikiwa ni ongezeko la asilimia 18.9 ikilinganishwa na mwaka wa kifedha uliopita. Hii kwa mara nyingine tena ni mgao mkubwa zaidi kuwahi kutolewa katika historia ya mashirika hapa Kenya.

Masuala muhimu ya Kisheria

Kanuni za uthabiti zinabakia muhimu katika kuendesha biashara yetu. Yafuatayo ni baadhi ya maswala ambayo yanazingatiwa katika sekta hii ndogo.

Kuangaliwa upya kwa sera ya Teknolojia ya habari na mawasiliano (ICT)

Serikali kupitia Wizara ya Teknolojia ya Habari na Mawasiliano ilianzisha kuangaliwa upya sera ya Teknolojia ya habari na mawasiliano (ICT) ya 2006. Safaricom inaendelea kuzungumza na serikali. Sera mpya inatarajiwa kuzinduliwa mwaka huu.

Hazina ya Huduma kwa wote

Katika mwaka wa kifedha uliopita, Mamlaka ya Mawasiliano ya Kenya (CA) iliajiri mshauri kufanya utafiti wa mapengo yaliomo katika utoaji wa huduma za teknologia na mawasiliano (Access Gap Study) ili kuonyesha kwa kina miradi iliopo. Mojawapo ya miradi hii ni mradi wa Broadband (internet) wa kuunganisha shule za upili pamoja na mradi wa mapengo katika kutoa huduma za maongezi. Safaricom na washikadau wengine wanashirikiana na Mamlaka ya Mawasiliano katika suala hili.

Usimamizi wa Shirika

Katika mwaka tunaoangazia Bi. Kathryne Maundu alijiunga na Bodi kama mwanachama asiye mtendaji katika wadhifa wa Katibu wa Bodi akichukua nafasi ya Bi. Enid Muriuki aliyejiuzulu katika kipindi cha mwaka huo. Namkaribisha Kathryne kwenye bodi na kutarajia msaada wake katika kufanikisha shughui za Bodi.

Mtazamo wa siku zijazo

Mwaka huu tunaoangazia ulikuwa mzuri kwa biashara yetu. Tuliongeza thamani kwa wanahisa wetu kupitia juhudi zinazolenga kuelewa vyema zaidi wateja wetu na mahitaji yao na kuwatolea bidhaa na huduma bora.

Dhamira yetu ya kuendelea kuleta mabadiliko bora katika maisha bado ni imara na mkakati wetu ukiwepo, hatuna hakika kuwa tutaendelea kuongeza thamani kwa wanahisa na wateja wetu.

MR. NICHOLAS NGANGA

MWENYEKITI

"Data remains our fastest growing revenue stream and we are focused on growing it further through accelerating smartphone penetration, growing 3G and 4G users."

CEO's statement

The impressive annual results were as a result of our continued focus on the three strategic pillars; putting customers first, providing relevant products and enhancing operational excellence. This resulted in an 8% growth of our loyal customer base, generating strong financial and commercial performance.

We realigned our sales and operations teams to be independently managed in six regions, with the sales and network teams in each region reporting to their respective region's head. Additionally, investments of Shs 32.1 billion in our network led to improved data speeds and voice network quality. Independent drive tests commissioned by Safaricom in March 2016 to measure key quality metrics such as dropped calls, call set-up success, voice quality and data speeds indicate that our network delivers the best voice quality and faster data services than our competitors.

Mobile penetration in Kenya now stands at 89.2% as at 31 March 2016 with Safaricom having a subscriber market share of 65.6% (January – March 2016 Communications Authority of Kenya Sector Statistics Report). Our market share reduced partly due to a change in internal reporting policy which aligned our customer number reporting methodology to that of our competitors. We now report total customers as those contribuing to revenues in the last 90 days.

Service revenue grew by 13.8% to Shs 177.8 billion. Voice service revenue which now represents 51.1% of our service revenue grew by 3.9% to Shs 90.8 billion. Non-voice revenue representing 48.9% of service revenue up from 44.1% last year grew by 26.3% to Shs 87.0 billion.

Messaging revenue grew by 10.6% to Shs 17.3 billion due to an increase in the number of SMS users benefiting from affordable SMS bundles and targeted promotions.

Mobile data revenue grew at 42.7% driven by a combination of a 21.5% increase in 30-day active mobile data customers to 14.1 million, an increased uptake of data bundles and a growth in smartphone penetration.

In March 2016 we had 7.9 million customers on 3G and 4G enabled devices, of which 0.7 million were 4G handsets.

Fixed service revenue grew by 22% to Shs 3.8 billion on account of an increased number of fixed service customers to 10,490 up 21.6%. We now have 1,018 commercial buildings and 1,795 homes connected to high speed fibre.

M-PESA revenue grew by 27.2% to Shs 41.5 billion driven by a 19.8% growth in 30-day active M-PESA customers to 16.6 million and a 17.5% growth of our M-PESA agent footprint to 100,744. Lipa na M-PESA payments made at 44,000 merchant outlets in March 2016 grew by 74% to Shs 20 billion.

Contribution margin improved by 1.1 percentage points to 66.7% attributed to lower growth of direct costs at 10.0% compared to a 14.1% growth in total revenue excluding construction revenue.

Operating expenses as a percentage of total revenue excluding construction revenue was unchanged at 22.1% despite a 9.8% depreciation of the Kenya shilling in the financial year under review. We continue to explore cost reduction opportunities with efforts focused on lowering transmission costs, network operating costs (including fuel) and IT operational costs.

The business delivered encouraging results and continued to create value for our shareholders, supported by growth across all our revenue streams and focus on cost efficiency, resulting in an EBITDA margin of 44.6% which was a 0.9 percentage point improvement.

Free Cash Flow grew by 10.3% to Shs 30.4 billion despite the significant supplier payments for the National Police Security Network.

As highlighted in the first half of the financial year, as per International Accounting Standards, we reported Construction revenue which relates to construction of the National Police Security Network (NPS). Similar costs were reported under direct costs and therefore there was no impact to profit. The acceptance process was completed in June 2016 and we await the acceptance certificate from the Ministry of Interior and National Coordination.

CEO's statement

Strategic priorities

Our strategy continues to be guided by the three strategic pillars of putting our customers first, providing relevant products and enhancing excellence in our operations. We continue to ensure our customers have the best network through expansion, upgrades and quality improvement by building more 2G, 3G and 4G sites, upgrading our WiMAX sites and rolling out our own fiber to more buildings and homes.

We will leverage our regional operations structure to understand our customers' needs and aspirations even better. This will be critical in developing and offering our customers relevant propositions to build trust and grow the loyal base in addition to offering products and services that truly meet their needs and expectations.

Our loyal customer base continues to grow both in numbers and needs. This creates more opportunities for the business to innovate and develop specific propositions for the various customer segments. We continue to embed a segment approach to marketing in the organisation.

Data remains our fastest growing revenue stream and we are focused on growing it further through accelerating smartphone penetration, growing 3G and 4G users, offering relevant content, driving adoption of data bundles and owning the home through our affordable 4G home broadband (theBigbox) and fiber-to-the-home solutions.

M-PESA continues to be our key platform to drive financial inclusion. We will continue to drive the growth of savings and loans, grow cashless payments for businesses through M-PESA and launch new innovative products.

ROBERT COLLYMORE

CHIEF EXECUTIVE OFFICER

Taarifa ya Afisa Mkuu Mtendaji

Matokeo haya ya kufurahisha ya kifedha ya mwaka yalitokana na kutilia mkazo nguzo zetu tatu za kimkakati; kuweka maslahi ya wateja kwanza, kutoa bidhaa zinazohitajika na kuimarisha ubora wa uendeshaji shughuli. Hii ilisababisha ukuaji wa 8% wa shina la wateja wetu waaminifu na kuzalisha utendaji imara wa kifedha na biashara.

Aidha, tuliweka upya timu zetu za mauzo na za uendeshaji shughuli kuweza kusimamiwa kipekee katika maeneo sita, na timu za mauzo na za mtandao katika kila eneo kuripoti kwa kiongozi wa eneo hilo. Malengo ya timu hizi kwenye maeneo, pamoja na uwekezaji wa Shilingi bilioni 32.1 katika mtandao, ulipelekea kuboreshwa kwa kasi za data na mtandao wa maongezi. Ukadriaji wa kibinafsi uliofanywa na Safaricom mnamo Machi 2016 ili kupima vigezo muhimu kama vile ubora wa maongezi, mafanikio ya kuanzisha maongezi, ubora wa sauti na kasi ya data, kumedhihirisha kwamba mtandao wetu unatoa huduma bora zaidi za maongezi na data za kasi kuliko washindani wetu.

Kuenea kwa matumizi ya huduma za simu za rununu nchini Kenya sasa kumefikia asilimia 89.2 ilipofika tarehe 31 Machi 2016 huku Safaricom ikiwa na fungu la wateja la asilimia 65.6 (Kwa mujibu wa Ripoti ya tarakimu ya sekta katika kipindi cha Januari – Machi 2016 ya Mamlaka ya Mawasiliano ya Kenya (CA). Fungu letu lilipungua kwa sehemu kutokana na mabadiliko ya kisera katika utoaji taarifa tulipoweka sambamba mbinu za kuripoti idadi ya wateja sawa na washindani wetu. Sasa tunawasilisha ripoti ya jumla ya wateja waliochangia kwenye mapato katika muda wa siku 90 zilizopita.

Mapato kutokana na huduma ilikua kwa asilimia 13.8 hadi Shilingi bilioni 177.8. Mapato kutokana na huduma ya maongezi ilizidi na sasa inawakilisha asilimia 51.1 ya mapato ya huduma zetu, ikikua kwa asilimia 3.9 hadi Shilingi bilioni 90.8. Mapato kutokana na huduma zisizo za maongezi zikiwakilisha asilimia 48.9 ya mapato ya huduma ikipanda kutoka asilimia 44.1 mwaka jana na kukuwa kwa asilimia 26.3 kufikia Shilingi billioni 87.0.

Mapato kutokana na huduma za ujumbe mfupi (SMS) yalikuwa kwa asilimia 10.6 hadi Shilingi bilioni 17.3 kutokana na kuongezeka kwa idadi ya watumiaji wa huduma ya ujumbe mfupi (SMS) wakinufaika kwa toleo mahususi ya mauzo na vifurushi vya ujumbe mfupi (SMS bundles).

Mapato kutokana na matumizi ya data kupitia simu za rununu (mobile data) yalikua kwa asilimia 42.7 yakichochewa na mchanganyiko wa ongezeko la asilimia 21.5 kwa wateja waliotumia huduma hii kwa siku thelathini hadi millioni 14.1, kutumika zaidi kwa vifurushi vya data (data bundles) na kuzidi kuenea kwa matumizi ya simu za aina ya smartphone.

Mnamo Machi 2016 tulikuwa na wateja milioni 7.9 wenye vifaa vilivyowezeshwa kutumia mitandao ya 3G na 4G, ambao elfu mia saba miongoni mwao wanamiliki simu zinazotumia 4G.

Mapato ya huduma ya data isiyotumia rununu (fixed data) yalikua kwa asilimia 22 hadi Shilingi bilioni 3.8 kutokana na kuongezeka kwa idadi ya wateja wa huduma hii kwa asilimia 21.6 hadi 10,490. Kwa sasa tuna majengo ya biashara 1,018 na ya makazi 1,795 yaliyoshikanishwa na nyaya zetu za faiba.

Mapato kutokana na M-PESA yaliongezeka kwa asilimia 27.2 hadi Shilingi bilioni 41.5 yakichochewa na ukuaji wa asilimia 19.8 kwa wateja wanaotumia M-PESA kwa siku 30 hadi kufikia milioni 16.6 na ukuaji wa asilimia 17.5 wa maajenti wa M-PESA hadi 100,744. Malipo kupitia Lipa Na M-PESA yaliofanyika katika maduka ya wafanyibiashara 44,000 katika Machi 2016 yalikua kwa asilimia 74 hadi Shilingi bilioni 20.

Mapato baada ya gharama za moja kwa moja yaliboreka kwa nukta 1.1 hadi asilimia 66.7 hii ikihusishwa na ukuaji wa chini wa gharama za moja kwa moja kwa asilimia 10.0 ikilinganishwa na ukuaji wa asilimia 14.1 wa jumla ya mapato bila kuzingatia mapato ya ujenzi.

Gharama ya uendeshaji shughuli nyingine kama asilimia ya mapato yote bila kujumuisha mapato ya ujenzi hayakubadilika yakibakia asilimia 22.1 licha ya kushuka kwa thamani ya shilingi ya Kenya kwa asilimia 9.8 katika mwaka wa kifedha tunaoukariria. Tunaendelea kutafuta mbinu za kupunguza gharama na juhudi zinazolenga kupunguza gharama za kutuma mawimbi, gharama za kuendesha mtandao (ikiwa ni pamoja na za kawi) na za uendeshaji shughuli za Teknolojia ya Mawasiliano (IT).

Biashara iliwasilisha matokeo yenye matumaini na tunazidi kuongeza thamani kwa wanahisa wetu, ikiungwa mkono na ukuaji katika mikondo yote ya kuleta mapato na kuangazia uthibiti wa gharama ilileta faida kabla ya kutoza riba, ushuru na gharama zisizolipiwa pesa taslimu (EBITDA) hadi asilimia 44.6 ambayo ilikuwa ni uboreshaji wa nukta 0.9.

Taarifa ya Afisa Mkuu Mtendaji

Fedha zilizosalia baada ya gharama za kibiashara za kulipiwa pesa taslimu na kabla kulipa mgao wa hisa (Free cash flow) zilikua kwa asilimia 10.3 hadi Shilingi bilioni 30.4 licha ya malipo yaliyotolewa kwa mradi wa usalama wa National Police Security Network.

Kama ilivyoangaziwa katika nusu ya kwanza ya mwaka wa kifedha, kulingana na viwango vya Uhasibu vya Kimataifa, tulitoa taarifa ya mapato ya Ujenzi yanayohusiana na ujenzi wa mradi wa usalama wa National Police Security Network (NPS). Gharama kama hizo pia ziliripotiwa chini ya gharama za moja kwa moja kwa hivyo basi hakukuwa na athari kwenye faida.

Kukubalika wa mradi wa NPS kulikamilika mwezi Juni 2016 na sasa tunasubiri cheti cha kukubalika kutoka Wizara ya Mambo ya Ndani na Uratibu wa Taifa.

Mikakati Muhimu

Mkakati wetu unaendelea kuongozwa na zile nguzo tatu ambazo ni kuwapa kipaumbele wateja wetu, kutoa bidhaa na huduma zifaazo na kuimarisha ubora katika utendakazi wetu. Tunazidi kuhakikisha wateja wetu wanapata mtandao uliyo bora zaidi kupitia upanuzi, uimarishaji na ustawishaji ubora kwa kupanua mitandao ya 2G, 3G na 4G, kuimarisha mtandao wetu wa WiMAX na kusambaza nyaya zetu za faiba zetu katika majengo na nyumba zaidi.

Tunatumia shughuli zetu za maeneo kuelewa kwa kina "mahitaji na matarajio' ya wateja wetu. Hii itakuwa muhimu katika kuendelea na kuhudumia wateja wetu na kuwatolea bidhaa husika ili kujenga uaminifu wao kwetu pamoja na kutoa bidhaa na huduma za kukidhi hasa mahitaji na matarajio yao.

Wateja wetu waaminifu wanaendelea kuongezeka pamoja na mahitaji yao pia. Hii inatoa fursa zaidi za biashara na ubunifu na kuendeleza maazimio mahsusi kwa makundi mbalimbali ya wateja wetu. Tunaendelea kutilia mkazo shughuli zetu mbinu za kuwahudumia wateja wetu kwa vitengo (segments) katika sehemu mbali mbali za masoko.

Huduma ya data ingali yenye mapato yanayokua kwa kasi zaidi na tunalenga kuikuza zaidi kupitia kuongeza jitihada za kueneza matumizi ya simu za aina ya smartphones, kuongeza watumiaji mitandao ya 3G na 4G, kuhimiza kukubaliwa kwa vifurushi vya data (data bundles) na kutoa vifaa nafuu vya 4G Broadband vya nyumbani (theBigbox) na nyaya za faiba hadi manyumbani.

M-PESA inaendelea kuchangia kujumuishwa kwa watu zaidi katika matumizi ya huduma za kifedha. Tunaendelea kujitahidi katika kukuza huduma za akiba na mikopo, kukuza malipo yasiyohitaji pesa taslimu kwa biashara kupitia M-PESA na uzinduzi wa bidhaa mpya bunifu.

ROBERT COLLYMORE

AFISA MKUU MTENDAJI

business review

What we do

Customers

Our customer base is at 25.2 million with 96% on Prepaid services.

- We provide customers with a range of integrated telecommunication services, including mobile and fixed voice, SMS, data, internet and M-PESA
- This range of services is provided to both individual and corporate/ enterprise customers
- Over 94% of our customers are registered M-PESA users

Network

- Our network is on 2G, 3G, 4G and WiMAX technology
- As at March 2016 it covered 95% of the population on 2G and 78% on 3G
- Achieved 467 4G sites across 20 counties offering high speed internet
- Rolled out 3,236km of own fibre in key metro areas to date
- M-PESA runs on the upgraded, stable and robust (G2) system with over 23 million registered users

We have the largest network in Kenya at 3,800 sites.

Our reach

- **Airtime:**
  Distributed through our dealers and over 252,000 active retail outlets
- **Customers can top up their airtime through M-PESA:**
  Over 42% of airtime top-ups are directly through M-PESA
- **Enterprise business solutions**:
  Available across the 47 counties offering mobile and fixed voice, mobile data, fixed data, cloud hosting services and converged services to businesses and the public sector
- **Retail outlets**:
  There are 44 retail outlets selling airtime, devices and offering personalised services
- **54 Care Desks at dealer premises:**
  offering customer service and other services

We continue to leverage on our distribution network which has a wider reach. This enables us to be accessible to our loyal and growing customer base.

Revenue and cash generation

Most of our revenue comes from service revenues: Voice, M-PESA, Mobile Data, Messaging, Fixed Data and other service (Emergency top up fees) revenue. We also get other revenues from sale of devices and lease of infrastructure.

Cash generated is applied to cover our expenses and the remaining cash flow is applied as follows:

- Rewarding shareholders through dividends; we are currently paying the highest dividend in the history of Kenyan listed corporates
- Reinvesting in the business; maintaining a superior network experience, which over time has enabled us to secure a leadership position in our market in terms of quality of service and coverage

What we offer

Voice

Prepaid & Postpaid

We offer a wide range of voice pricing plans on Prepaid and Postpaid options.

Voice services include national and international roaming services.

Some of the unique features of our voice offering include:

- An emergency top-up credit facility (Okoa Jahazi)
- A customer loyalty programme (Bonga Points)
- Caller ring back service (Skiza), which is a value-added service

Mobile data

Unmatched high speed data

We offer our customers unmatched high speed data connectivity for access to email and internet and mobile broadband:

- Mobile data services on modems, handsets and tablets
- Safaricom Live web portal which provides a large selection of local content
- Data bundles for both Prepaid and Postpaid customers
- Routers which allow several devices to share a single mobile data connection

Devices

We offer a wide range of devices such as:

Mobile handsets, mobile broadband modems, routers, tablets and notebooks. In March 2016, we had 7.9 million 3G and 4G-enabled devices on our network, of which 7.8 million were smartphones.

Through our partnership with Vodafone and other partners, we have access to newly released smartphones and low-cost devices. Customers can also acquire devices through redemption of Bonga (loyalty) Points and credit facilities.

Messaging

We offer a variety of messaging services to our customers:

- Basic SMS as well as attractive and discounted SMS bundles.
- MMS that enables our customers to send pictures, music and video messages.
- 'Please Call Me', a service that allows customers to request a callback from another mobile user using SMS.
- A callback SMS notification for missed calls and alert SMS when an unavailable mobile user becomes available.

M-PESA

M-PESA is a fast, convenient and affordable way to send and receive money or pay for goods and services via a mobile phone.

The service has 24 million registered customers served by a network of 100,744 agents spread across the country.

Lipa na M-PESA, which allows for payment of goods and services, closed the year with 43,603 active merchants receiving payments.

Other services on M-PESA include Paybill, bulk payments, dividend payments and international money transfer services.

International money transfers through our partners transferred Shs 13.1 billion in the year.

Our customers can save and borrow money through the M-Shwari and KCB M-PESA products.

Other services

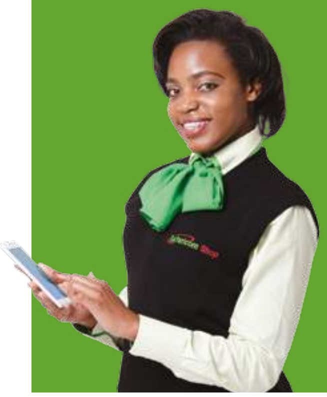
We provide other value-added services and converged business solutions:

- Fixed voice service for corporates and SMEs, mobile solutions and fixed data for homes and businesses using fixed lease lines
- Dedicated internet solutions for enterprises and hosted services such as cloud hosting, domains and security services

Our strategic priorities

Over 7.2 million web self care users

Customer first



We continue to listen and act on insights from our customers to improve product experience.

- To further cement our ability to customise the experience on our network, we launched a segment approach to marketing so as to deliver custom-fit solutions and drive loyalty
- Intensified investment on improving the customer experience journey through the following:
  - Launched 'Hakikisha' to allow customers to confirm names before sending funds
  - Launched free M-PESA E-statements for transparency and accountability
  - Getting closer to customers with 54 Care Desks at dealer points
  - Web self care users grew, now over 7.2 million users
  - Leveraged on big data to improve customer experience
  - Reduced roaming prices to reduce customer bill shocks
  - Launched My Safaricom App to improve our customers experience and encourage customers to access self-care solutions

Relevant products

Mobile data

We continue to drive our data democratisation agenda and achieved the following:

- Active data customers went up 22% to 14 million
- Mobile data penetration at 56% of total base
- Launched affordable data plans to increase consumption, usage up by 112%
- Increased smartphones by 128% to 8 million
- Offered affordable smartphones with prices as low as Shs 3,000
- Continued roll out of High Speed 4G network, now in 20 counties

Voice & messaging

- Maintained growth by:
  - Relevant promotions – Daily Usage Target based 'Stori Ibambe' promotion with usage increasing by 11%
  - Emergency top-up (Okoa Jahazi) realised a growth of 23%
- SMS penetration now at 72% driven by:
  - Affordable SMS bundles
  - Relevant promotions – 'Shangwe Mtaani'
  - Premium rated SMS including lottery

International money transfers up 64%

Deepening financial inclusion

We continue to drive growth in M-PESA, making it the fuel for business, empowering our customers to gain more control of their collections and payments.

- Grew 30-day active M-PESA users up 19.8% to 16.6 million
- International money transfers up 64% to Shs 13.1 billion
- Continued growth of cashless payments
  - 30-day active Lipa na M-PESA merchants, now with 43,603
  - Lipa na M-PESA payments in March 2016 at Shs 20.2 billion
  - Real-time settlements for merchants and closed the year with 19 banks
- Increased uptake of savings and loans M-Shwari and KCB M-PESA

Relevant products

Partners of choice for business

- Partnerships with the public sector, with 80% of the counties with at least one enterprise solution
- Fibre-to-the-Building (FTTB):
  - 1,018 active buildings, and
  - 1,795 customers connected
- Growth in the SME segment: achieved a 27% growth through uptake of Lipa na M-PESA and Zidisha Plus
- National Police Project delivered and now operational in Nairobi and Mombasa

Supporting innovations

- We continue to fund innovation through our Spark Fund. We have invested in Sendy, a last mile package delivery and logistics start-up
- M-tiba is a healthcare product we are delivering in partnership with Pharm-Access Foundation and CarePay to deepen access to quality healthcare
- Simplified API access for developers which allows for co-creation of new products and services
- Partnered with Eneza Education: a partnership to offer access to quality education through an online platform
- We have enhanced education opportunities for the next generation by providing mobile broadband access to 23,000 schools

Operational excellence

Regional focus

- Implemented a regional operations structure with six market regions rolled out that have brought us closer to the market
- Localisation of our company strategy with tailor-made regional promotions and offers

Best Network For You

- The local M-PESA platform has translated into stability and growth
- Increased coverage and capacity driving up usage
  - 2G: Rolled out 418 additional sites; population coverage up to 95%
  - 3G: Rolled out 1,037 additional sites, population coverage up to 78%
  - 4G: Rolled out 467 sites in 20 counties
- Modernisation of our WiMAX base stations with 83% completed
- Indoor coverage improvement with 341 commercial buildings covered
- Full deployment of Essar Spectrum with 88% of 3G sites on double capacity (4 carriers)

The value we create

Returns to debt and equity investors

Our equity and debt investors received Shs 26.4 billion (2015: Shs 19.9 billion) of total value created. We paid dividends of Shs 25.6 billion (2014: Shs 18.8 billion) to shareholders and interest of Shs 0.8 billion (2015: Shs 1.1 billion) to debt providers.

Reinvesting in our business

We invested Shs 32.1 billion (2015: Shs 33.7 billion) in capital expenditure including fibre with 3,236km completed in key metro areas, modernisation and upgrade of 2G networks, investment in 3G and 4G networks, new M-PESA platform and information system upgrades.

Contribution to government revenues

The Group continues to be a major contributor to Government revenues having remitted Shs 61.9 billion in taxes and licence fees (2015: Shs 54.8 billion) in the year.

The contributions were as follows: Value Added Tax - Shs 15.9 billion; Income Tax - Shs 23.4 billion; excise duties - Shs 19.6 billion and licence fees - Shs 3 billion.

Investing in our people

We distributed Shs 12.56 billion (2015: Shs 11.4 billion) to our employees through salaries, short and long-term incentives and contributions to pension funds and medical aid schemes. We continue to invest in our employees through career development and talent programmes.

Investing in our society

Through Safaricom and M-PESA Foundations, we have committed over Shs 2.3 billion in the year under review, bringing the total amount invested in our society to over Shs 6 billion. Since the launch of these Foundations focus has been geared towards health, education, economic empowerment, water, environmental conservation, disaster response and culture projects.

The value to society in FY15

Another Safaricom first

Monetisation of our total value to society

We aspire to use our mobile telecommunications products and services to improve the quality of life and contribute to sustainable livelihoods for people throughout Kenya.

We wanted to understand how successful we have been in achieving this goal and how we can increase the value we create for society in Kenya further.

In order to do so, we chose to partner with finance and sustainability professionals from KPMG member firms to apply KPMG's True Value methodology.

The methodology "monetises" the socioeconomic and environmental impacts of an organisation and its products and services, i.e. it quantifies them in financial terms.

Monetisation is gaining momentum as an approach that helps companies to understand and increase the value they create for society. We are the first major company in Africa to monetise and publicly communicate the value we create for society in this way.

"The True Value report expands the way in which we assess and communicate our "Transforming Lives" mission. We consider it important for us to understand how our business operations, our environmental footprint and our social investments impact our ecosystem and the Kenyan economy as a whole."

Robert Collymore, CEO, Safaricom

The total value Safaricom created for Kenyan society in FY15 was estimated at 10 times greater than the actual financial profit the Company made in the same period.

We create the greatest value for society through the added economic value we generate from our operations and capital expenditure and through the positive impact of our M-PESA mobile money transfer service.

This value is however eroded by corruption in the Kenyan economy. This is not directly related to Safaricom's operations, but the assessment acknowledges that corruption is likely to prevent some of the economic value Safaricom creates from reaching the people.

Health and safety incidents and carbon emissions from fuel and electricity consumption further reduce the value created.

For detailed information refer to KPMG True Value Case Study: Safaricom Limited (October 2015).

How we are managed

Our governance structure

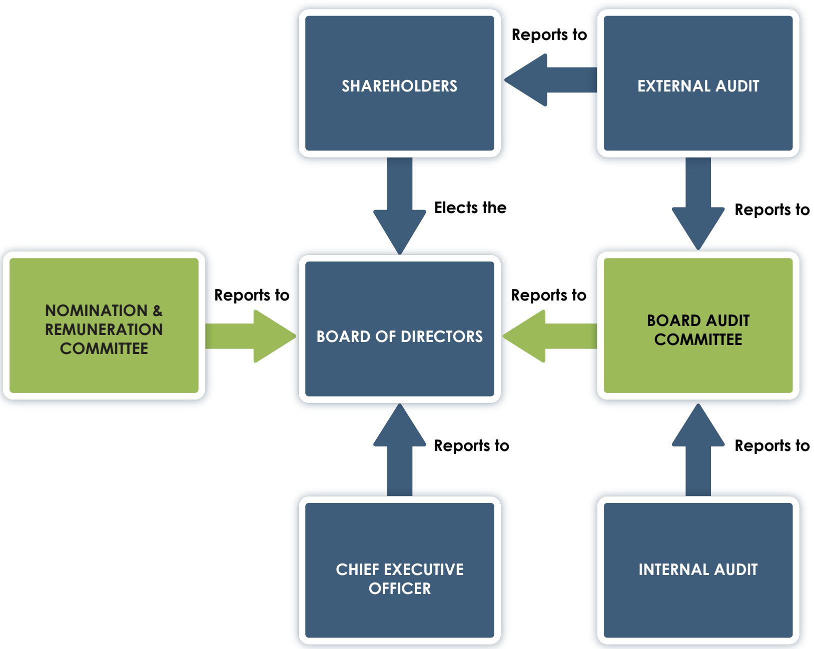
Good governance remains key to our business sustainability, integrity in operations and maintaining investors' trust in the Company. At Safaricom, we continuously foster and support a culture that values and rewards the highest ethical standards at personal and corporate levels. We make sure that our governance structures support effective decision making and robust controls. These are reviewed periodically to ensure they are relevant to the changing business environment as well as local and international best practice.

The Board of Directors is charged with the responsibility of ensuring good governance in the Company, that the business is run professionally, transparently and equitably so as to protect and enhance shareholder value as well as to satisfy the interests of all stakeholders.

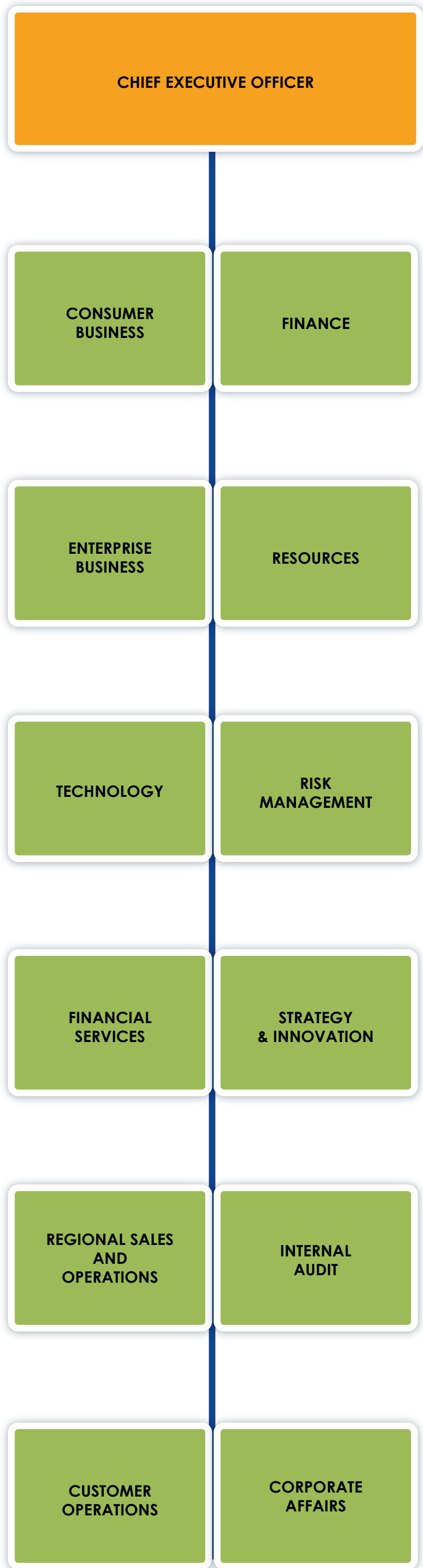
Our Directors and employees are expected to act with honesty, integrity and fairness in all their dealings with one another, with stakeholders and to respect the diverse cultures of the Kenyan people.

The key elements of Safaricom governance structure are shown below:

BOARD OF DIRECTORS



SENIOR LEADERSHIP TEAM



Who governs us

Nicholas Nganga

Chairman & Non–Executive Director

Nicholas (77) is the Chairman of Safaricom Board of Directors, having joined the board on 6 May 2004 and elected to his current role on 16 January, 2007. He also holds the Chairman position at G4S Kenya Limited, Car & General Kenya and is a Board member of Kakuzi Limited.

Prior to his current roles, he served as a Permanent Secretary in the Ministries of Finance, Foreign Affairs and Health. He has experience in banking and tea, among other industries and is a former Chairman of the National Bank of Kenya and the Tea Board of Kenya.

Mr. Nganga holds a Bachelor of Arts (BA) Degree from Makerere University.

Robert Collymore

CEO & Executive Director

Robert Collymore (58) is the CEO of Safaricom Limited, a position held since 1st November 2010.

Prior to joining Safaricom, Bob (his popular name) was the Chief Officer for Corporate Affairs in Vodacom Group responsible for the Group's Corporate Communication, Ethics and Compliance, Legal, External Relationships and Corporate Social Responsibility. He has more than 30 years of commercial experience working in senior executive roles in the telecommunications sector.

He is a board member of Acumen, the United Nations Global Compact Board, Kenya's Vision 2030 board, a trustee in the National Road Safety Trust and Chairman of the TEAMS Board.

Serpil Timuray

Non–Executive Director

Serpil Timuray (47) was appointed Executive Committee member of Vodafone Group and as Regional CEO of Africa, Middle East, Asia and Pacific in January, 2014.

She also serves as a Non-Executive Director to the Boards of Vodacom Group, Vodafone India, Vodafone Hutchison Australia, Safaricom Kenya and Vodafone Qatar.

Serpil is an independent Director to the Board of Danone Group since April, 2015.

She also sits on the Board of Trustees at Koc University and on the Advisory Board of DTiK (World Turkish Business Council). She is a member of Young Global Leader Alumni Community of World Economic Forum.

Timuray joined Vodafone as CEO (Turkey) in January 2009. She was previously CEO of Danone Turkey during 2002-2008.

She began her career in 1991 in marketing at Procter & Gamble, where she was later appointed to the Executive Committee of P&G Turkey.

Serpil was ranked 15th on Fortune's Most Powerful Women in Europe, Middle East, Africa report in 2014 & 2015; 79th among the "World's 125 Women of Impact" by Newsweek in 2013, selected as a "Young Global Leader" by World Economic Forum in 2009. She was elected as "The Professional of the Year" in Turkey for 2013, 2011 and 2010 by the Turkish Economist.

A graduate of Bogazici University Business Administration, she is married and a mother of one child.

Who governs us

Esther Koimett

Non-Executive Director & Alternate to Henry Rotich

Esther (59) joined the Board of Safaricom on 24 May 2005. She previously served on the Board between 11 April, 2001 and 5 September, 2002.

Esther has also served as Permanent Secretary in the Ministry of Tourism and Information and as a Managing Director, Kenya Post Office Savings Bank.

She holds a Bachelor of Commerce and an MBA degree from the University of Nairobi and is currently the Investment Secretary at the National Treasury.

John Otty

Non–Executive Director

John (52) is the Vodafone Regional Finance Director for Africa, Middle East and Asia Pacific. He joined Vodafone in December 1992 and has held a number of senior executive positions in Vodafone, including that of Group Technology Financial Director, Interim CFO of Vodafone India and Vodafone PLC Group Internal Audit Director.

He also serves as a non-executive board member to Vodacom Group, Vodafone Hutchison Australia, Ghana Telecommunications, Vodafone India, Vodafone Egypt, Vodafone Turkey and Vodafone Qatar.

He holds a degree in Electronic Engineering and is a member of the Institute of Chartered Accountants in England and Wales.

He was appointed to the Safaricom Board in August 2013.

Michael Joseph

Non–Executive Director

Michael Joseph (70) is the Director of Mobile Money of Vodafone Group Services Limited, having joined the Board on 8 September 2008. He is also Vodafone's Strategic Advisor appointed to the Boards of Vodacom Group South Africa, Vodacom Tanzania, Vodacom Mozambique, Vodacom DRC and Safaricom.

Previously, he was the CEO of Safaricom from July 2000 when the Company was re-launched as a joint venture between Vodafone UK and Telkom Kenya until his retirement in November 2010. During his tenure, he steered the Company from a subscriber base of less than 20,000 to over 17 million subscribers. This phenomenal growth straddling nearly a decade was motored by the launch of many innovative products and services such as M-PESA. Today, Safaricom is one of the leading companies in East Africa and one of the most profitable companies in the region.

He has extensive international experience in company start-ups, the implementation and operation of large wireless and wire-line networks, including operations in Hungary, Spain, Brazil, Peru, Argentina, Korea, the USA, Australia and the Middle East.

He holds a B.Sc. (cum laude) in Electrical Engineering from the University of Cape Town, an Honorary Doctorate degree (Doctor of Letters) from Africa Nazarene University, bestowed to him in recognition of his contribution to the growth of Safaricom from very humble beginnings to becoming one of the most innovative, influential and profitable company in the East African region. He is also member of the I.E.E.E. and I.E.E. (U.K.).

Gianluca Ventura

Non–Executive Director

Gianluca (49) is the Vodafone Group's Human Resources Director Africa, Middle East and Asia Pacific, a role he has held since October 2013. He joined the Board of Safaricom in March 2015.

He joined Vodafone in 2003 as Head of HR Technology and became Director of the Vodafone Group's Technology Department in 2006, based in Newbury. He held the role of HR Director of Vodafone Southern Europe since 2012 and of HR and Organisation Director of Vodafone Italy since 2008.

Previously, he worked at L'Oreal, where he held the role of Italy HR Director.

He is a graduate of Bocconi University in Milan and has a CEMS Master's Degree from Esade in Barcelona.

Susan Mudhune

Non–Executive Director

Susan Mudhune, MBS (66) is a fellow of the Institute of Bankers and Kenya Institute of Management. She is also a trustee of Management University of Africa and Kenya Girl Guide Association.

Currently she is a director at Eveready East Africa, Pan Africa Insurance Holding, and Center for Corporate Governance. Previously, she was a former Chairperson of KCB Group.

She holds a BA degree in Education and MBA from Nairobi University.

Nancy Macharia

Non–Executive Director

Nancy (50) joined the Board of Safaricom on 16 January 2007 and is a member of the Board Audit Committee. She is a recognised research consultant and educator in Design and Implementation of Interactive Computer Systems, Information Systems Security, Innovation and Technology Transfer for Business Development and Usability Engineering. Most of her research activities centre on social, mobile and emerging media and aligning IT and business strategy.

Previously, she was a lecturer at JKUAT in 2004 and thereafter appointed as Deputy Director, The School of Computing and Information Technology between 2005 and 2013.

She is a member of The Computer Society of Kenya, Public Relations Society of Kenya, Faraja Society and The Kenya Institute of Directors.

Nancy holds a Master's degree in Computer Based Information Systems from Sunderland University (UK), a Post Graduate Diploma in Project Management from Catholic University of Eastern Africa and is currently pursuing her PhD in Social and Mobile Media Risk Management Strategies.

Who governs us

Henry K. Rotich

Non–Executive Director

Mr. Henry K. Rotich (46) is currently the Cabinet Secretary for the National Treasury in Kenya. Prior to his elevation as a Cabinet Secretary, Mr. Rotich has held a number of roles as the Head of Macroeconomics at the Ministry of Finance, since March 2006. Under this capacity he was involved in formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. He was also involved in preparation of key budget documents including the Budget Policy Statements, as well as providing strategic coordination of structural reforms in the area of fiscal and financial sector.

Mr. Rotich also worked at the Research Department of the Central Bank of Kenya since 1994. Between 2001-2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist.

Mr. Rotich has also served in other senior positions. He was a Director on several Boards of State Corporations, including; Insurance Regulatory Board; Industrial Development Bank; Communications Authority of Kenya; and Kenya National Bureau of Statistics.

Mr. Rotich holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University, USA and a Master's Degree in Economics & a Bachelor's Degree in Economics, both from University of Nairobi, Kenya.

John Tombleson

Executive Director & Outgoing Chief Financial Officer

John (53) is the immediate former Chief Finance Officer of Safaricom from November 2011 to July 2016. He joined Safaricom from Vodafone Qatar, where he held the roles of Acting Chief Executive Officer and Chief Financial Officer.

He was a founding member of the Qatar start-up team which was founded in 2008 and built a population market share of 48% within two years.

He first joined Vodafone - New Zealand in 2003 and has since held senior financial roles in both mobile and fixed telecommunications operations. He was previously a Board member of Vodafone Qatar and Vodafone Fiji. Prior to joining Vodafone, John was a management consultant serving clients across a variety of industries.

He holds a Bachelor of Management Studies, with majors in Marketing and Accounting.

Kathryne Maundu

Company Secretary

Kathryne has over 12 years of consulting experience guiding both local and multinational companies and their boards in discharging their statutory and corporate governance mandates.

She has worked in the East African Countries of Kenya, Uganda and Tanzania, and is therefore well versed with the applicable corporate laws and other statutory regulations in these jurisdictions.

Kathryne holds a Bachelor of Laws Degree from the University of Nairobi and a Post Graduate Diploma in Law, from the Kenya School of Law.

She is an Advocate of the High Court of Kenya, a registered Certified Public Secretary and an Accredited Governance Auditor with the Institute of Certified Public Secretaries of Kenya (ICPSK).

Who leads us

Sylvia Mulinge

Director, Consumer Business

Sylvia heads the Consumer Business Unit (CBU), having joined Safaricom 10 years ago and was instrumental in steering the Enterprise unit to make Safaricom one of the largest Enterprise Communications service providers.

She also played a significant role in expanding the Company's retail shop footprint in converting them into viable profit centres.

Prior to joining Safaricom, she worked at Unilever for over five years both in Kenya and South Africa and gained immense and diverse experience in customer development, innovation management, trade marketing, field sales as well as brand management.

She holds a BA (Hons) of Science Degree from the University of Nairobi and is pursuing an Executive MBA at the University of Cape Town in South Africa.

Rita Okuthe

Director, Enterprise Business Unit

Rita heads the Enterprise Business Unit (EBU) having joined Safaricom in August 2009 as Head of Consumer Segments, a role in which she proved over the years to be invaluable in driving voice revenues through her understanding of our consumer behavior. She later held the role of Director, Marketing until she was appointed as the General Manager for Enterprise Business in March 2015.

Prior to joining Safaricom, she held several marketing roles, including Head of Marketing at MTN Uganda.

She has several years of experience in advertising and brand management and has successfully managed brands at all stages; from infancy to maturity in both monopolistic and highly competitive environments.

In 2014, Rita was nominated as one of the 50 global CMOs to watch in the Telecoms sector. Nominees were chosen as a result of their commitment to innovation in their field and their ability to communicate the role of operators and vendors as continuing shifts shape the telecoms sector.

She holds a Bachelor's Degree in Economics and a Master of Sciences in Marketing.

Thibaud Rerolle

Director, Technology

Thibaud heads the Technology Division and is in charge of Networks, IT and Financial Services platforms having joined in January 2012 from Vodafone.

Under his tenure in Safaricom significant milestones were achieved like the implementation of the largest Single Oracle ERP, the launch of 4G, the migration of M-PESA to Kenya and the implementation of the National Police surveillance project.

He has a wealth of experience having worked in senior management positions in the Telecommunication Industry for over 20 years in roles spanning seven countries in Europe, South America and Africa.

He holds a Master of Sciences Degree in Telecommunications Engineering with a specialisation in Networks from the prestigious Telecom ParisTech (ENST) and has also attended the Prytanée National Military Preparatory School in France.

Thibaud is fluent in six languages.

Who leads us

Nicholas Mulila

Director, Risk Management

Nicholas is responsible for the Risk Management functions of the Company; these include Enterprise Risk Management, Ethics and Compliance, Revenue Assurance, Corporate Security and Anti-Money Laundering.

He joined Safaricom in 2001 and has served in various capacities such as Principal Business Planning & Forecasting Accountant - Finance division, Head of Corporate Strategy and Planning, Head of Commercial Planning/Pricing Department and most recently Executive Business Analyst and Program Management Officer, a position he held until March 2013 when he took up his present role.

Nicholas has over 15 years' experience in Finance, Business Analysis, Strategy Formulation and Execution and Risk Management. Prior to joining Safaricom, Nicholas had worked for General Motors (EA) and Eastern Produce (K) Ltd, where he held various positions in Finance.

He holds a Bachelor of Commerce degree (Accounting option) and a Master of Business Administration degree in Strategy from the University of Nairobi. He is a Certified Public Accountant of Kenya (CPAK), a Certified Public Secretary (CPS) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Certified Public Secretaries of Kenya (ICPSK). He is also a member of American Society for Industrial Security International (ASIS).

Joseph Ogutu

Director, Strategy & Innovation

Joseph Ogutu heads the Strategy & Innovation Division having joined in October 2012, where he works closely with the CEO in formulating strategic direction for the business focusing on developing Safaricom's position as an industry leader in driving innovation in products & services.

He had joined Safaricom as Chief Corporate Affairs Officer in May 2005 from Telkom Kenya where he was the Principal Assistant to the Managing Director and Chief Strategy & Regulatory Officer. He then served as Chief Human Resource Officer from 2008 before taking on the role of Director, Resources Division in the March 2011 company reorganisation.

He has had a dynamic career in the telecommunications industry spanning more than 25 years of which the last 12 have been at Executive Committee level.

During this period, he was actively involved in the reform of the sector including the drafting of the Postal and Telecommunication Policy Paper that led to the restructuring of the defunct Kenya Posts and Telecommunications Corporation and subsequent establishment of CCK, Telkom Kenya and Postal Corporation of Kenya. He has also been involved in the establishment of the institutional framework for the Eastern Africa Submarine Cable System (Eassy).

He also serves as the Chairman of Safaricom Foundation and sits in the Board of TEAMS Limited.

He is a graduate of Economics from the University of Nairobi.

Steve Okeyo

Director, Regional Sales & Operations

Steve leads the Regional Sales and Operations Division. He has over 15 years of experience in Strategic Planning, Marketing Management, Commercial Transformation and General Management in Africa and Europe.

Prior to joining Safaricom, he was Director of Sales Force Effectiveness at Lafarge Corporate Headquarters in Paris, France.

Steve has also held senior management positions at Coca-Cola Company's regional operations in East and Central Africa including the position of Country Manager.

He holds a Bachelor's degree from the University of Nairobi and a Master's from United States International University (USIU) Africa.

Jannet Attika

Director, Customer Operations

Jannet heads the Customer Operations Division. She has over 23 years' experience in telecommunications sector cutting across Public Relations, Sales, Marketing and Customer Service.

She holds an MBA in Strategy from the University of Nairobi and a BA in Economics and Sociology from Egerton University.

She is also on the Alumni Excom of Strathmore Business School (SBS) having undertaken a Programme for Management Development (PMD), an Advanced Management Programme (AMP) and is now pursuing Women Director Leadership Summit.

She is married and blessed with three children.

Maria Shipiri

Director, Resources

Maria is a proven leader in Human Resources with close to 20 years of progressive experience across various industries including Telecommunications, Banking, Pharmaceuticals, FMCGs and the Development world.

She had joined Safaricom in July 2013 as Head of Department – Human Resources Business Partner, for Consumer and Enterprise Divisions.

A year later, she moved to Vodafone Group (UK) as Human Resources Business Partner for Group Enterprises. Prior to joining Safaricom, has held senior leadership roles in both global and local institutions including Ecobank Groupe in Togo, Novartis in Switzerland and Morocco, Mumias Sugar, Coca-Cola East & Central Africa and World Vision International.

Maria is a Masters graduate from the HEC Paris/University of Oxford Coaching and Consulting for Change programme and holds a Bachelor of Education degree from Kenyatta University. She is a qualified Executive Coach from the Academy of Executive Coaching (UK) and also possesses a Higher Diploma in HR Management from the Institute of Human Resource Management.

Stephen Chege

Director, Corporate Affairs

Stephen is responsible for the Corporate Affairs Division, which provides strategic support functions to Safaricom operations. These functions include the Regulatory and Public Policy, Legal and Secretarial Services; Corporate Responsibility (incorporating the Safaricom and M-PESA Foundations as well as Sustainability Reporting); and the Corporate Communications functions.

Stephen has a wealth of telecommunications professional experience spanning over 14 years in various organisations, including Vodafone Group UK.

He first joined Safaricom in 2006 as In-House Counsel, rising over the years to hold the position of Senior Manager, Public Policy & Market Regulation until 2011 when he was appointed Head of Regulatory and Public Policy. In April 2015, he became the Director, Corporate Affairs.

An advocate of the High Court of Kenya, Stephen holds a Masters in Law (LL.M) in International Trade and Investment Law from the University of Nairobi and a Bachelor of Laws Degree (LL.B) from the same University and is a Certified Public Secretary.

He is a Trustee of the Safaricom Foundation, and a member of the Taskforce established under the Kenyan ICT Ministry to develop the Policy Framework and Critical Infrastructure Bill for the protection of critical ICT infrastructure.

Who leads us

Denish Osodo

Director, Internal Audit

Denish Osodo joined Safaricom in October 2013 as Director Internal Audit. He is responsible for providing Assurance over the company's risk management, controls and governance processes. He previously worked at PricewaterhouseCoopers (PwC) for several years, offering audit and business advisory services to Companies in different industries during his stints in Kenya and United Kingdom offices. He left PwC as a Director in the Risk Assurance Services team focusing on the provision of Internal Audit and business Controls Advisory Services to large businesses in the African continent.

Denish graduated with a Bachelor of Commerce from the University of Nairobi and is a practicing member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Sateesh Kamath

Incoming Chief Finance Officer

Sateesh is the Chief Finance Officer (CFO) of Safaricom and Executive Board Member of Safaricom Limited as from 1 August 2016. Prior to his appointment to the role he was the CFO of Vodacom Tanzania.

With over 19 years' experience in both mature and emerging markets across Asia, Europe and Africa, Sateesh has a strong background in strategic performance management and building robust operations across the telecoms, FMCG and manufacturing sectors.

Prior to joining Vodacom, Sateesh has held senior roles for the last 12 years at both a global and local level for Vodafone operations in London, Australia, New Zealand, Turkey and Fiji. He is a Non-Executive Director in other Group companies and investments.

Corporate governance statement

Good corporate governance remains the foundation for long-term value creation and is therefore a core focus for the Board.

Good corporate governance practices are essential to the delivery of sustainable stakeholder value. At Safaricom, we are cognisant of the fact that implementation of good corporate governance practices gives shareholders and stakeholders the assurance and confidence that no effort is being spared to manage their wealth sustainably.

The importance of good corporate governance has recently come out so clearly in our country, where weaknesses in good governance practices in public and private entities have had far reaching negative consequences to the entity and the public at large and continue to have negative impact for the various stakeholders and by extension to the economy as a whole.

Safaricom continues to fully adhere to its obligations as a public listed company in compliance with the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, the various regulations by the CMA and the Nairobi Securities Exchange and the ethical standards prescribed in the Company's Code of Conduct. In addition, as a law abiding corporate citizen, Safaricom is abiding by the tenets of the Constitution of Kenya and all other laws.

We believe that good corporate governance is critical, not only at the corporate level but also at the national level. Safaricom continues to engage in promoting good corporate governance at national and private sector levels.

Corporate governance statement

In the financial year under review, we continued to strive to achieve high levels of corporate governance by focusing on the following specific areas in addition to the ongoing recurrent corporate governance enhancement actions:

- Growing shareholder value by continuing to implement our strategy that is aimed at enabling and promoting the long-term prosperity of the business
- Timely and relevant disclosures to provide stakeholders and mostly shareholders with a clear understanding of our business
- Execution of strong audit procedures, ensuring audit independence and continuously enforcing strong internationally recognised accounting principles
- Ensuring a well scoped annual audit and maintenance of robust internal controls across the business
- Clearly defined Board and Management duties and responsibilities and ensuring appropriate Director competencies through relevant trainings
- Continuing with alignment of employees remuneration with the long-term interests of shareholders through short-term and long-term performance incentives for senior leadership
- Compliance with laws and disclosure of policies to all relevant stakeholders
- Upholding the highest levels of integrity in the organisation's culture and practices

Board Charter

The Board Charter defines the governance guidelines within which the Board exists and operates. It clearly sets out specific responsibilities to be discharged by the Board, its Committees and Directors collectively, as well as certain roles and responsibilities incumbent upon the Directors in their individual capacities.

The Charter guides the Board in the exercise of its responsibilities and provides an overview of 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 conflicts of interest, conduct of Board and Board committee meetings and procedures
- Nomination, appointment, induction, training and performance evaluation of members of the board

The Charter does not in any way purport to be a substitute or a replacement of any laws and regulations that govern the running of the Company.

Board size, composition and appointments

The Company's Board Constitution as stipulated in the Articles of Association requires the Board to be comprised of nine members of whom, eight are Non-Executive Directors and one is an Executive Director. The Non-Executive Directors (including the Chairman) are required to demonstrate complete independence in character, judgment and action in fulfilling their duties.

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 at least once every three years in accordance with the Articles of Association.

The Board is responsible for recommending independent Directors for election by shareholders at the Annual General Meetings (AGMs). Nominated Directors undergo a formal screening process conducted by the Nominations and Remuneration Committee of the Board before they are formally appointed to the Board. The Committee also considers and screens Director nominees recommended by shareholders.

Between Annual General Meetings (AGMs), the Board may appoint Director(s) to serve until the next AGM. Any such appointment of an independent Director must be ratified by the shareholders at the next AGM following their appointment.

Board diversity

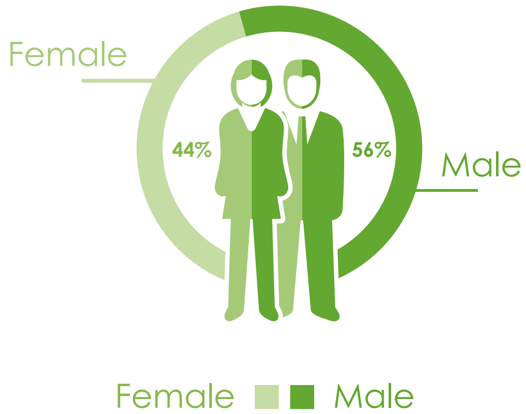
As a Company we appreciate diversity and recognise that it is not only one of the key foundations for introducing different perspectives into Board debates but also offers better anticipation of the risks inherent in the opportunities that we pursue as we endeavor to build a long-term, sustainable business.

The Safaricom Board of Directors 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, legal and ethics among others.

The Directors biographies appear on page 31 to 34 of this Annual Report.

In terms of complying with the one third (1/3) gender balance parity, Safaricom endeavors to and remains compliant as indicated in the chart below:

Board gender representation



Separation of powers and duties

The separation of functions between the Chairman (a Non-Executive Director) and CEO (Executive Director) ensures independence of the Board and Management. Balance of power, increased accountability, clear definition of responsibilities and improved decision making is 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, ensuring its effectiveness and setting its agenda. The Chief Executive Officer's roles and responsibilities include the day-to-day management of the Company's business and overseeing the implementation of strategy and policies approved by the Board.

Roles and responsibilities of the Board

The Board's primary role is 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 prudent and effective controls to mitigate risks facing the business.

A summary of the Board's responsibilities is outlined below:

- The Board provides effective leadership and stewardship in the running of the Company. This enhances shareholder value and ensures long-term sustainability and growth of the Company
- The Board is the custodian of governance processes and facilitates the setting up of appropriate corporate governance structures for the management of Company's operations
- Reviews and approves strategies and business plans. This requires the Board to develop an in-depth knowledge of the Company's business, understanding and questioning of the assumptions upon which such plans are based and reaching an independent judgment on the probability that the plans will be realised
- Reviews and approves the Company's financial objectives, plans and actions, including significant capital allocations and expenditure
- Establishment of Board Committees, policies and procedures that facilitate the most effective discharge of the Board's roles and responsibilities
- Facilitates Board accountability through effective Board evaluation and succession planning
- Evaluates and approves the compensation of the Company's Chief Executive Officer
- Reviews the succession plans for the position of the Chief Executive Officer and the executive management team

Corporate governance statement

- Reviews and approves the Company's annual operating and capital budgets as proposed by the executive management team
- Ensures that the key strategic risks of the Company are identified and understood, including their ongoing status, and that the risks are managed effectively and are regularly monitored
- Ensures that appropriate and effective risk management and internal control processes are in place and operating within the Company
- Monitors corporate performance against the strategic and business plans, including overseeing the operating results on a regular basis to evaluate whether the Company is being properly managed
- Upholds ethical behavior and compliance with applicable laws and regulations, auditing and accounting principles, and the company's own governing documents
- Proposes dividends distributions to the shareholders for approval at the annual general meetings
- Provides leadership and performs other functions as prescribed by law or assigned to the Board in the Company's Articles of Association.

How the Board works

While the Board is solely responsible for its agenda, 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 agenda for the Board meetings.

The Board meets at least four times a year and the meetings are structured in a way that allows for open discussions. All substantive agenda items have comprehensive briefing papers, which are circulated at least two weeks prior to the meeting. This allows time for appropriate review to facilitate full and effective discussions at all 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.

Directors attend Board meetings regularly and effectively to participate in the business of the Board. The Senior Management Team may be invited to attend the Board meetings as necessary.

Where Directors are unable to attend a meeting, they are advised on the matters to be discussed and given an 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 to, among other matters, the interests of employees, the fostering of business relationships with customers, suppliers and other stakeholders, including the impact of the Company's operations on the communities in which the Company operates as well as the environment.

The Non-Executive Directors oversee the operational performance of the business. To perform these tasks, they have full and timely access to all relevant information, with updates provided on governance and regulatory matters affecting the Company.

The Executive Committee members and other senior executives are invited, as appropriate, to Board and strategy 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 strategic and operations review meetings which also allows them to gain further insights into different aspects of the business.

Board activities for the year

The Board Work Plan together with the calendar of meetings for the financial year 2015/16 was fixed in advance and provided to all the Directors. Adequate notice was given for each meeting - the agenda and supporting papers were distributed in advance of all Board and its committee meetings.

The Board, in the course of the financial year, reviewed the following reports and matters:

- Progress against financial objectives, business developments, investor and external relations

- Board Committee reports on their respective activities
- The Company's risk appetite profile, top and emerging risks, risk management, liquidity, litigations, compliance and any reputational issues

At each Board meeting, progress towards achieving targets of approved business plans is reviewed and guidance provided to senior management.

Directors are at liberty to communicate directly with senior management with a view to obtaining more information on any issues that may impact Company's performance.

Board and Directors' effectiveness

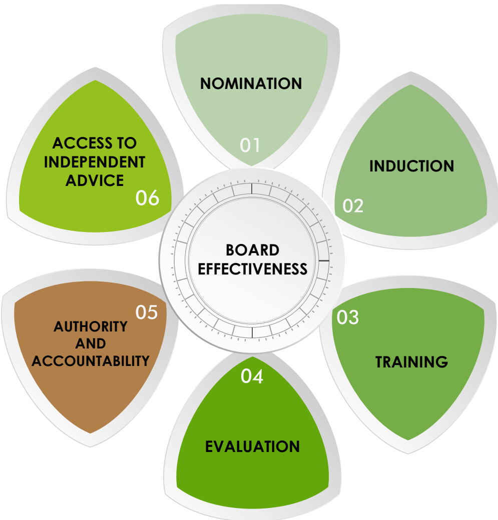
Board induction and training

In order to ensure that Board members are effective in their contribution to the management of the business, it is important that they develop a good understanding of the Group and its operations.

Board members undergo regular training and education to enable them to fulfill their responsibilities. The education programmes provide an overview of the Company, new developments within the telecommunications industry, accounting and financial reporting developments, as well as any regulatory changes.

This is particularly important to ensure that they appreciate risks that the Company is exposed to and their impact on the Company, its operations and how to effectively manage and mitigate against these risks. Directors also get further knowledge about the Company through site visits, informal interactions with management and staff, regular in-depth reports and presentations.

Enhancing Board effectiveness



In the year under review, Board members were trained on the following developments:

- Data democratisation
- Regulatory environment
- Contractual and legal matters
- Small and Medium Enterprises (SME) Market

We have also developed a comprehensive induction programme for all new Board members.

Overall board members' attendance for 2015/16

Board Member	Position	6th May 2015	2nd Sep 2015	4th Nov 2015	24th Feb 2016
Nicholas Nganga	Chairman	√	√	√	√
Robert Collymore	CEO and Executive Director	√	√	√	√
Michael Joseph	Non-Executive Director	√	√	√	√
Susan Mudhune	Non-Executive Director	√	√	√	√
Nancy Macharia	Non-Executive Director	√	√	√	√
John Otty	Non-Executive Director	√	√	√	√
Serpil Timuray	Non-Executive Director	√	√	√	√
Gianluca Ventura	Non-Executive Director	√	√	√	√
Esther Koimett	Alternate Director	-	√	√	√
John Tombleson	CFO	√	√	√	√
Enid Muriuki	Company Secretary	√	√	√	√
Kathryne Maundu	Livingstone Associates	-	-	-	√

*Kathryne Maundu joined the Board as a Company Secretary 24 February 2016, replacing Eliud Muriuki who resigned on the same date

Corporate governance statement

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. There is a documented procedure to enable them do so.

Nomination

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

Evaluation

The Board will commence an annual evaluation of its performance as an entity, its committees and each individual Director to gauge their performance. This will be undertaken with the assistance of an independent consultant.

Board Committees

In order to effectively and efficiently carry out its governance roles and responsibilities, the Board has established Committees. Currently, the Board has two standing Committees, an Audit Committee and a Nominations & Remuneration Committee. Each committee has formal terms of reference which have been approved by the Board.

The Board is satisfied that the terms of reference for each of these committees satisfy requirements of the Capital Markets Authority. The Board reviews the Committees' terms of reference on a regular basis. The Committees are provided with all necessary resources to enable them undertake their duties in an effective manner.

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 and Non-Executive Director. The constitution of the committee is aligned with the Capital Markets Authority's Code of Corporate Governance.

The Audit Committee meets four times a year and its mandate includes:

- Reviewing and assessing the Company's risk management process and the adequacy of the overall control environment
- Reviewing reports on internal audits conducted by the Director of Internal Audit and ensuring appropriate action is taken to address any weaknesses identified
- Receiving reports from the Director of Internal Audit, CFO or Director of Risk Management on any fraud, whether material or not, that involves management or other employees who have a significant role in the Company's internal controls
- Reviewing results of the Company's key controls questionnaire and ensure appropriate action is taken to address any weaknesses identified

Audit Committee meetings and members' attendance for 2015/16

Member	Position	5th May 2015	1st Sep 2015	3rd Nov 2015	23rd Feb 2016
Susan Mudhune	Chairperson	√	√	√	√
Nancy W Macharia	Member	√	√	√	√
John Otty	Member	√	√	√	√
Esther Koimett	Member	-	√	√	√
Robert Collymore	CEO	√	√	√	√
John Tombleson	CFO	√	√	√	√
Nicholas Mulila	Director, Risk Management	√	√	√	√
Denish Osodo	Director, Internal Audit	√	√	√	√
Anne Eriksson	Representing PwC, External Auditors	√	√	√	√
Fridaclare Katusya	Representing PwC, External Auditors	√	√	√	-
Laolu Akindele	Representing PwC, External Auditors	√	√	-	√
Enid Muriuki	Company Secretary	√	√	√	√
Kathryne Maundu	Company Secretary	-	-	-	√

Note: The Non-Members attends by invitation only

- Monitoring compliance with statutory and continuing listing obligations as stipulated under the Companies' Act and the Capital Markets Authority
- Reviewing financial statements and recommending their approval to the Board of Directors
- Reviewing and discussing with management and external auditor any significant events or transactions impacting the Company's financial reporting
- Consider findings from external and internal auditors on any material weaknesses in accounting and financial control systems
- Reviewing 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
- Overseeing activites and credentials of the Company's internal audit division, including review of the internal audit charter, code of ethics, plans, resource requirements, staffing and organisational structure
- Receiving reports on the status of significant audit findings, recommendations and management's responses

Nomination and Remuneration Committee

The Committee is 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.

Membership and functions of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises of five Directors and meets four times a year. The Chairman is a Non-Executive Director.

The Committee undertakes the following specific functions:

- Monitoring the size and composition of the Board
- Recommending individuals for nomination as members of the Board and its Committees
- Reviewing all executive appointments, succession and development plans
- Reviewing and proposing remuneration structures for Executive and Non-Executive members of the Board

Nomination and Remuneration Committee meetings and members' attendance for 2015/16

Member	Position	5th May 2015	10th Jul 2015	1st Sep 2015	3rd Nov 2015	23rd Feb 2016
Nicholas Nganga	Chairman	√	√	√	√	√
Michael Joseph	Member	√	√	-	√	√
Susan Mudhune	Member	√	√	√	√	√
Gianluca Ventura	Member	-	√	√	√	√
Esther Koimett	Member	-	-	√	√	√
Robert Collymore	CEO	√	√	√	√	√
Roy Masamba	Director, Resources	√	√	√	√	-
Maria Shirpiri	Director, Resources	-	-	-	-	√
Enid Muriuki	Company Secretary	√	√	√	√	√
Kathryne Maundu	Company Secretary	-	-	-	-	√

Note: The Non-Members attends by invitation only

Corporate governance statement

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. The Board is also allowed to disband them as and when necessary.

Ethics Committee

This is a special committee established by the Board and plays an oversight role on behalf of the Company with regard to matters of ethics, integrity and best business practices.

Membership and functions of the Ethics Committee

The Committee comprises of seven members of the Executive Committee and is chaired by the Chief Executive Officer (CEO) and offers strategic guidance on but not limited to the following:

- Reviewing ethical risks faced by the Company and ensuring response plans are in place
- Ensuring robust ethics related policies are developed and implemented
- Monitoring and reviewing various ethics initiatives
- Providing direction whenever situations or circumstances with ethical dilemmas arise

Role of the Company Secretary

The Company Secretary's roles and responsibilities include:

- Providing a central source of guidance and advice to the Board, and within the Company, on matters of statutory and regulatory compliance and governance
- Providing guidance to the Board on how responsibilities can be discharged in the best interest of the Company
- Facilitating induction training for new Directors and assisting with the Boards' professional development.
- In consultation with the Chief Executive Officer (CEO) and Chairman, ensure 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
- Ensuring proper development of Board meetings and providing Directors with information on governance matters
- Guiding the Company in taking initiatives to not only disclose corporate governance matters as required by law, but also information of material importance to shareholders, customers and other stakeholders
- Keeping formal records of Board discussions and following up on the timely execution of agreed actions

Ethics committee meetings and members' attendance for 2015/16

Committee Member	Position	10th Apr 2015	5th Aug 2015	11th Nov 2015	10th Feb 2016
Robert Collymore - Chairman	CEO	√	√	√	√
John Tombleson	CFO	√	√	-	√
Joseph Ogutu	Director, Strategy and Innovation	-	-	-	√
Roy Masamba	Director, Resources	√	√	√	√
Nicholas Mulila	Director, Risk Management	√	√	√	√
Denish Osodo	Director, Internal Audit	-	√	√	√
Stephen Chege	Director, Corporate Affairs	√	√	√	√
Patrick Kinoti - Secretary	HOD, Ethics and Compliance	√	√	√	√

Board remuneration

Non-Executive Directors are paid a sitting allowance for every meeting attended. They are not eligible for pension scheme membership and do not participate in any of the Company's remuneration or compensation schemes. Details of the Directors' fees for the Non-Executive Directors and remuneration of the Executive Directors paid in the financial year under review are set out on page 161 note 28 of these financial statements.

Directors' shareholding

Directors can purchase or sell shares of the Company in the open market. In the financial year under review none of the Directors 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 31 March 2016 is as follows:

Name of Director	Number of shares held
Nicholas Nganga	855,100
Robert Collymore	1,222,200
Michael Joseph	1,178,600
Esther Koimett	517,600
Susan Muthune	51,200
Henry Rotich	2,200

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 they 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 arms' 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.

At any meeting of the Board members are expected to make a declaration of any interest they may have in the business under discussion. In the financial year under review, there were no business transactions with any of the Directors or their related parties.

Relationship and communication with Shareholders

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

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 availed to shareholders at least 21days before the date of the AGM and shareholders are free to raise questions to the Board during the meeting.

Safaricom also responds to daily queries from shareholders, their representatives and financial analysts through a dedicated Investor Relations team. The website has a specific webpage dedicated to the information requirements of the shareholders and analysts. The website is interactive and contains all the relevant information relating to the Company including financial presentations and annual reports since listing in 2008. The information can be accessed through various kinds of devices that our shareholders could be using to obtain the information.

Investor briefing sessions: These are held immediately after the announcement of interim and full year results. The investor briefing sessions serve as an opportunity to disseminate information relating to the performance of the Company six months after the close of the financial year and at the end of the financial year.

Local and international investor road shows: The Company Senior Management (especially the CEO and the CFO) holds meetings with major institutional investors, individual shareholder groups and financial analysts to discuss the business performance and strategy. This is usually done after announcement of half-year and full-year results.

Ethics and code of conduct

The Company has a code of conduct that binds both Directors and employees. When joining Safaricom, every employee is provided with a copy of the code of conduct and must commit to abide by its requirements as part of the employment contract with the Company. As part of the company wide ethics awareness programme, all employees are also taken through mandatory training on various aspects of the code annually.

Corporate governance statement

Whistle blowing policy

We have a whistle blowing policy that provides for, among other things, 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. The hotline reports are forwarded to Safaricom guided by an arrangement that ensures the information does not leak to the suspected persons.

Depending on the nature of the breaches, the individual reports are then channeled to the following; Director, Risk Management, the CEO or the Chairperson of the Board Audit Committee. Whistle blowing statistics are reported to the Ethics Committee and the Board Audit Committee on a quarterly basis.

Staff and business partners are regularly sensitised on the need to report any suspected unethical business practices and procedure to make such reports.

Insider trading policy

The Company has a policy on insider trading which is strictly observed. Directors, Senior Leadership Team and staff are made aware that they ought not to trade in the Company's shares while in possession of any insider information that is not available to the public or during a closed period. Safaricom's closed period covers between 1st April until publication of full year results and 1st October until publication of half year results.

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 have considered a wide range of information relating to present and anticipated future conditions, including future projections of profitability, cash flows, capital and other resources. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

Risk management

We have a clear framework for identifying and managing risks at operational and strategic levels. Our risk identification and mitigation processes have been designed to be responsive to the changing business environment that we operate in.

Our risk management approach

We recognise that risk remains an integral part of creating value. As such, we have developed processes to ensure all major risks are proactively managed. We ensure that our customers get quality and reliable products and services by employing best practices across all touch points. We uphold the highest standards of integrity and constantly ensure principles of good corporate governance are upheld at all levels in the organisation.

We are cognisant of the fact that effective risk management is critical to enable us meet our strategic objectives. The Board has overall responsibility for the Company's risk management and internal controls system. The Chief Executive Officer is responsible for prioritising, aligning and arbitrating on risk management across the Company while members of senior management are responsible for implementing appropriate risk management policies and putting procedures in place to ensure that approved business strategies are successfully implemented.

Risk identification

Risk assessments at Safaricom are conducted twice a year. This is done in conjunction with the Company's business units and other stakeholders. The risk assessments focus on the following:

- Identifying various risks facing the business
- Assessing their probability of occurrence
- Estimating their potential impact
- Evaluating the adequacy of controls in place to mitigate the risks

The implementation of all planned and agreed risk mitigation measures is tracked and progress reported to the Board Audit Committee. The committee is mandated with the review and assessment of the Company's risk management process.

Our key risks

We classify the risks facing the business into two major categories. These are strategic and operational risks.

Strategic risks

Regulatory environment

The regulatory environment that Safaricom operates is dynamic and increasingly becoming complex and thus remains a key area of focus. Our integrated offerings composed of mobile and financial services attract regulatory oversight from different major regulators. The nature of products and services that we provide requires that we continuously comply with a wide range of rules and laws from major regulators namely Communications Authority of Kenya (CA), Competition Authority of Kenya (CAK) and Central Bank of Kenya (CBK).

We have continued to comply with all laws and regulations, as well as building constructive relationships with all relevant regulators. We proactively seek opportunities to contribute to discussions on emerging legislation and regulations.

One of the key regulatory issues that has had a bearing on our operations is the review of the ICT policy.

The government through the ICT Ministry commenced a review of the ICT policy. The policy is expected to influence the ICT industry and we continue to engage government in the process.

Economic growth prospects

In the year under review, Kenya's Gross Domestic Product (GDP) grew by an estimated 5.6 percent in 2015 compared to 5.3 percent in 2014. The performance was driven by a stable macroeconomic environment and significantly improved performance of agriculture, construction, finance, insurance and real estate sectors. This was despite inflationary pressures and volatility in foreign exchange rates.

However, Kenya's economy remains vulnerable to risks that have the potential of slowing growth. The forthcoming general elections could see a slowdown in growth momentum through two channels; first is the risk that investors could defer investment decisions until after the elections; second, that election related expenditure could lead to a cut back in infrastructure spending. Security also remains a threat not just in Kenya but globally and could also interfere with growth. Changes in the US monetary policy could trigger volatility in financial markets around the world introducing volatility in the currency markets.

Risk management

Competition

Kenya's telecommunications industry is increasingly becoming competitive owing to new products and services. Recently, we have witnessed competition arising from the following:

1. Local fiber operators offering home internet and other entertainment such as television on demand.
2. Over-The-Top (OTT) players offering voice calls through the internet such as WhatsApp.
3. Mobile Virtual Network Operators (MVNO) offering mobile money services.

Statistics from the Communications Authority of Kenya (CA) quarterly industry report confirms that competition in Kenya's telecoms industry remains active as shown in the table below.

Safaricom continues to encourage healthy competition since it is core to ethical business practice and most importantly, it ensures customers get value for money. We consider healthy competition a key indicator of maturity in the industry.

We have invested heavily in improving our network, so that our customers experience the best services through quality. Additionally, we are also keen on growing and retaining our customer base by leveraging on our strong brand, reach and mutually beneficial strategic partnerships.

Operational risks

Security

Security remains at the core of our operations as enshrined in our comprehensive Occupational Safety and Health policy (OSH).

To mitigate against security risks, we continue to invest in measures to ensure that our staff and assets are protected. We also work closely with law enforcement agencies to ensure our customers' interests are protected.

Information and cyber security

Safaricom proactively implements preventative and detective controls around its information security on all its platforms.

Our ISO 27001 Information Security Management System certification is an independent confirmation to our customers that we have implemented appropriate processes and controls relating to our cloud services, billing and customer support services to protect the privacy of their information. In addition, we have expanded the scope to include mobile data and mobile money services.

Safaricom complies with laws regarding protection of customers' privacy and consumer data in line with Article 31 of the Constitution of Kenya and the Kenya Information and Communications Act.

Fraud risk

Just like other corporates, we are exposed to fraud risks both from internal and external sources. Internally, due to the size of the business, there is a possibility of misappropriation of Company assets and procurement related frauds by staff members.

Industry performance: March 2016 versus March 2015

	Safaricom			Airtel and YU			Orange			Finserve		
	Mar' 2016	Mar' 2015	%	Mar' 2016	Mar' 2015	%	Mar' 2016	Mar' 2015	%	Mar' 2016	Mar' 2015	%
Market share by Subscribers (%)	65.60	67.10	-1.5ppt↓	17.50	20.20	-2.7ppt↓	12.50	10.80	+1.7ppt↑	4.40	1.90	+2.5ppt↑
Mobile subscribers as at (mn)	25.10	23.30	7.7%↑	6.70	7.00	-4.3%↓	4.80	3.80	26.3%↑	1.60	0.70	+128.6%↑
Market share by Voice Minutes (%)	76.80	71.70	+5.1ppt↑	14.50	21.00	-6.5ppt↓	8.30	7.10	+1.2ppt↑	0.40	0.20	+0.2ppt↑
Total Minutes in the quarter to (bn)	7.86	6.28	25.2%↑	1.48	1.84	-19.6%↓	0.85	0.62	37.1%↑	0.03	0.01	+233%↑
SMS Market Share (%)	89.90	91.60	-1.7ppt↓	8.80	6.90	+1.9ppt↑	1.10	1.30	-0.2ppt↓	0.10	0.10	-
Total SMS in the quarter to (bn)	5.80	6.00	-3.3%↓	0.58	0.45	+28.9%↑	0.07	0.09	-22.2%↓	0.01	-	-
Mobile Data Market Share (%)	60.80	65.00	-4.2ppt↓	21.10	18.50	+2.6ppt↑	11.20	13.00	-1.8ppt↓	6.80	0.60	+6.2ppt↑

To manage this risk, we have the Ethics and Compliance team whose mandate is to put in place measures to detect, prevent and investigate all fraud cases. The team carries out mandatory annual ethics awareness sessions covering all our staff. This is part of the efforts to ensure that the highest standards of ethical culture are upheld.

Externally, we've experienced cases of M-PESA fraud where customers and agents are defrauded by third parties. We continue working closely with the law enforcement authorities to ensure that fraudsters who target our customers are quickly arrested and arraigned in court.

Business continuity and crisis management

To ensure security and a world class standard in managing our operational risks in Information Security and Business Continuity management, Safaricom implemented both ISO 22301 Business Continuity (voice, data, SMS and cloud services) and ISO 27001 Information Security Management System (Cloud services, Billing services and Customer Support) certification in 2014. In 2015 this scope was expanded to include mobile money services and mobile data. We have achieved ISO 20000 certification for IT service management in 2016 to further enhance our technical service capability.

Safaricom has a robust Crisis Management Team (CMT) so that in the event of crisis, appropriate individuals in the organisation are mobilised and prepared to respond in managing the crisis and ensure effective and efficient resolution of services.

Conclusion

Other than the above we believe in a programme of continuous improvement to ensure that our risk management processes and procedures adapts and improves based on the changing macro and micro environment.

We continue to work closely with all our stakeholders to ensure that our products and services are fit for purpose for our customers. To this end we have begun the journey to independently certify our data centres as well as our M-PESA training programmes to ensure even better service to our customers.

Ethics and compliance

At Safaricom, we remain committed to the highest level of business ethics. We proactively promote the right ethical values and at the same time spare no efforts to fight the vices such as fraud and corruption. Our ethics initiatives can be divided into two major initiatives; internal and external.

External initiatives

We recognise that we cannot change the business ethics environment by working in isolation. We have joined hands with other companies within and outside our value chain to positively influence our business ethics environment.

Outside our value chain

We are members of the Businesses Against Corruption in Kenya (BACK) initiative which brings together the business community and government to engage on approaches that can be applied in dealing with corruption. One of the key outcomes of this initiative is the anti-bribery bill.

We are active members of the global and local networks of the United Nations Global Compact as well as active members of the UNGC Anti-corruption Working Group.

Some of the key outcomes of these collaboration efforts include increased ethics conversations within the business community and increased business interest in up skilling and enhancing their ethics management/ governance structures.

Within our value chain

We work with our business partners to reduce corruption risks. We provide technical assistance to our suppliers (especially the SMEs) on how to tackle corruption risk. This includes visits to select suppliers to identify their pain points and determine how we can jointly address the issues.

Internal initiatives

We continuously implement initiatives that ensure Safaricom acts ethically and also deals with unethical acts. Some of the key internal initiatives undertaken in the year includes:

Ethics awareness training

We have held ethics training sessions and the year under review recorded a 98% participation by our staff.

Risk assessments

We performed risk assessments to identify ethics risks across the business and develop mitigation strategies to deal with the risks.

Enhanced fraud management systems

We carried major enhancements on our fraud management systems to support detection of frauds in a timely and efficient manner.

Risk management

Continuous fraud monitoring

We introduced round the clock monitoring of transactions to ensure timely detection of fraud.

Compliance

Safaricom signed up to the mobile money Code of Conduct developed by GSMA (an association of mobile operators). The objective of the Code of Conduct is for mobile money providers to be ultimately accredited by an external body therefore providing regulators and consumers with an additional level of confidence with regards to mobile money.

Fraud reporting support

We have a number of channels through which staff and business partners report suspicious activities. These include an independently managed ethics hotline that includes a toll free number (0800720009), website (www.Safaricomethicsline.com) and email (Safaricom@ethics-line.com).

Investigations

We decisively deal with identified cases of corruption up to and including handing over the implicated persons to the law enforcement authorities.

The impact of these internal initiatives have resulted in more reporting on suspected fraudulent activities, internal ethics conversations as well as lower incidents of ethical breaches as detailed below.

Anti-corruption corrective measures	FY 14	FY 15	FY 16
Fraud cases investigated	89	29	27
Outcomes of investigations			
Disciplinary warnings	16	13	18
Dismissals	56	58	16
Cases reported to law enforcement agencies	7	4	2

Protecting our subscribers

We are committed to providing safe and secure products and solutions to our customers. We achieve this through various activities and the major ones are highlighted below:

Regular risk assessments

We do this by supporting business functions in identifying and mitigating against risks in a timely manner by conducting regular and companywide risk assessments.

Policies and procedures

We have documented policies and procedures that ensure protection of customer information. These processes are also regularly reviewed for relevance, effectiveness and timeliness.

Education and awareness

We keep our customers informed about threats to their subscription. We do this by educating them on how they can protect their personal information. This is done through SMS broadcasts and other media channels.

Security

We are always vigilant in ensuring safety of our assets which is key in ensuring uninterrupted availability of services to our customers. We maintain high security standards in all our premises or events to ensure that our customers and other stakeholders are safe.

To further enhance the security of our customers we have provided a toll free number 333 to enable them to directly reach us through SMS whenever they need to report on fraud and/or any suspicious activity.

Internal audit

Internal Audit is an independent function that reports directly to the Board Audit Committee, providing assurance on the effectiveness of governance, risk management and internal controls.

The primary role of Internal Audit is to protect the assets, brand and sustainability of the business.

Internal Audit works in tandem with risk management practices established within the business to achieve its core mandate of assurance and improvement of the control environment.

Internal Audit maintains a scoring system that evaluates the business controls environment based on audit report ratings. A target score is set for each division and the business as a whole at the beginning of each year and the scores attained are reported to the Board Audit Committee each quarter.

Audit activities in the year ended 31 March 2016

Audit activities comprised of:

- Planned audits
- Special reviews in response to emerging risks and management requests
- Continuous auditing and monitoring
- Projects assurance
- Advisory and consulting support

During the financial year under review, 20 planned audit reviews were conducted to appraise the design, implementation and operating effectiveness of controls. In addition, 11 special reviews were undertaken at the request of stakeholders or in response to specific emerging risks.

The audit reviews mainly related to:

- M-PESA systems and processes
- Network operations and quality of service
- Customer experience
- Sales and distribution processes and systems
- Revenue Assurance
- Business continuity

The overall Internal Audit Score for the year for the business improved by 7% from the previous year showing a strengthening of controls.

In the financial year 2017, 34 audit reviews are planned based on a detailed risk assessment performed. Special reviews will also be performed where emerging risks are identified.

strategic review

Customer first

Customer experience journey

We continue to listen and act on insights from our customers to improve product and service experience. This has led to us retaining our market share leadership at 65.6% according to the Communications Authority of Kenya (CA) March 2016 Sector Statistics Report.

In the year under review we intensified investment on improving the customer experience journey. Some of the initiatives in the year that we undertook include:

- Launched "Hakikisha" - new enhancement to M-PESA that enables our customers to confirm the name of the intended recipient of funds before completing an M-PESA transaction
- Launched free M-PESA E-statements. Our customers now have the option of requesting for automatic regular statements. This is expected to continue enhancing convenience, transparency and accountability to our M-PESA users
- Getting even closer to our customers with 54 care desks offering customer service at dealers premises across the country
- We continued with plans to reduce the number of calls to our call center by continually offering customers other options to resolve their queries. We have seen our web self-care users grow to over 7.2 million
- Reduced roaming prices to minimise incidents of customer bill shocks
- Used big data to improve customer experience

Another Safaricom first: Segmentation approach

The shift from focus on products to customers

The Safaricom customer is continuously changing, demanding the right products and excellent customer experience. In keeping with these changing trends, we embarked on a journey to segment our customer base to better understand them and their needs. This in turn empowers us in our journey to promote customer satisfaction through embracing and driving customer centricity in our propositions development.

This journey began in the first half of the financial year. It was a highly involving process that included focus groups, engaging with hundreds of consumers across different spheres of life, extensive restructuring of different operations and support teams. This was guided by the needs of the segments identified. In some cases segment teams were recruited to ensure we stay true to each identified consumer segment.

The result of this process was the identification of four key/core customer segments namely:

- Mass segment
- Hustler segment
- Discerning Professional segment
- Youth segment

All the four core segments have sub-segments that allow the business to drill deeper down for a better understanding of the customer.

mySafaricom App

In a bid to improve our customers experience we launched mySafaricom App. The App not only mirrors the user's account but also incorporates important shortcuts for a user. The App aims at empowering our users with self-care features allowing them resolve most of their issues on their own.

The following services are available on mySafaricom App:

- Airtime top-ups
- Request for an M-PESA statement
- Option to view, redeem and transfer Bonga points
- Buy data and SMS bundles
- Talk to a customer care agent through Live Chat and Facebook
- Management of SMS services

Customer voice

Providing unmatched services

Self service through Interactive Voice Response (IVR) was enhanced to include new menus. Additional menus are planned in this financial year to increase uptake of IVR self services by over 50% of customer queries.

The Safaricom App was launched in May-16 and it is a revolutionary service offering that puts the power in the hands of our customers with loads of information. More menu options are planned before the end of the year.

Regionalisation has enabled the business to improve the relevance of customer decisions within the regions.

The voice of the customer

We are in constant conversation with our customers in regards to Safaricom Products and Service experience. The verbatim feedback we collect through a wide rage of multimedia such as Video, Social Media platforms, Voice and E-mails is used on a daily basis to influence decisions on how to improve products and services.

Customer feedback has enabled us to completely eliminate customer pain points and provided opportunities to empower our customers.

Customer service excellence

We continue to aspire for excellence in service delivery. Our focus on being the service leader in Kenya through unmatched customer experience continues to define our strategies.

There are massive opportunities through innovative solutions to emerging customer needs, eliminating all customer pain points and ensuring the voice of the customer is embedded in the solutions that we provide to our ever-growing base.

Multiple contact channels

Though we still see majority of our customers preferring the voice channel as the mode of contacting Safaricom, we have undertaken significant investment in improving emerging channels especially social media which has resulted in improved response time and visibility of customer queries.

Our extensive dealer network offers immense opportunities to serve customers especially on requests that they are unable to self-serve. The opportunity is being expanded to more dealers to ensure our customers have ease in conveniently accessing services.

Looking ahead

We are seeking new opportunities to help customers access self service options through emerging technologies such as Voice Biometrics and Call Steering. Safaricom is committed to the pursuit of the attainment of the seventeen United Nations 2030 Sustainability Development Goals (SDG). Three goals have been identified under Customer Operations and will be embedded in our every day operations and decision making.

Relevant products

Voice

Voice continues to be the largest revenue generator growing at 3.9% to Shs 90.8 billion, an increase attributed to the 8% growth in our customers, a strong and convenient Prepay airtime distribution network of over 252,000 retail outlets and 44 owned retail shops for top-ups and personalised services. Customers also continue to top up more conveniently through M-PESA, which continues to grow and now accounts for 42% of all airtime top-ups.

Messaging

Our SMS service revenue registered double-digit growth for the year growing by 11% to Shs 17.3 billion as a result of 8% growth in 30-day active SMS users to 15.2 million, 24% increase in active SMS bundle users to 5.0 million.

Devices

We continue to enable our customers acquire smartphones and other data-enabled devices through the Flexi Bonga loyalty programme, where a customer can pay for a device with part cash and part Bonga (loyalty points). Other efforts to push down the price of smart devices include our own initiatives and strategic partnerships with device vendors.

Mobile data

Broadband access

We remain focused on putting the customer first by ensuring delivery of unmatched internet experiences. Our continued investment in our 3G and 4G network has ensured that we not only have the widest data coverage in the country but also the fastest. Revenue from broadband remains the fastest area of growth.

In March 2016 we had 7.9 million customers on 3G and 4G enabled devices, of which 0.7 million are 4G handsets.

Fixed service revenue grew by 22% to Shs 3.8 billion due to increased number of fixed customer users to 10,490 up 21.6%. We now have 1,018 commercial buildings as well as 1,795 homes connected to high speed fibre.

Sustained Data Growth

We grew our mobile data revenue by 42.7% to Shs 21.2 billion. This growth was attributed to:

- 21.5% growth in 30-day active data users to 14.1 million
- Mobile data penetration now at 53.1% of total base
- 112% growth in usage driven by more affordable data bundles
- Entry level 3G smartphone now as low as Shs 3,000
- 4G launched in over 20 counties
- Relevant data to deliver a superior experience

Smartphones

Most customers in Kenya have a mobile first internet experience meaning that the first time they got online: it was via a Safaricom mobile phone. This has necessitated the acceleration of smartphone penetration across all customer segments.

We have managed to lower the price of smartphones to as low as Shs 3,000 and leveraged on our Bonga (loyalty) points to even drive prices lower at Shs 2,499 plus 5,000 Bonga (loyalty) points. We have also reduced the price of 4G smartphones to Shs 8,999.

We have achieved the affordability agenda through our own Safaricom Neon range of mobile devices and strategic partnerships with device vendors.

In the year under review, we achieved 128% growth in smartphones from 3.4 million to 7.8 million.

Delivering relevant content

In a bid to drive awareness and customer education on relevant content and uses of the internet, we partnered with local celebrities (Bahati Facebook campaign) for endorsements to drive awareness and usage of social media.

We are also constantly engaging with our partners both local and global such as Google and Facebook on creative ways to stimulate usage.

Given the close and direct relationship between usage and smart devices, we are also ensuring that all the devices we sell are preloaded with the relevant apps.

First hand data experience

With the aim of truly ensuring that we give our customers a true taste of Safaricom internet, we have consistently identified customers who don't use the internet but have data capable devices and found innovative ways of introducing non-data users to the internet experience including the bundling of data with device sales as well as partnership with companies like Coca Cola.

Looking ahead

- We aim to grow our 4G and smartphone penetration
- Make accessing internet a daily habit by growing the daily and monthly active users
- Commercialise our connecting the home and content strategy

Relevant products

M-PESA

M-PESA remains a key platform to deepening financial inclusion in line with our mission of transforming lives. When it comes to creating value for our shareholders, M-PESA remains one of our main drivers of revenue growth.

We closed the financial year with total registered M-PESA customers at 24 million representing a growth of 15%. M-PESA total transactional value for the financial year was Shs 5.29 trillion, representing a 27% increase compared to the last year. On average we had Shs 190 billion of real time cashless payments being made every month.

M-PESA generated Shs 41.5 billion in revenue representing a growth of 27% attributed to an increase in 30-day active M-PESA customers to 16.6 million up 20% and a 16% increase in chargeable transactions to 7.4 per active customer. We continued to increase the accessibility of the service to our customers and closed the year with 100,744 M-PESA agents.

Lipa na M-PESA

Lipa na M-PESA remains the preferred cashless platform enabling payments collection by corporate organisations and merchants. The service makes it possible for organisations to accept payments via M-PESA and conveniently transfer collected funds to either a bank account or to the owner's M-PESA account. The service remains the largest cashless service in Kenya in terms of number of transactions, transaction value, number of customers and active merchants creating value to both the merchants and their customers.

At the end of the financial year, there were 44,000 merchants who were active on 30-day basis. These merchants received customer payments of Shs 20 billion in March 2016 for goods and services.

The service continues to deliver many benefits including:

- Merchant to merchant settlement
- Real time settlement with over 19 banks. This offers access to the funds collected on the same day
- Unmatched safety, which eliminates the risks associated with handling and transporting cash
- Minimises losses and risks associated with fake currency
- Enhances record keeping with details of every transaction made readily accessible through e-statements
- Offers an alternative to the relatively costly point of sale terminals for merchants

Growth of savings and loans

M-PESA continues to support financial inclusion initiatives with the growth of savings and loans through the M-Shwari and M-KCB platforms in partnerships with CBA and KCB banks respectively. The two platforms continues to offer our customers more options and convenience when accessing credit.

International Money Transfer (IMT)

M-PESA subscribers enjoy unrivaled convenience when sending and receiving money through international partners. To make this possible, Safaricom has partnered with Western Union, MoneyGram, Home Send Hub, Vodacom Tanzania and MFS Africa Hub. In the year under review, international money transfers grew by 64% to Shs 13.1 billion.

M-PESA API

The new M-PESA platform dubbed G2, implemented at the beginning of the financial year, continues to offer versatile integration capabilities for our development partners, to create excellent M-PESA journeys across the different industries they serve. We have consolidating different interfaces that developers have shown interested to enable and support innovations around M-PESA.

As expected, most of these are about the payment journeys, covering both disbursements (Business to Customers – B2C) and service payments (Customer to Business – C2B and Business to Business – B2B). These and other features are now available via secure Application Programming Interfaces (APIs) that allow for third party applications to easily plug into M-PESA.

Some of the new possibilities include the following:

- Automated Payment Receipt Processing
- Automated Payment Disbursements
- Automated Payments Reversal

Looking ahead

We will continue working with and demanding the highest standard of excellence from our dealers and agents to ensure premium services across all segments as M-PESA grows. We will:

- Increase M-PESA penetration and usage
- Grow active Lipa na M-PESA merchants
- Enhance the Lipa na M-PESA merchant experience by growing real time settlement with more banks
- Fuel the expansion of business to business payments in the SME segment
- Leverage opportunities to increase uptake of savings and loans products
- Grow international money transfers
- Enhance customer experience through innovation

Relevant products

Partner of choice

As enterprises continue to grow, our focus is shifting from selling products to offering solutions to meet our customers' needs across the various verticals. Our endeavor to become their preferred integrated communication solutions provider is premised on our range of communication solutions for enterprises. These solutions include mobile, fixed, cloud and payment platforms.

Towards an integrated ICT services provider

The growing economy and by extension the enterprise space offers an opportunity to deliver bundled solutions to enterprises. We are a fully integrated enterprise solutions provider in Kenya backed by our expansive network coverage (local and international via our partners) that enables us to offer services on multiple platforms for our customers in Kenya and across the world. Through the recently launched ready business index, we are able to reach out to as many customers nationwide and recommend solutions that enhance their business operations based on their readiness test.

Leveraging on regional operations to accelerate growth in the SME/SoHo segment

We continue to leverage on the regionalised sales and operations structure, to take our services closer to our enterprise customers. This will enable us grow our product penetration among the existing small and medium business customers in addition to driving growth through new acquisitions. We are leveraging on plug and play solutions that are accessible, easy to use and offer a worry free experience.

Growing payments solutions for businesses

M-PESA continues to offer increased efficiencies to our customers by reducing the cost of collections and the risks of handling cash transactions. Our solutions cut across all business sectors such as financial institutions, retail sector (FMCGs), energy sector, utilities and general merchants. In the past one year, distributors of major Fast Moving Consumer Goods (FMCG) and the fuel industry drove Shs 4.6 billion in transaction volumes monthly.

Fibre for businesses

We continue to roll-out Safaricom Fiber for Business across the regions. We have presence in seven major towns in Kenya and plans are underway to connect an additional 19 towns. Currently, small and medium sized businesses are enjoying our fast and affordable internet connection located in the various buildings that are already connected onto our fiber. We continue to diversify our solutions offering to cater for the needs of our enterprise customers to suit their different business requirements.

Access to government services

We continue to work closely with both the national and devolved government units to come up with relevant solutions tailored to their needs. Through our partnership, we have provided storage for the e-Citizen platform and leverage on our payments reach via M-PESA to make payments with ease. Through the e-Citizen portal one can now have access to various government services conveniently without visiting their offices. This saves time and is one such drive that implements the digitalisation agenda for government services.

Supporting life-transforming innovations

Safaricom Spark Venture Fund invests in Sendy

Through the Spark Fund, we invested in Sendy, a technology enabled courier service that allows customers to send and track packages in real time using bodabodas (motorcycles) and small trucks. The Company offers a 24/7 delivery service that is accessed via mobile and web by individual and corporate customers. The riders are tracked via GPS that allows customers to track movement until delivery of the goods.

M-tiba

This is a mobile centric medical management platform that seeks to provide better coordination between sponsors, patients and providers in the health sector.

Eneza Education partnership

Safaricom partnered with Eneza Education, an e-learning startup, to roll out Shupavu 291 which is a study tool that uses low-cost mobile technology to give learners educational lessons and tests via SMS, web and mobile app platforms.

Teachers and parents and guardians have an opportunity to review performance reports on individual leaners and also school performance via SMS. The service also includes the "ASK-A-TEACHER" feature, where learners ask questions virtually to a teacher.

eneza education
spreading education everywhere

Looking ahead

In the year ahead we intend to focus on the following:

- Continue engagement with and support internal and external innovators
- Expand partnerships and provide more testing environments for developers to connect and use SMS, USSD & M-PESA API
- Work in partnerships with other corporates to develop innovative ecosystems to support life transforming innovations

Operational excellence

Our ever expanding reach

We remain focused on ensuring our customers can access our products and services across the country. We have moved even closer to customers over the past year.

Going regional

During the period under review, we restructured our sales and operations teams into regions, enabling us to take our services closer to the customer and enhance their experience. Benefits to the business from the restructuring include the following:

- Improved network coverage and quality due to faster decision making at the regional levels
- Continued focus on new customer acquisition strategies through regional specific promotions and offers
- More empowerment to dealers to serve customers better through Safaricom care desks at their premises

Safaricom retail shops

We closed the financial year with 44 shops which continue to be strategic customer touchpoints, providing customer care services, Safaricom products and a wide range of cellular devices and products.

Retailer network

Access to our products and services by our growing and loyal customer base requires an elaborate and countrywide retailer network. We closed the year with over 252,000 active retailers spread across the country.

Dealer network

Safaricom's dealer network continues to be an important touchpoint in the retail market. This year we undertook various initiatives with the aim of strengthening the relationship we have with our dealers.

The initiatives undertaken in the year include:

- Continued working capital support through financing airtime and device purchases on a weekly basis.
- Subscriber acquisition drives through offering special connection tariff for the dealers and branding of their working tools (Activation vans) for better market visibility and presence
- Our Annual Dealer of the Year award (DOYA) that recognises dealers who have excelled in maintaining high standards
- Working assets acquisition through the part financing of the Motor Bikes scheme where dealers and Safaricom co-pay at 70% and 30% respectively

M-PESA agent network

To continuously ensure easy access to M-PESA by our customers in line with our strategy to deepen financial inclusion and live up to our brand promise of "transforming lives", we grew our M-PESA agent footprint by 17% to 100,744.

Some of the initiatives rolled out to support our agents include:

M-PESA Agent Regional Awards

We organised award ceremonies at the regional level across our six regions. These awards identify, recognise and reward good performing M-PESA Agents who excel in the areas of float availability and customer service. This aims at encouraging excellence and best business practices among the agents.

M-PESA Agent weekend financing

This aims at supporting and complementing the agents' working capital requirements especially when bank facilities are unavailable and also increasing float availability. This year we went further to support individual sub-agent stores across all our six regions.

Expanded access to financing options

Safaricom entered into partnerships with banks to extend loans to M-PESA agents in order to increase their float and expand their businesses.

Strengthening sub-agency relationships

We focused on strengthening the relationship between the M-PESA principals and their sub-agents where all principal agents are required to issue standard contracts to their sub-agents.

Looking ahead

In the new financial year we are keen to continue onboarding additional quality agent outlets by leveraging on our regional teams. This is in addition to initiating measures aimed at increasing efficiency of float utilisation by the existing agents.

95% of population coverage

Best network for you

Our network remains the key platform to deliver our services to our loyal and growing customer base. We remain focused in ensuring we have the best network for our customers to access highest quality services and coverage. We continue to grow our population coverage and as at end of the financial year we had achieved 95% of population coverage with 2G and 78% of population coverage with 3G coverage.

In the year under review we invested Shs 32 billion mainly in the expansion of 2G, 3G and 4G networks to support customer growth and improve network quality. Other areas of investment were in own fibre roll out and information system upgrades.

Expanding coverage to cater for growth

To cater for our growing customer base, demand for quality and superior services, we continued to roll out 2G, 3G and 4G sites and closed the financial year with the largest network in the country. We now have over 3,800 2G base stations, of which 2,517, equivalent to 66% are 3G-enabled.

4G, which offers high speed internet, continues to be adopted by our customers and we now have rolled out 467 4G sites in major towns and cities across 20 counties. We have 700,000 customers already with 4G enabled devices. Other than the commercial sites, we have rolled out over 170 security sites to date. This has been instrumental in boosting security in many parts of our country.

We also continue with our fibre roll out and to date we have rolled out 3,236km of fibre, covering 34% of our sites, 1,138 buildings and 6,848 homes in 16 counties. Our WiMAX network remains critical in providing last mile connectivity in areas where fibre cannot reach. We now have 193 active WiMAX sites.

Safaricom has, and continues to, improve on energy efficiency. Initiatives undertaken in the year include use of solar, wind, power cubes, free cooling and deep cycling. This will see cost efficiency on energy, better availability of our network and improve the environment as part of our responsibility to go green.

Operational excellence

Network modernisation and optimisation

To achieve the desired levels of quality and service delivery, activation of new features and capabilities, we continue to modernise and optimise our network resources. To this end the following has been achieved:

- 88% of 3G sites are on double capacity (four carries); Carrier Aggregation activation in three cities that have 4G with up to 175Mbps capabilities. This has been made possible through utilising the Essar Spectrum thereby improving overall voice and data performance for our customers.
- Over 83% of our WiMAX network is now modernised
- Over 70% of our national fibre upgraded to 100 Gbps

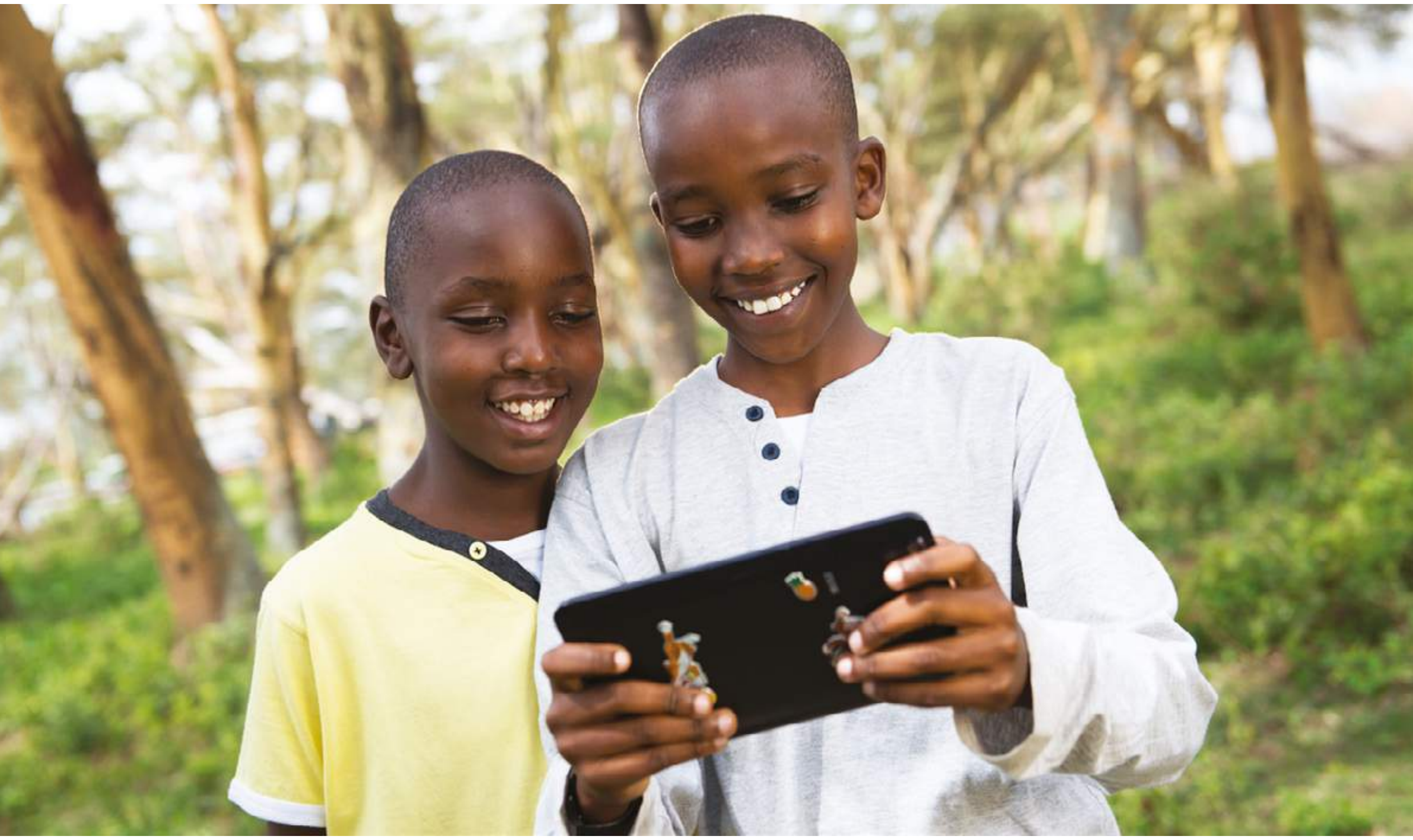
To further enhance indoor coverage we have installed:

- Indoor building solutions (IBS) in over 341 commercial buildings and rolled out over 121 small cell sites and to improve Residential coverage in-fills in Nairobi

M-PESA (G2) platform: at home and stable

The successful relocation of M-PESA platform servers to Kenya has been one of the largest milestones towards increasing efficiency for our customers. The new platform has since eliminated system failures that previously caused delays and frustration to our users. The number of transactions per second has increased and transfers of mobile money from bank to M-PESA is now completed almost instantly.

Lipa na M-PESA transactions, Airtime and Data bundles purchase are now faster and more stable.



Network stability

Network stability remains at the heart of our customer care and we have deployed power back-up solutions such as the high capacity and cyclic batteries to mitigate power fluctuations. We continue working with Kenya Power to connect our base stations to the national grid.

To improve efficiency, we deployed Low Voltage Automatic Phase Selectors (LV APS) in over 117 sites and deployed free cooling solution in over 235 sites. We also installed solar solution to 61 sites and connected additional 297 sites to the National grid.

To enhance availability of our services we completed battery upgrades on 72 sites and two data centers. There were also generator upgrades on 185 sites and we continue improving engagement with Kenya Power with greater focus on reducing recurrent failures.

Superior and improving network quality - Best in Class certification

In the financial year, we commissioned a number of independent network quality tests covering mobile Voice and Data by P3 Communications, an international leader in independent mobile benchmarking services. In the last test done in March 2016, Safaricom emerged the best, having garnered the highest overall score ahead of its two peers and was awarded the 'Best in Test' P3 certification as we continue to implement the 'Best Network for You' initiatives across the country.

The certification covered the following indicators:

- 4,600 Voice calls per operator
- 1,500 Data sessions per operator

Areas covered and interconnecting highways: Nairobi, Ruiru, Thika, Makuyu, Embu, Chuka, Meru, Nanyuki, Nyeri, Nyahururu, Nakuru, Eldoret, Kitale, Malava, Kakamega, Kisumu, Ahero, Oyugis, Kisii, Keroka, Bomet, Narok, Kikuyu, Mombasa, Kilifi and Malindi.

Looking ahead

In the new financial year we will seek to:

- Increase accountability through network guarantees
- Democratise data by expanding 3G population coverage from 78% to 82%
- Continue investments in the network to deepen coverage and deliver best experience (2G, 3G and 4G)
    - Build 459 new 2G and 3G sites
    - Add 3G to 240 existing sites
    - Add 4G to 100 existing sites
    - Add 108 new small cells
    - Connect another 270 cell sites to fibre
    - Add Fiber-to-the-buildings (FTTB) to 200 new buildings
    - Pass 15,000 more homes with Fiber-to-the-homes (FTTH)

Brand assets

Music assets

Safaricom International Jazz Festival

Started in 2014, The Safaricom Jazz Festival has since grown to become one of the biggest jazz events in East and Central Africa with an impressive line-up of international artists performing in Kenya like Grammy Award Winners Jonathan Butler, Kirk Whalum, Norman Brown and Branford Marsalis, multiple Grammy Award nominee Gerald Albright, Richard Bona, Rhythm Junks, The Nile Project, Yuval Cohen, Kunle Ayo, Jimmy Dludlu, Salif Keita, Sheléa, Jef Neve, Sons of Kemet, Maya & Matan, Siya Makuzeni, Giampaolo Nuti and Francesco D'Orazio.

Local jazz artistes such as Chris Bittok, Aaron Rimbui, Eddie Grey and Kavutha & Jacob Asiyo have got to perform for thousands of music fans, who have also been introduced to other equally talented musicians such as Swahili Jazz Band, AfroSync, Edward Parseen and The Different Faces Band and James Gogo and the Gogosimo Band.

Since the first event, over 30,000 fans have had the opportunity to enjoy jazz music and contribute towards a worthy cause. To date the Jazz Festival has raised over Shs 19 million that has been used to support Ghetto Classics, a non-profit music programme that seeks to provide an opportunity for children from underprivileged backgrounds to explore their musical talents and use them as a ticket out of their low-income status. Over 600 children aged between nine and eighteen years have benefited from the funding. Safaricom hopes to transform the lives of these children through music, nurturing their talents and giving them an opportunity to perform for various audiences.

Safaricom Youth Orchestra

The Safaricom Youth Orchestra (SYO) offers musically gifted young Kenyans from various backgrounds an opportunity to learn and perform classical music and currently has over 80 members aged 10-18 years. Most of the children in SYO come from under-privileged backgrounds.

Through the orchestra, youth are encouraged to excel in a unique music genre and benefit from exposure to different cultures, teaching them the values of respect, tolerance, empathy and hard work. The Safaricom Youth Orchestra also provides an opportunity for the members to lay the foundation for careers in music.

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.

Sports assets

Safaricom Athletics Series

Safaricom has been a huge supporter of sports in this country in line with our spirit of "Transforming Lives".

Last year, Safaricom Athletics Series traversed the country giving upcoming athletes a platform to showcase their talent. We supported a total of 20 local race events that have done more than raise Safaricom's profile as the biggest corporate sponsor of sports in Kenya but also played a key role in helping to shortlist talent for Team Kenya, which has performed remarkably well at global athletic events.

Safaricom Marathon

The Safaricom Marathon, one of our flagship brand assets, started off as an idea to save endangered species in the Lewa Conservancy and has transformed thousands of lives. Neighbouring communities are now able to benefit from health, water and community projects, thanks to funds raised through the marathon.

The Safaricom Marathon has grown from a comparatively small event with only 180 runners in the year 2000 to over 1,400 participants from 35 countries across five continents in 2015. The event has also gained recognition as one of the toughest and most unique races in the world as it cuts through one of East Africa's most scenic conservancies.

Last year, the Safaricom Marathon raised over Shs. 60 million, bringing the total amount raised so far to over Shs. 445 million. These funds have been used to support various initiatives in wildlife conservation, education, water and sanitation, agriculture and health within and around the conservancy.

Our people

The Driver of Staying Ahead of the Curve

Living up to our mission to transform lives demands that we continually take care and value our people. We believe that our company can only be at its best when our employees are at their best too. We are keen to attract, develop and retain exceptional talent so we can always deliver the unmatched and superior experience to our customers. We continue to adopt various best practices to create a friendly work environment, support and encourage work-life balance.

Employer of choice

Simplified business processes

The year under review has seen a major focus on continuous improvement of policies, processes and procedures. This is perfectly in line with the changing business environment and climate. This ensures the strategic pillars of the business are always adhered to through continuous process of improvement, the automation of human resource management services and the use of technology to achieve operational excellence.

Health, safety and welfare

At Safaricom, we value and treasure a healthy workforce, which we believe is critical in ensuring the Company's performance is maintained at its best in order to optimally serve our loyal customer base. In the financial year we conducted Defensive Driving Training, Height Safety Training, RF Safety Awareness Training, First Aid and Fire Marshal Training and hearing, vocal conservation and ergonomics training. These trainings aims to provide employees, suppliers and partners with relevant skills, knowledge and experience in emergency preparedness and risk mitigation.

The company focus in the past year, was ensuring health and safety practice moves form "Head to Heart".

A safe workplace

Some of the initiatives taken in the year to improve staff welfare and the work place environment were:

- Investing in facilities that make work experience collaborative, supportive and agile for excellent performance
- Promoting a healthy workforce through provision of fully equipped gymnasiums within the main office facilities and access to third party gyms for the regional operations staff. We also have game rooms to unwind and socialise
- Facilitating social clubs like swimming, running and chase clubs that encourage cohesiveness and sustainable well-being
- Improving the maternity policy offerings that allows maternity leave of four months for working mothers, up from three months. This can be accessed together with the one month annual leave, making it possible for the working mother to be away for five consecutive months with full pay and other benefits
- On return from maternity leave, mothers work reduced hours on full pay for a further six months
- Crèche facilities were revamped to increase the capacity to accommodate more children

Rewarding our people

In line with our policy to reward for performance and ensure competitive pay positioning, we benchmark our remuneration package (salaries and all other benefits) on an annual basis against our peers in the market.

Our salary review methodology is based on a differentiated approach to award higher increments to exceptional performers.

We have a short-term incentive program that rewards staff based on their individual performance as well as on the overall company performance.

In the spirit of incentivizing our sales force, a short-term incentive plan has been in effect where rewards are paid on a quarterly basis on the achievement of set targets.

Our Long Term Incentive Scheme consists of an Employee Share Plan where management staff are awarded based on a split between performance and retention.

For us, health and safety make good business sense and investing in it positively enhances our bottom line

Employee Engagement Survey

We conduct the Employee Engagement Survey as a platform where employees have an opportunity to share how they feel about working for Safaricom, comment on the issues that concern them and the business as a whole.

In addition, the survey provides management an opportunity to listen to employees and take action on areas that need to be improved to make the company a better place to work and encourage a culture of continuous improvement.

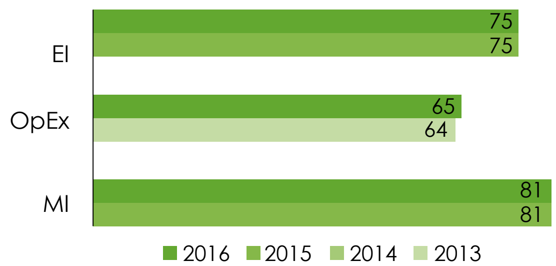
The intention of the Survey is to gets insight around the Organisation climate, Leadership capability and Safaricom's position against global high performing organisations as measured below:

- The Engagement Index (EI), measures each employee's pride, motivation, overall workplace rating and intention to stay with Safaricom
- The Manager Index (MI), measures people management and the aspects of team climate that are within a manager's control
- Operational Excellence (OpEx) measures the effective use of a manager's team's skills & abilities and any barriers in their work environment
- Employee net promoter score (NPS) measures the overall willingness of employees to recommend Safaricom products and services to other people.
- Safaricom Way measures how we do things around in Safaricom by measuring and living the values of Speed, Simplicity and Trust

2016 Employee Engagement Survey results

The following are the results of the Employee Engagement Survey in the period under review compared to the previous year:

- Engagement Index achieved was 75 and remained the same as per year 2015
- Manager index achieved was 81 and remained the same as per the year 2015
- Operational Excellence achieved was 65 against 64 as per the year 2015



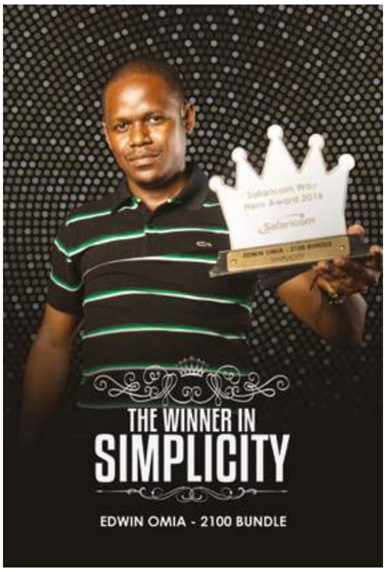
People Survey offers employees a platform to comment on issues that concern them

Our people

The Safaricom Way

In our efforts to embed the Safaricom Way of doing things to drive Customer First, Operational Excellence and Right Products, we continue to use the Safaricom Way Heroes platform to recognise and celebrate individuals and teams that have consistently demonstrated excellence in customer experience excellence by living the values of **Simplicity**, **Speed** and **Trust**. This programme not only recognises staff locally but also internationally.

In the year 2015/2016, for the first time we participated in the Annual Vodafone Heroes event where two of our staff were awarded the Vodafone Customer Experience Excellence Award other Vodafone Operating Companies by show casing our Products and Services. In the coming year, we are looking forward to see nominations that are more exciting around customer experience Excellence.



Capability development and recruitment

Employee capabilities have become table stakes in today's digitally powered world and it is now crucial for organisations to identify, focus, invest and nurture these assets that enable businesses to differentiate themselves.

This places importance on people and their capacity to perform at high levels in a rapidly changing working environment. Safaricom has worked within a framework of continuous improvement for the benefit of individuals, teams and the overall business. We have endeavoured to create our employees' capabilities that move away from segmented to holistic approach to activities that have more meaning and purpose. This is with the sole aim of ensuring that our staff and partners are equipped with capabilities fit for the current as well as future business needs.

We continue to deliver value through various programmes that cover the following aspects:

- Employee development training that targets personal effectiveness for entry-level staff
- Manager development training that targets impact management and supervisory skills
- Leader development programmes aimed at boosting senior leadership effectiveness
- Talent Development Programmes aimed at the company talent pool
- Business and commercial awareness drives to improve our customer and employee loyalty

A focus on 70-20-10 development model has been implemented where 70% of development consists of on-the-job learning, supported by 20% coaching and mentoring and 10% through classroom training. This is expected to see an even greater adoption as we endeavor to inculcate a coaching culture in the organisation.

We continue to ensure all our training and skills development comply with the required legislations in an effort to drive the best quality trainings as a means of transforming our business, industry and country.

In the year under review, we recorded an average training index of 84% against a target of 80%, with an average training index of 54.6% for our female employees. This is higher than the training index achieved last year of 78%. On average we achieved training hours per employee of 59.1, with our Senior Leadership team training hours averaging 48 hours.

Diversity and Inclusion

Why Diversity and Inclusion is important to Safaricom

- It makes the best use of our talents- making everyone feel valued
- Creates an environment that supports innovation and collaboration
- Nurtures a culture of understanding and meets the needs of our diverse customers
- It promotes company performance and enhances employer branding

This year we reviewed three areas of Diversity and Inclusion as we re-affirmed our commitment to making this a way of life in Safaricom. We continue to focus on three main pillars as indicated below:

Career development

We believe that diverse, talented and dedicated individuals are critical to our success. To achieve this we take consented efforts to identify and bring together people with different skill sets and experiences, to create an environment of equal opportunity, people development and ultimately business success.

We realise that as a brand that intends to continue to transform lives and remain an employer of choice, it is paramount that we go the extra mile to create value for our communities.

Safaricom has embedded the Sustainable Development Goals (SDGs) in the business objectives, focused specifically on 9 of the Goals. With regard to Diversity and Inclusion we adopted goal number 10 - Reduced Inequalities and came up with the following initiatives that would help drive this goal:

- Endorse "HeForShe" campaign. This is a solidarity movement for Gender equality. We believe that men are a critical player in driving this campaign.
- International Women's week talk: The Theme for this year was "Pledge for Parity". The conversation throughout the week addressed gender empowerment issues.

Our people

We believe that leadership is more effective and inspiring when it takes the input from every affected party.

- Forums for Men: The agenda for these forums has been to provide a platform for male employees to freely discuss all professional, social and psychological issues they are going through and to continue to create a harmonious working environment for all employees

The company has made deliberate efforts in creating a conducive environment for all.

- Introduction of Flexi working hours. This allows mothers who return from maternity to work a minimum of 30 hours instead of 40 hours a week for a period of 6 months whilst receiving full pay and benefits.
- Maternity cover: This was revised to facilitate access to better and professional medical services.
- Mothers room: Provision of a private room for nursing mothers
- Creche facilities: This was revamped to increase the capacity for accommodation of more children
- Women in Technology (WIT): Introduced a mentorship program to mentor young women.

Safaricom remains committed to ensuring that its leadership has equal gender representation. The current companywide composition of 50:50 is a step towards this objective.

The table below shows the head count per employee category and the Gender ratios in the organisation:

Employee Category	2016	2015
No. of Employees	4,258	4,192
No. of Contractors	344	59
Total Employees	4,602	4,251

Gender Ratio	2016	2015
Male: Female	50% Male 50% Female	51% Male 49% Female
Male: Female (Senior Leadership Team)	57% Male 42% Female	64% Male 36% Female
Male: Female (Head of Departments:HOD)	67% Male 32% Female	64% Male 36% Female
Male: Female (HOD and Senior Managers)	66% Male 34% Female	63% Male 37% Female

Reflective of the communities we serve

Diversity is at the heart of our business; as a result we will attract, develop and retain the best talent as we remain reflective of the communities we serve.

Safaricom is one of the leading companies in Kenya spearheading the agenda for Persons with Disability - it has done the following in this regard:-

Deaf:

- Sign Language Training: In order to embrace our colleagues with hearing impairment, communication is key and as a result we embarked on a sign language campaign where staff from different divisions across the business continues to be trained on basic sign language.
- Sign Language Interpretation: In order to bridge the communication gap between the deaf and the hearing community, we ensure that our key events have sign language interpreters.

Physically challenged:

- We continue to employ Persons with Disability within various functions, making adjustments in all our premises to ensure the environment is friendly to PWDs.

Visually impaired

- We have a few partially blind employees, however, we are in the process of evaluation our systems to onboard totally blind persons in the organization.

Networking and Partnerships:

It is key to build relationships with other organisation if we are to make a great impact in the country as a whole. For instance we supporting the UN Disability day celebrations, the Paralympics as well as participating in special events to create awareness.

Inclusive leadership

We believe leadership is more effective and inspiring when it takes care of inputs from all concerned parties – all should be given an opportunity to contribute as this can drive higher engagement and innovation.

In the spirit of inclusiveness, we have trained Diversity and Inclusion Champions across the business and regions to ensure that diversity and Inclusion initiatives are driven and embraced at the lowest levels in the business.

We have also come up with diversity & inclusion portal accessible to all employees with important information to aid employees on all information on diversity and inclusion.

Diversity and inclusion friendly policies and facilities

The company has undertaken various cross functional projects that have ensured entrances, doors, lifts, bathrooms and working spaces cater for the needs of the various cultures, preferences and physical capabilities. This has been done in addition to the existing initiatives which include prayer rooms for staff from various religious backgrounds and recovery rooms where our staff can use in case they need to take a short break.

Safaricom remains committed to ensuring that its leadership has equal gender representation and as such the current Safaricom leadership composition of 50:50% perfectly meets its objective. We believe that leadership is more effective and inspiring when it takes the input from every affected party.

The diversity and inclusion agenda remains a key area to the organisation as it strives to develop working culture and environment which respects, values, celebrates and makes the most of the individual differences in the workplace.

Our reasons for driving diversity and inclusion aims at the following:

- Making Safaricom a great place to work
- Making the best use of our talents
- Creating an environment that supports innovation and collaboration
- Creating a culture of understanding and meeting the needs of our diverse customers
- Setting standard as an organisation that is progressive and modern

Looking ahead

In the coming year we shall focus on engaging the following employer of choice initiatives:

- Creating opportunities for Internal and external long-term and short-term assignments
- Continue to hire from minority groups as a diversity and inclusion agenda
- Initiate behavioural, leadership and functional competency assessments for senior leadership teams
- Develop our people to embrace better ways of communicating using our new digital collaboration tools and social media
- Ensure that all employees are protected and encouraged to realise their full potential irrespective of race, ethnicity, sexual orientation, religion or gender
- Develop the right capabilities to ensure a continuous transformation towards customer focus through consumer marketing; CARE programs, segment marketing, digital and brand trainings
- Continue to build business and commercial awareness through products and services business know how-level initiatives
- Build capabilities for product development and Innovation for the future business/products
- Develop talent for future rising stars/graduate trainees and build a coaching culture within the organisation
- Develop the organisation capabilities for culture management
- Launch of Safaricom Uni - a virtual knowledge centre with at least 10 academies
- Entrench and Inculcate the 70-20-10 staff development model

Social impact

Safaricom Foundation

John Wali of Junior Achievement, Joseph Ogutu the Safaricom Foundation Chairman and Pauline Ngari of Hand in Hand Eastern Africa during the launch of the Safaricom Foundation Micro Loan Fund, August 2015

Safaricom Foundation (SF) is the Corporate Social Investment arm of Safaricom Limited. It is established as a charitable trust with the aim of making sustainable investments in Kenyan communities. Since its inception in 2003, the Foundation has contributed immensely to the improvement of health and well-being of Kenyans through investing in health, education, economic empowerment, water, environmental conservation, disaster response, technology for good and arts and culture projects. In 2014, the Foundation launched its new three year strategy (2014-2017), with a goal of making significant contribution towards creating lasting social, economic and environmental transformation for communities in Kenya.

The overall goal of the strategy is synchronised with the priorities articulated in the second Medium Term Plan (MTP) 2013-2017 for Kenya, as well as to the Sustainable Development Goals (SDGs).

The Safaricom Foundation is in its final year of implementing the three-year strategy with remarkable achievements across the 8 thematic areas. Cumulatively, the Foundation has invested about Shs 2.9 billion to enable implementation of over 1,100 projects across the 47 counties in Kenya.

During this fiscal period, the Foundation continued to focus on new and ongoing strategic partnerships, including *Maji na Uhai* (Water), Economic Empowerment, Health and Technology for Good. Additional support was also provided to the Medical Camps and staff involvement schemes, including the *Pamoja and Usamaria Committees*.

Economic Empowerment:

Making it possible for microbusinesses to thrive through financial, entrepreneurial education and access to loan facilities.

Statistics indicate that 75% of the country's population is under 30 years of age and 40% of the population is jobless. Out of this, 70% are youths. Further, an estimated 800,000 young Kenyans are released into the job market each year and only a paltry 50,000 get employment. One of the key policy challenges in the country is the high level unemployment amongst this group, which is estimated to be double the national rate of 12.7%. Most of these young people could benefit through entrepreneurship initiatives. However, opportunities to funding for micro and small- scale enterprises are not easily accessible to the youth.

It's against this backdrop that the Safaricom Foundation launched a Shs 20 million Loan Programme in August 2015, during the International Youth Day called the Micro Loan Fund, the key to empowerment. In keeping with the UN Sustainable Development Goal of ending poverty, the aim of the programme is to ultimately create job opportunities, financial independence as well as raise self-esteem and dignity of the youth.

The fund has been under the management of two partners including Junior Achievement Kenya and Hand in Hand (HiH) Eastern Africa, with an intention of growing the facility to a revolving fund.

Junior Achievement Kenya has been working with young people aged 18-24 years, while the focus of Hand in Hand Eastern Africa is on persons of 18 years and above. Both organisations also have diverse expertise in group mobilisation, business training, access to credit and linkages to markets. The two entities have been implementing the activities in eight counties, comprising Busia, Homa Bay, Bomet, Makueni, Kajiado, Mombasa, Nairobi and Nakuru. Significant achievements have been realised from the partnerships during the fiscal period.

As the world gears to fulfill the Sustainable Development Goals (SDGs), Martha, a 62 year-old Chairlady of the Border Women Group Homa Bay Branch, in her own small way is helping address goal number two which seeks to end hunger, achieve food security and improved nutrition and promote sustainable agriculture. Living in a dusty village of Kanyakongo, some eight kilometers from Homa Bay town, Martha is not the ordinary lady, but an entrepreneur extraordinaire. Before receiving the HiH EA training, Martha was a housewife who ran a small kitchen garden growing indigenous vegetables for home consumption. Apart from addressing issues of food security in her home area, Martha has created job opportunities for youths within her locality whom she engages during fish harvesting and pays them after delivering their services.

Many young people who wish to start small and medium enterprises lack the capital to do so and unfortunately financial institutions classify them as high risk borrowers who cannot access financial support. We believe that through this revolving fund, we will significantly contribute to the reduction of unemployment because we are looking forward to supporting young people who have exciting ideas but nobody is willing to finance them."

Joseph Ogutu, Chairman, Safaricom Foundation during the launch of the fund

Social impact

Launch of the Safaricom Foundation Medical Camps – Phase 6:

Combating non-communicable diseases through patient outreach services

The aim of the Kenya's Vision 2030 is to provide efficient, integrated and high quality affordable healthcare to all citizens with priority given to preventive care at community and household level. According to the World Health Organisation, the rise of non-communicable diseases in Kenya is more distinct than in the rest of Africa. Deaths as a result of non-communicable diseases in Kenya rose by 44% between the year 2000 and 2012 against the East Africa region rate of 26%. Many Kenyans lack both access to affordable healthcare and awareness on measures for prevention and management of various medical conditions. These factors result in late presentation of patients to medical specialists and the onset of complications leading to high costs of treatment and sometimes early death.

Non-Communicable Diseases (NCDs) account for 27% of deaths suffered by Kenyans, equivalent to almost 100,000 people per year. Notably, Kenya has an estimated diabetes prevalence of 4.2%. When poorly controlled, diabetes is associated with many serious and costly complications that include stroke, amputations, heart disease, kidney failure and blindness.

To supplement the efforts of the Kenya's Ministry of Health, the Safaricom Foundation, in conjunction with Kenya Diabetes Management and Information Centre (DMI), has been supporting countrywide medical camps programme since the year 2006. With over Shs 200 million disbursed, these camps serve to raise awareness and provide medical care and treatment. This has made it possible for over one million Kenyans to receive free consultation, treatment and surgical intervention for a wide range of ailments, with a special focus on diabetes and hypertension, conditions that form a large part of the non-communicable diseases (NCDs).

In this financial year, 14 camps were held in the following areas: Kandara, Matuu, Mpeketoni, Nakuru, Naivasha, Bondo, Rongo, Nairobi, Kieni, Eldoret, Narok, West Pokot, Gucha and Sotik, reaching 28,932 beneficiaries. Majority of the patients were screened and treated for diabetes and hypertension combined. 35% of those screened are diabetic and they got to learn of their condition during the medical camps. Screening for breast and cervical cancer was also done for 778 women. Of these, 23 (3.0%) cases tested positive for cervical cancer and 65 (8.4%) were diagnosed with potential infections and were referred for further management. The Foundation also organised one residential workshop of 35 children living with diabetes for training on managing the condition.

Cumulatively, 84 camps have been held across the country since inception of the programme, reaching 212,453 people. A substantial number of patients living with diabetes tend to develop eyesight complications due to development of eye cataracts. There are also other conditions found to be in dire need of surgery. For this reason, in the last two years, medical support has been initiated to cater for the related surgical care and extended to other needy conditions, like cancer.

Medical Camps: Summary Data – May 2005 to March 2016

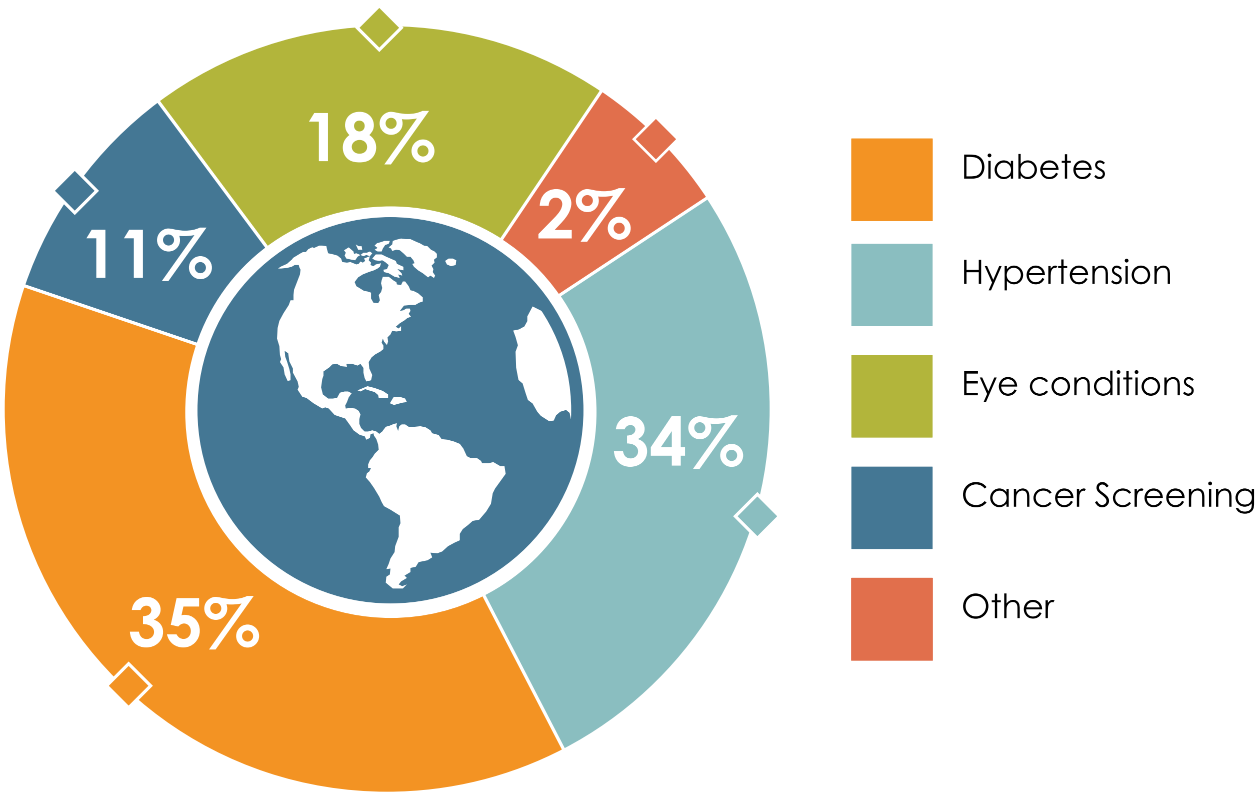
Timeline	Camps held	No of patients	Surgeries
Phase 1 (2005-2006)	15	51,888	0
Phase 2 (2008-2009)	18	50,966	0
Phase 3 (2011-2012)	15	47,949	0
Phase 4 (2013-2015)	23	61,650	14
Phase 5 (2015-2016)	13	28, 932	550
Total	**84**	**212,453**	**564**

84 camps held since inception, reaching 212,453 beneficiaries countrywide

As a result, people who have been living with non-communicable diseases unknowingly have been diagnosed, treatment initiated and empowered to propagate prevention and self-care where applicable. To sustain the demand for services, DMI has been providing healthcare awareness education alongside the medical care, ensuring that the work is done hand in hand with the local professional healthcare providers to respond to the needs presented at healthcare facilities.

Detailed reports emanating from the camps are shared with the Ministry of Health and relevant partners to provide back up for advocacy work in non-communicable diseases. In the coming year, the service will seek to respond to increased demand for prostate cancer screening for the men who are 40 years old and above.

Percentages of different medical conditions diagonised



Social impact

M-PESA Foundation

M-PESA Foundation is an independent charitable trust established to invest in initiatives to improve the social and economic status of Kenyans. Since its establishment in 2010, the Foundation has invested in large scale health, environmental conservation, education and integrated water projects. The M-PESA Foundation integrates the use of mobile technology in its investments while focusing on areas of greatest need and impact. The Foundation makes large scale investments in partners in order to create lasting positive changes in the lives of Kenyans. The approaches applied are holistic, employing different but relevant strategies to deliver results. During the year, the Foundation continued to progress initiatives as follows:

a) Implementation of Phase II of the Health Enablement and Learning Platform (HELP) in Partnership with AMREF Health Africa and Accenture

b) Implementation of Phase II of the UZAZI Bora (Samburu Maternal and Child Health project) in Partnership with AMREF Health Africa and PharmAccess

c) Completed the integrated Food Security project in Kwale in Partnership with Kenya Red Cross Society

d) Construction of Phase 1 of the M-PESA Foundation Academy commenced and intake of the 96 pioneer students completed

e) Implementation of Eburu Ecosystem Conservation Project in Partnership with Rhino Ark Charitable Trust

M-PESA Foundation Academy

The M-PESA Foundation Academy (MFA) is a state of the art, mixed boarding high school located in Thika. The Academy serves talented but economically disadvantaged students with demonstrable leadership potential and envisions to develop transformational leaders through innovative approaches to education. Inspired by entrepreneurial leadership and drawing on advanced technologies and research, the M-PESA Foundation Academy seeks to innovatively deliver the KCSE curriculum in a world-class education facility.

The Academy aims to adopt and develop innovative teaching and learning resources to share with other high schools across Kenya, while at the same time partnering with leading institutions from around the world to open up paths to tertiary education and employment for the enrolled students. To assure quality education resources are provided to students, the Academy will leverage on use of technology.

Learning goes beyond listening to the teacher disseminate knowledge and test accuracy. At MFA, the approach involves elements such as collaborative and self-directed learning. In addition, there is a rigorous study skills programme to ensure students are well prepared to sit for the KCSE examinations at the end of their four years in high school, making possible the successful completion of secondary education.

Admission into the academy is based on an independent application process. Applications are accepted from students from all counties in Kenya. The admissions cycle runs from May to November each year and consists of filling and returning an application form and a multiple stage evaluation process, including telephone and in person interviews for selected applicants.

The school will be home to a target 800 students by 2019. In 2015, 6,347 applications were received across the country. Admission criteria applied included financial needs, critical thinking skills, leadership skills, community involvement, problem solving, entrepreneurship and academic excellence.

The Academy opened its doors to the first 96 students in February 2016. The students were selected across the 47 counties, one boy and one girl, per county. In addition, two children enabled differently were also admitted.

In its second year, 2017, the M-PESA Foundation Academy seeks to admit 188 remarkable students, 99 girls and 99 boys from all over the country. This will include 10 students living with disabilities which is 5% of the total number of the students. The Academy will explore partnerships with other corporates and individuals, as well as implement a revenue generating plan to ensure its sustainability.

The Academy is applying Council of International Standards (CIS) and Office for standards in Education (OFSTED) to deliver the 8-4-4 Curriculum. This entails a mix of approaches and innovation to ensure that students excel in both academic and values dimensions. As part of the methodologies applied in the Academy, during the April 2016 holiday break, the students had a job shadow week in Safaricom and obtained diverse exposure to environment, including the Business, Foundations and selected project activities. This work experience will enable the students to advance their personal and interpersonal growth in addition to the academic development.

Some of the students at the M-PESA Foundation Academy

Social impact

Improving health care

The Health Enablement and Learning Platform (HELP)

Driven by the need to bridge the gap between shortage of health workers and service delivery particularly acute in rural and hard-to-reach areas in Kenya, AMREF partnered with the M-PESA Foundation, Ministry of Health, Mezzanine, Accenture Global Giving and Safaricom to train Community Health Volunteers (CHVs) using a mobile based solution - Health Enablement and Learning Platform (HELP).

Community Health Volunteers (CHVs) have been identified as critical components in delivering health services in Kenya. However, using the conventional training workshop approach renders CHVs training expensive because it requires substantial logistics and management costs.

HELP is a mobile platform that uses basic phones to deliver training to CHVs on primary health care, maternal and child health, family planning among other key health topics. The platform addresses the need to train, up-skill and develop the capacity of CHVs and their supervisors, who are a critical component in delivering community health services across Kenya.

The pilot and scale up phases, themed as ‘Scaling up the delivery of integrated mobile learning and community health services platform to empower, train and motivate Community Health Volunteers (CHVs)’ were implemented in 14 counties namely: Makueni, Kitui, Kajiado, Nairobi, Samburu, Isiolo, Kakamega, Kisumu, Vihiga, Migori, Nyamira, Kisii, Bungoma and Siaya at a cost of more than Shs 470 million. Phase II will be completed in September 2016 and will be transitioned into a social enterprise for sustainability purposes. The table below summarizes the achievements of the project.

Number of CHVs trained	3360
Number of community members reached	300,000
Number of Counties reached	14
CHVs training completion percentage	92%
CHVs average performance	80%
Percentage increase in immunizations	32%
Percentage i increase in skilled deliveries	100%
Percentage increase in antenatal visits	22%
Percentage attrition rate	1%

Therefore, HELP platform has demonstrated that even the most basic mobile technology can be used to; bring solutions to local challenges, enhance and utilise traditional learning, reduce training costs, and increase the pace of learning. Most importantly it ensures that mothers are able to access the much needed health care.

Eburu Ecosystem Conservation Project

Eburu is a Maasai terminology which means 'Smoking Mountain' because of its steam jets, caused by geothermal activity within the mountain.

An 87.153Km^2 indigenous forest reserve managed by the Kenya Forest Service, Eburu is one of the 22 forest blocks of Mau Forest's Complex. Its water catchment area, contribute to the river flows, which feed into Lakes Naivasha and Elementaita. The forest is one of the last remaining indigenous habitats in the world, together with the Aberdare and Mt. Kenya forests. Eburu is acknowledged as a hotspot for rare birds and animal species within the Mau Forest complex. For instance, the critically endangered Eastern Mountain Bongo antelope is found here. There are less than 100 left in the wild in Kenya and about 10% of these are in Eburu.

The Mau Eburu ecosystem is an essential 'island', surrounded on all sides by human settlement. Illegal logging and charcoal burning are long-standing and ongoing challenges that together with wild fires critically deplete the forest cover. For many years, Eburu has been synonymous with the illegal charcoal trade in Kenya. Furthermore, over the years, Eburu wildlife has been decimated by bush meat hunting. Inevitably, human-wildlife conflict had also become rampant.

Rhino Ark is a major pioneer in large scale fencing and related conservation interventions with flagship projects in Aberdare conservation that comprehensively demonstrated the effectiveness of fencing as an ecosystem management tool, with positive outcomes in the ecosystem and surrounding communities. Founded on the success of the Aberdare Fence Project, Rhino Ark made a formal commitment to replicate the efforts in other forests including Eburu. It is for this reason that M-PESA Foundation partnered with Rhino Ark and Kenya Forest Service (KFS) in 2012 to implement a broad-based conservation initiative to provide solutions to the threats facing Eburu. Funded by M-PESA Foundation at Shs 165 million the project involved fencing to reduce human-wildlife conflict, forest restoration, provision of water, income generating bio-enterprises, awareness and education, securing wildlife corridors and using technology to map and document forest status as well as providing surveillance intended to safeguard the Bongo.

Eburu is a forest of great natural beauty. Spectacular landscapes, waterfalls, ancient trees, steam jets and abundant wildlife are among its many attractions

A completed section of the fence being constructed around the forest

Fencing of the 43.3KM fence is now complete and so is the Eastern boundary of Eburu-Lake Naivasha wildlife corridor fence.

Results

Some of the main benefits being realised include:

- 55,000 community members reached in 4 locations around Eburu (Eburru, Oljorai, Kiambogo, Ndabibi).
- Over 200 of endangered animal species protected from poaching, including threatened and endangered birds and mammals
- 22 threatened tree species protected from destruction. Among these species, is the African Cherry tree.
- 8,715 hectares of wildlife habitats protected from poaching and water tower host protected from encroachment
- 50 households supported to develop alternative sources of livelihood in order to protect the environment or wildlife
- 20 people and 31 adjacent schools trained in wildlife or environmental protection to bring up a generation of environmental champion.

Social impact

Women in Technology

Encouraging females to pursue Sciences, Technology, Engineering and Mathematics (STEM) remains a core focus for WIT

Women In Technology (WIT) stemmed from the need and aspiration of Safaricom Technology Division to aid young women to embrace technology as a career choice. Angela Wamola (Founder) and Lilian Kiambati (Programme Head) through WIT, together with other partners, create opportunities for girls to tap into their talent and innovativeness.

The project commenced in 2012 with four initiatives, which have since grown to six as highlighted below:

1. KidzGoTech

This is a partnership with FUNKIDZ and aims at encouraging children between ages 5 -13 years to be creators of technology. They do experiments using easily and locally available tools that simulate real world objects and robots so that they understand how technology solves everyday problems. To date, there have been over 15 successful sessions with over 420 kids in attendance and more than 29 experiments done.

2. 47/47 Girls High School outreach

This focuses on reaching 47 high schools in 47 counties through a See-n-Believe programme that results in Imagine-and-Create career choices in Science, Technology, Engineering and Mathematics (STEM). The girls get a chance to visit the Safaricom data centres near their regions and benefit from career talks and mentoring sessions. The aim is to demystify technology by exposing girls to the real tech world. Since inception, over 84 schools have been reached.

3. Campus outreach

This programme's target is to retain the girls studying Technology (Engineering and ICT) in campus through coaching and mentorship. WIT Champions visit campuses to encourage students to stay active, informed, connected and ready for roles as professionals and leaders in the sector.

In these sessions, the students learn about Value Added Services, the Customer Billing System, M-PESA, Power, Transmission and Data Centres, as well as interview etiquette and CV writing.

IT students from Kabarak University during an industrial visit at QoA MSR, hosted by WIT campus outreach

4. WIT Academy: Internship programme

This programme targets recent female graduates and those in their final year pursuing technology courses. Every three months, 30 girls are offered working apprenticeship in Safaricom Technology Division. The academy offers training on Cisco Certified Network Associate (CCNA) - an entry-level certification geared towards junior network administrators - and Information Technology Infrastructure Library (ITIL) - a set of practices that focuses on aligning IT services with the needs of business. They are provided with over 3,000 e-learning courses to build their soft skills.

Just before the students graduates, a career fair that matches their skills to potential employers is organised. To date, 213 interns have gone through this programme with 17 of them having obtained permanent employment with Safaricom and another 26 being employed by its partners and vendors.

Social impact

From Right: Anne Cheboi (Mentor), Daisy Ndungu (Team Sniper Coach), Priscillah Wambui, Victoria Mutwiri, Gladys Wairimu, Laura Ayushi Harriet Karanja,(Team Sniper students-2016) and Jematia Bett (Mentor)

5. Technovation: App challenge

For a period of 12-weeks, high school girls are taught and coached on the basics of coding, user-interface design, development of mobile apps, conducting market research, writing business plans and creating a "pitch" for funding apps that help to solve local community problems. Their app, video pitch and business plan are submitted to a global judging panel.

In the past year, a total of 31 schools countrywide participated, leading to the formation of 137 teams. Eight of these qualified for the semi-finals of the international challenge. Out of these, 1 team, Snipers from Precious Blood High School, developed a transport app, M-safiri, that they defended at the Technovation Challenge finals held in Silicon Valley, California. The team emerged second.

6. WIT Networking Forum

This is held monthly and targets professional women in technology industry to keep them motivated in growing their careers within the industry. Guest speakers comprising of Women and Men in leadership are invited to give career talks. This provides a platform for the working woman to network and build relations with other women across all sectors.

With over 33 sessions since inception, this forum has been graced by speakers such as Amb. Dr. Monica Juma , Zebib Kavuma and Tumi Chamayou among other similarly influential persons.

WIT continues to grow by building and developing programmes that address the issue of a sustainable talent pipeline of women in technology, aiming to move up from 10% to at least 30% by 2030.

Two key areas are fundamental for sustainable funding of this initiative. First, partnerships with the industry ecosystem where more women get involved and take ownership of furthering the agenda in their work places and secondly, sponsorships by both men and women towards achieving gender equality. WIT leaders among them Lilian Kiambati has embarked on developing close working ties with like-minded partners like GE, Nokia, Siemens, Ericsson and Women Engineers Chapter towards empowering them to champion similar iniatiatives in their respective organisations.

47 In 1 Project

The 47 in 1 initiative by Safaricom Technology Team was commenced in the last financial year to provide a equip one computer lab to a remote public school in each of the 47 counties in Kenya, hence the name 47 in 1. The project was cascaded down to a team of 47 groups made up of staff who would proceed to identify the beneficiary schools based on need, sustainability and the likelihood to benefit the surrounding community.

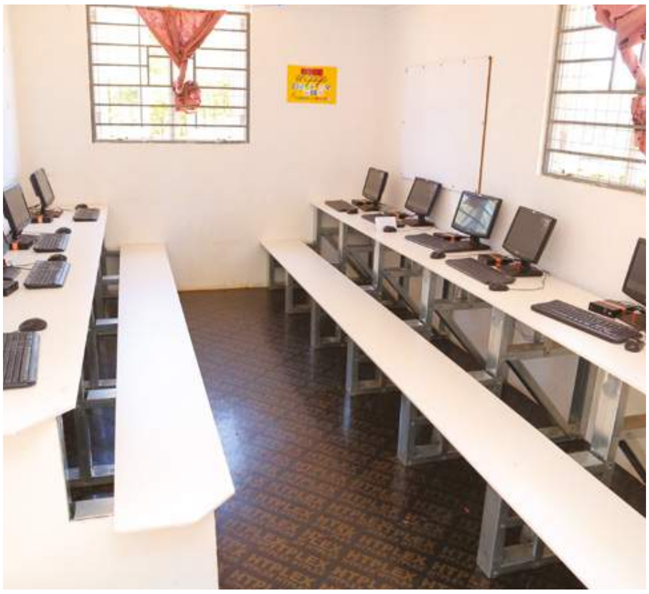
The teams visited the schools and shared the vision with them and come up with creative ways to do build and equip the computer lab in the identified school. Funds are raised through innovative ways including the following; organizing among other activities; Zhumba nights, car washes, quiz nights, raffle sale for goats and chickens, paintings, exotic cuisines, sculptures, kart races, and most important personal contributions.

Introducing technology in Kenyan education has truly transformed the lives of children, teachers and communities all over the country. In some remote areas, people previously travelled for hours to access printing, photocopy, learning materials, internet and other social services. The services are now within reach in some of the areas and the communities are now able to earn some income from the computer labs from services such as printing.

Kiambu was the first lab to be launched. Others followed including Uasin Gishu, Elgeyo Marakwet, Murang'a, Kirinyaga, Machakos, Kajiado, Busia and Bomet. This will go on until all the 47 counties are covered.

The whole experience is amazing. Safaricom technology director, Thibaud Rerolle, noted, "The community engagement is very powerful. It is quite overwhelming when we go to these schools to train and actually see the children's lives transform through the ICT experience. We usually discuss how to transform lives in our strategy meetings but when you actually get the chance to witness how it unfolds it is remarkable. I am so proud of the work we have done so far".

After a handover, a dedicated sustainability team from the committee continues working closely with the schools to ensure that the project is managed sustainably. As much as possible the community is encouraged to enjoy the benefits and care for it as their own.



A branded computer lab ready for hand over.

Sustainability

Performance statistics

We switched to using **bio-degradable plastics** for all of our retail packaging this year, based on d_2w technology.

We continue to use energy more efficiently and reduce wastage. We managed to get the cost of energy consumed per site per month down to **Shs 50,292** this year, below **Shs 51,626** in 2015.

269 of our suppliers have now signed the Code of Ethics for Businesses in Kenya.

According to the True Value methodology, the total value we contributed to Kenyan society in FY15 was **Shs 315 billion** and our impact on the wider economy was to sustain over 682,000 jobs.

Please refer to our FY15 True Value report on Safaricom done by KPMG

67,760 tonnes of carbon dioxide equivalent (tCO2e) emitted this year, up 10% on FY15.

Since 2013, we have collected more than **430** tonnes of e-waste, which is the equivalentof a herd of 70 adult African elephants.

50% of our colleagues are now women.

Financial sustainability

We are pleased to be able to report another year of strong revenue growth. We achieved a healthy 19.8% growth in total revenue to Shs 195.6 billion. Revenues derived from voice services remained steady and grew by 3.9% to Shs 90.8 billion. Non-voice revenues, which include revenue from mobile data and fixed services, M-PESA and SMS, continued to enjoy significant growth during the year and now contributes 48.9% of our total service revenue. For more information about our financial performance, please refer to financial statements section.

We were fined Shs 157 million by the Communications Authority of Kenya for not complying with its Quality of Service (QoS) thresholds.

Enterprise Customer Satisfaction down by 9% as a result of our Fixed Data services, but we plan to address this in FY17 by intensifying the rollout of our Fibre-To-The-Building (FTTB) programme.

37% increase in the number of sexual harassment claims reported during the year. As a result, the Harassment Policy has been reviewed and improved. Additionally, our Ethics Champions have been trained on how to identify, handle and report such sensitive cases.

With the support of the Inspector General of Police and senior law enforcement agencies, we proposed and formed the Mobile Money Investigation Unit (MMIU) in March 2013. The need for the new unit is a reflection of the rising volumes of mobile money-related theft and fraud.

Slow progress in water and waste management.
We did not implement all the recommendations of either the independent assessment of our water footprint or the internal audit of the solid waste streams of our main facilities conducted in FY15. We hope to do so in the year ahead.

Sustainability

Our sustainability vision

We aspire to use our products and services to transform lives and contribute to sustainable living. Based on this fundamental aspiration, our vision sets out how we use our ability to deliver connectivity and innovative services to improve the quality of life and livelihoods of the people we reach. Central to achieving this vision is our commitment to managing our operations responsibly and ethically.

Communications technology is already an essential part of most people's lives and is transforming the world in which we live. We believe that we can continue to grow our business and enhance our brand by developing innovative, commercially viable solutions that both support sustainable development and improve the quality of life of Kenyans. Our M-PESA mobile money transfer product, for instance, has become a platform for a range of services that are improving livelihoods.

As well as providing first time access to the internet for many Kenyans, we continue to build on our work in areas such as agriculture, education and health, where technology is emerging as a critical tool that can make a significant difference to people's lives.

We also consider maintaining the trust of our stakeholders and remaining accountable to them as vital to achieving our vision. As a result, we are committed to retaining that trust by managing our operations responsibly by keeping our people safe, managing our environmental footprint, protecting the privacy of our customers and conducting our business in an ethical and transparent way.

Our vision is based upon the twin pillars of responsible, ethical business and transformational products and services as highlighted below:

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

Responsible, ethical business	Transformational products and services
Acting responsibly, honestly and with integrity is good for business, good for individuals and good for society. We are committed to the very highest ethical standards and promote a culture that values personal and corporate integrity.	Communications technology has the potential to transform lives and societies. We are committed to developing innovative products and services that help our customers realise this potential and enjoy improved access to essential services.
• Strong governance structures	• Affordable and relevant products and services
• Ethics and anti-corruption initiatives	• Financial inclusion
• Business partner sustainability programmes	• Public sector support
• Corporate social investment	• Innovation for social development

Our material matters

MATERIAL MATTER	GOVERNANCE, RISK AND REGULATION	NETWORK QUALITY	INNOVATION	ENVIRONMENTAL RESPONSIBILITY
What it is	Upholding the highest standards of corporate governance and acting in an ethical manner makes business sense	Our network is core to our business. It allows us to differentiate ourselves in a competitive market and is the medium through which we transform lives	Innovation is central to achieving our strategic objectives, retaining our competitive edge and ensuring that we continue to grow	We understand that we have an impact on the environment and that we have a responsibility to mitigate our negative environmental impacts
Our response	Robust risk management 1. Customer first management 2. Risks assessments 3. Fraud reviews 4. Audit reviews 5. Fraud investigations 6. Ethics and values 7. Regulatory compliance	1. Best Network For You initiative 2. New app for customer experience 3. UMTS 900 sites for 3G expansion 4. Fibre optic network growth 5. Momentum in energy availability	1. NPS and Brand Equity scores 2. Mobile data usage 3. M-PESA usage and revenue 4. Social innovation	1. Bio-degradable packaging 2. Reinvigorated our e-waste programme 3. Reducing our energy consumption 4. Managing our emissions
Looking ahead	1. Zero sanctions for unethical conduct/ breach of licence obligations on ethical issues 2. Detect, investigate and report suspicious M-PESA transactions within 7 days	1. Partner with KPLC to deliver commercial power to rural homes at 400 sites and achieve an 80% saving on energy cost at targeted sites 2. Expand our net work by rolling out more sites	1. To promote e-learning and ensure that at least 1% of our data customers are accessing an edutainment product 2. At least 2 employee innovation suggestions implemented	1. Deliver two enviromental conservation awareness campaigns and reduce our water consumption by 10% 2. Achieve 100% compliance to NEMA water pollution standards

Sustainability

Ethics and values

Underpinning governance and risk management are our ethics and values, which are the principles and standards that guide our behaviour as employees and individuals.

We use an independent ethics perception survey and preventive measures like our ongoing ethics awareness and staff anti-corruption training programmes.

While we acknowledge that there is still much to be done, we believe that we are making good progress in terms of enhancing the 'ethical climate' within the Company.

Ethics awareness sessions

We continue to conduct regular ethics awareness sessions with staff during the year. The focus of the sessions is addressing the concerns that were revealed by the ethics Perception Survey conducted in January-February 2015. The survey is an independent assessment of the opinions of our internal and external stakeholders conducted by the Ethics Institute of South Africa every two years.

One of the ethical risks identified by the survey is an obsessive focus on KPIs among employees and the danger of this breeding a culture within the company of 'the end justifying the means' — where the only thing that matters is achieving the target and not the process used to achieve the number. We are continuing to explore ways in which ethical impacts can be measured as part of performance against targets.

The survey also identified sexual harassment as another potential mid-level risk. As a result, the Company policy was reviewed and improved and our Ethics Champions have been trained on how to identify, handle and report such sensitive cases. As awareness has grown, the number of cases being reported has increased and the initiative has started generating discussion and engagement throughout the Company in response.

It is no secret that corruption is rampant in Kenya, with reports suggesting that as many as one in three Kenyan companies has paid a bribe to win a contract and the country being ranked 139th out of the 168 countries listed in the Transparency International 2015 corruption index.

'I Do the Right Thing' campaign

This year, we shifted our focus to promoting ethics rather than highlighting fraud. Our awareness theme for the year was the 'I Do the Right Thing', which encouraged employees to become cognisant of their own ethical values and take personal ownership and responsibility.

Staff ethics training

Every member of staff is expected to attend ethics training at least once a year. Most of the training is undertaken through face-to-face sessions and supplemented by e-learning courses. The awareness training is tailored to address the specific ethics risks faced by the attendees. For high corruption-risk departments, the training focuses on anti-corruption and bribery.

We set a staff ethics training attendance target of 97% for the year and are pleased to report that we achieved a 98% attendance rate, an improvement of 4% from FY15. We achieved this by incorporating the training session within existing meetings across the business, promoting our e-learning courses to employees unable to attend the face-to-face sessions.There has been a noticeable increase in the number of requests for ethics awareness training from teams across the business. This can be attributed to a growing appreciation of the topics covered during the sessions.

Business partner ethics training

While we are making good progress in terms of promoting ethical business practices and principles throughout our value chain and the wider business ecosystem in Kenya, we acknowledge that the situation is far from ideal.

It is no secret that corruption is rampant in Kenya, with reports suggesting that as many as one in three Kenyan companies has paid a bribe to win a contract and the country being ranked 139th out of the 168 countries listed in the Transparency International 2015 Corruption Index.

Consequently, this has been an area of sustained, consistent focus for us. We planned to offer ethics management training to 80% of our dealers and our top 200 suppliers during the year and we managed to extend our reach using newsletters and other initiatives to over 400 suppliers and almost all of our dealers and M-PESA principals.

From last year, we started requiring all new business partners to sign up to the Code of Ethics for Businesses in Kenya during the onboarding process. This year we expanded this requirement to all of our suppliers. We also hosted a supplier forum breakfast, during which we raised awareness of the Code and encouraged existing suppliers to sign up. To date, 269 of suppliers with running contracts have signed up.

We hosted an Anti-Corruption Conference in partnership with the UN Global Compact Network Kenya in December 2015. The event brought together over 400 representatives from the private sector, government, international organisations, civil society and the media to discuss the critical role of the private sector in stemming the tide against corruption and the importance of all stakeholders to unite against corruption. This was the first time the conference was held in Africa.

Sustainability

Focusing on our environmental responsibility

We understand the importance of sustainable business practices. We consider the effects of our activities on natural resources and the environment and try to minimise these effects. We also recognise that responsible and effective environmental management offers a host of benefits, including financial savings from reduced waste generation, efficient energy consumption, easier compliance with environmental legislation, improved customer relations and increased staff morale and pride.

We continue to recognise that environmental considerations are not separate from our core business, but an integral part of our overall business sustainability and success.

Live Green, Love Green, Think Green

Our environmental responsibility is an issue that continues to grow in importance as the size of our network continues to expand and we do more than just ensure that we comply with evolving environmental regulation and legislation. We remain committed to:

- Operating in an environmentally sound and sustainable way, and
- Managing and reporting our environmental performance in an open and transparent manner.

Bio-degradable packaging

In response to our new customer-centric Company strategy, we paid particular attention to ways in which we could include our customers in our environmental conservation initiatives this year. One prominent example is our switch to using bio-degradable plastics for all of our retail packaging. Customers can now enjoy peace of mind when purchasing Safaricom products, knowing that their purchase is not contributing to the environmental hazards of conventional plastic packaging.

Safaricom packaging now uses d_2w technology, which converts everyday plastic products into materials that are biodegradable in the open environment at the end of their useful life — in much the same way as a leaf, only quicker and without leaving any toxic residues or fragments of plastic.

Reinvigorating our e-waste programme

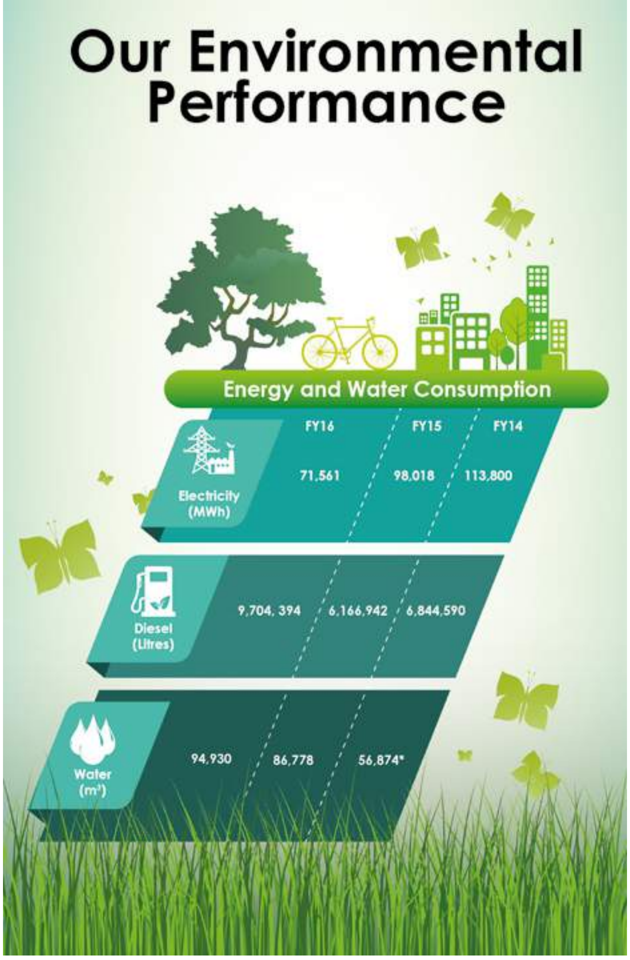
Another example of how we set about achieving our goal of including our customers in our environmental initiatives this year was to reinvigorate our e-waste programme in our retail outlets. Working closely with our regional teams, we increased our efforts and are pleased to report that a further 130 tonnes of e-waste (discarded electrical or electronic devices and appliances) was collected during the year, bringing the total volume of e-waste collected since the inception of the project to 430 tonnes.

New policy and workshop target EMF concerns

In conjunction with the National Environment Management Authority (NEMA), we hosted a three-day workshop on Electromagnetic Frequencies (EMF) in November 2015. A total of 224 people attended the workshop and were trained on the environmental impact of EMFs. Delegates included NEMA staff, Safaricom field engineers and Safaricom Enviromental Impact Assessment or EIA/EA consultants. The workshop is part of an ongoing memorandum of understanding (MoU) between Safaricom and NEMA to help equip staff, contractors and the frequency with accurate knowledge about electromagnetic radiation so that concerns raised by members of the public can be addressed with confidence and veracity.

As part of this initiative, we developed an EMF Policy during the year, which was signed by our Chief Executive Officer (CEO), Bob Collymore, on 25 February 2016. The Policy outlines our commitment to ensuring that our activities pose no risk to the health and safety of our employees, contractors and the communities within which we operate. It also ensures that we comply with the latest standards and international guidelines on non-ionizing radiations and provides a mechanism through which EMF queries and grievances can be addressed.

Reducing our energy consumption



One of the key ways in which we monitor and manage our environmental impact is through our energy (electricity, diesel and water) consumption targets. We have made progress in this area with a 27% reduction in electricity consumption during the year.

Obviously, our total consumption figures for our primary energy resources (electricity, diesel and water) continue to increase as our network continues to expand in size and sophistication, but we continue to make efforts aimed at more efficient energy consumption and reduction of wastage.

Sustainability

Embedding our environmental management system

Much of our work this year was focused on refining and embedding the systems and processes that have been put in place in the last two reporting periods.

A major milestone for us was achieving ISO 14001 certification for our Environmental Management System (EMS) in the previous reporting period. The focus this year was on making sure that EMS and ISO 14001 (Environmental Management) programmes become part of the day-to-day operations of the Company.

In order to support our new strategic goal of operational excellence, we also worked on an integrated ISO Management System during the year. The system is designed to consolidate all the ISO standards-based systems that Safaricom has implemented - including ISO 9001 (Quality Management), ISO 14001 (Environmental Management), ISO 27001 (Information Security) and ISO 22301 (Business Continuity) — with the intention of ensuring we apply a common approach to all of these areas and build synergies between the various systems.

Auditing the impact of our network

As part of monitoring and evaluation of our environmental impact, we continued to undertake Environmental Impact Assessments (EIAs) of our infrastructural developments, such as new Base Transceiver Stations (BTS) and fibre optic networks, and Environmental Audits (EAs) of our existing infrastructure as required by NEMA.

Audits	FY16	FY15	FY14
Environmental Impact Assessments	**463**	260	185
Environmental Audits	**342**	275	349

The increase in the number of EIAs conducted during the reporting period reflects the continued growth of our network infrastructure and the roll out of more sites during the year.

Looking ahead

One of our key focus in the year ahead will be looking at the implications of the new international climate agreement made at COP21 in Paris late last year. We are planning to launch several internal and external initiatives in response. Internally, Safaricom plans to develop and implement renewable energy and climate change policy to guide our initiatives and responses. With a focus on finding ways to further reduce our carbon footprint. Externally, we will seek to partner with likeminded organisations and provide thought leadership and raise awareness of this imperative issue within the region.

Last year, Safaricom also joined several other companies associated with the B-Team to announce their aspiration to aim for net-zero greenhouse-gas emissions by 2050. The B-Team is an initiative formed by a global group of business leaders led to catalyse a better way of doing business, for the well being of people and the planet. For successful implementation and ownership we will carry out environment and energy management awareness and training across the business.

Sustainable Development Goals

From a sustainability perspective, an exciting recent development has been the launch of the United Nations Sustainable Development Goals (SDGs). The successors to the Millennium Development Goals, the SDGs are an articulation of how we can work together to end poverty, protect the planet and ensure prosperity for all.

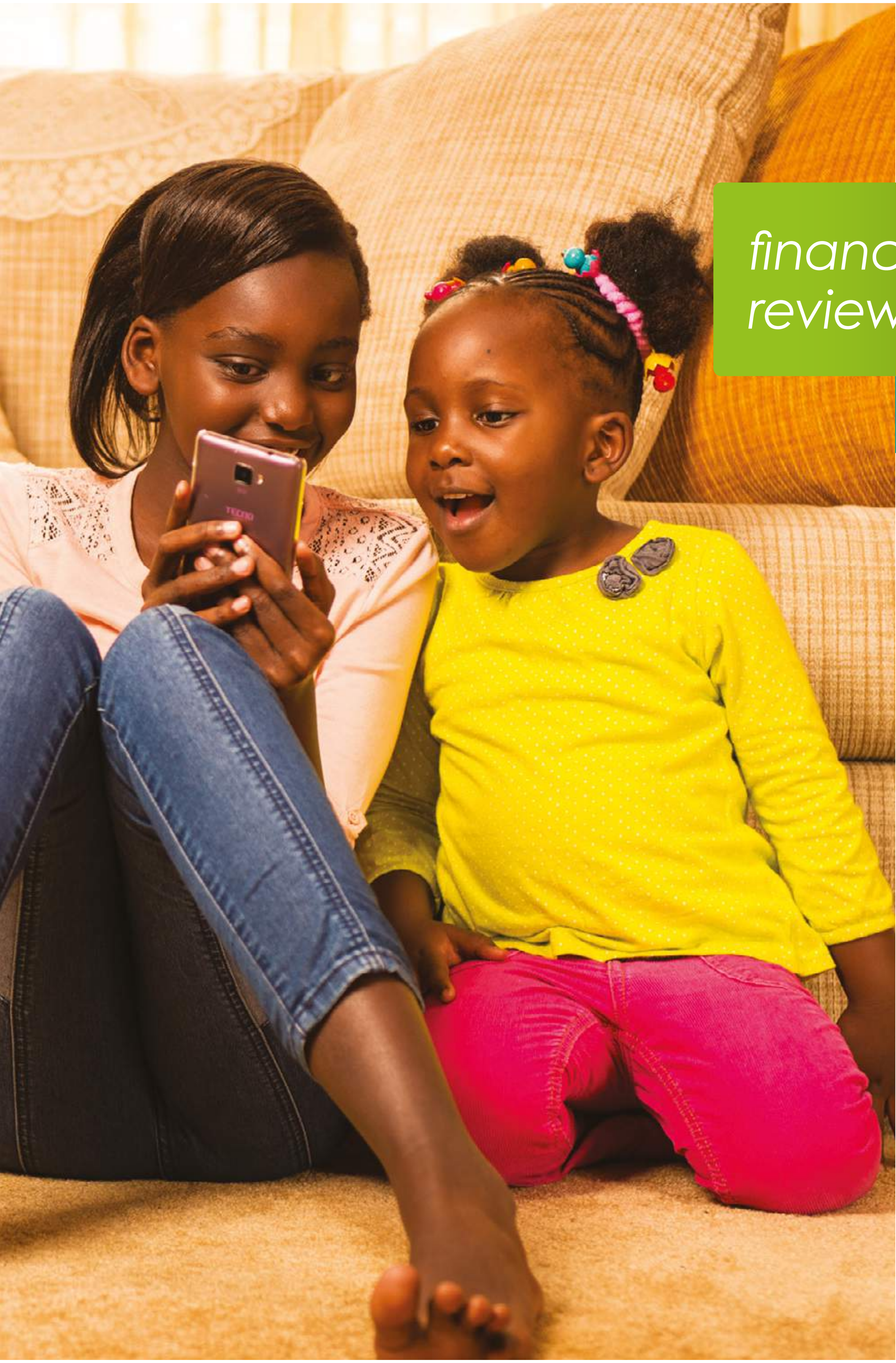
Adopted in September 2015, we believe that the SDGs offer us a way of embedding sustainability into our thinking and even further into the core of the business. We have begun taking our first steps towards this objective by analysing how each of the goals and associated targets can be mapped against the business and made part of our daily operations.

Much of the early work in this process has been to convert the SDGs from a list of noble ideals into a set of tangible, meaningful and realistic daily objectives for us as a Company. We adopted a multi-pronged approach to this challenge.

"As a global community, the longer we delay making the required sustainability commitments and changes, the bigger the potential losses we face and the more radically our lives will be altered in the near future. We are all going to have to change; fortunately, sustainability provides us with a map to chart our course forward."

Bob Collymore, CEO

financial review



Financial review

Table of Contents

The Directors submit their report together with the audited financial statements for the year ended 31 March 2016, which disclose the state of affairs of Safaricom Limited ("the Company") and its subsidiaries (together, "the Group").

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 Shs 38,104,290,000 (2015: Shs 31,871,303,000) has been added to retained earnings. No interim dividend was paid during the year (2015: Nil). The Directors recommend the approval of a final dividend of Shs 30,483,432,000 (2015: Shs 25,641,874,000).

Directors

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

Nicholas Nganga	Chairman
Robert Collymore*	Managing Director and Chief Executive Officer
Henry Rotich	
Nancy Macharia	
Susan Mudhune	
John Otty*	
Michael Joseph**	
Serpil Timuray***	
Gianluca Ventura****	
John Tombleson*****	(Alternate to Robert Collymore)
Esther Koimett	(Alternate to Henry Rotich)

* British
** American
*** Turkish
**** Italian
***** New Zealander

Auditor

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with section 159(2) of the Kenyan Companies Act.

By order of the Board

Ms Kathryne Maundu

SECRETARY

10 May 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 MARCH 2016

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Company as at the end of the financial year and of the Group's profit or loss for that year. It also requires the Directors to ensure that the Group and Company keep proper accounting records that disclose, with reasonable accuracy, the financial position of the Group and Company. The Directors are also responsible for safeguarding the assets of the Group.

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. 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 and applying appropriate accounting policies; and

(iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Group and Company as at 31 March 2016 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

As explained in Note 3 (iii), nothing has come to the attention of the Directors to indicate that the Group will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the Board of Directors on 10 May 2016 and signed on its behalf by:

Nicholas Nganga

Chairman and Non-executive Director

Robert Collymore

Managing Director and Chief Executive Officer

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF SAFARICOM LIMITED

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Safaricom Limited (the "Company") and its subsidiaries (together, the "Group"), as set out on pages 104 to 164. These financial statements comprise the consolidated statement of financial position at 31 March 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, together with the statement of financial position of the Company standing alone as at 31 March 2016 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 March 2016 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 Kenyan Companies Act.

Report on other legal requirements

As required by the Kenyan Companies Act 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/772.

pwc

PricewaterhouseCoopers

Certified Public Accountants

Nairobi

10 May 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2016

	Notes	Year ended 31 March 2016 Shs'000	2015 Shs'000
Service revenue	5 (a)	177,784,089	156,246,631
Handsets and other revenues	5 (b)	8,621,317	7,117,490
Construction revenue	5 (c)	9,279,818	-
Total revenue		195,685,224	163,364,121
Other income	6	231,823	575,604
Direct costs	7 (a)	(62,310,003)	(56,708,576)
Construction costs	7 (b)	(9,279,818)	-
Other expenses	7 (c)	(41,260,953)	(36,039,990)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		83,066,273	71,191,159
Depreciation of property, plant and equipment	17 (a)	(24,662,315)	(21,850,707)
Impairment of property, plant and equipment	17 (a)	(1,790,267)	(2,849,518)
Amortisation – Indefeasible Rights of Use (IRUs)	18 (a)	(348,171)	(327,032)
Amortisation – Licenses	20 (a)	(1,141,793)	(542,902)
Operating profit		55,123,727	45,621,000
Finance costs	8	(1,399,507)	(1,347,720)
Finance income	8	2,301,055	1,772,589
Fair value loss on investment property	19	(366,859)	-
Share of profit / (loss) of associate	21 (b)	104,089	(4,041)
Asset purchase gain	31	-	107,717
Profit before income tax		55,762,505	46,149,545
Income tax expense	11	(17,658,215)	(14,278,242)
Profit for the year (of which Shs 37,764,792,000 (2015: Shs 31,751,249,000) has been dealt with in the accounts of the Company)		38,104,290	31,871,303
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		38,104,290	31,871,303
Profit and total comprehensive income attributable to:			
Owners of parent		38,104,290	31,871,303
Non-controlling interest		-	-
		38,104,290	31,871,303
Earnings per share			
- Basic and diluted (Shs per share)	12	0.95	0.80
Dividends per share	14	0.76	0.64

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2016

	Notes	At 31 March 2016 Shs'000	2015 Shs'000
Equity attributable to owners			
Share capital	13	2,003,271	2,003,271
Share premium	13	2,200,040	2,200,040
Retained earnings		82,052,204	74,431,346
Proposed dividend	14	30,483,432	25,641,874
Total equity		116,738,947	104,276,531
Non-current liabilities			
Borrowings	15	-	490,762
Total equity and non-current liabilities		116,738,947	104,767,293
Non-current assets			
Deferred income tax	16 (a)	1,420,309	1,666,417
Property, plant and equipment	17 (a)	113,419,398	107,756,919
Indefeasible Rights of Use (IRU)	18 (a)	4,500,334	4,848,505
Investment property	19	845,000	-
Intangible assets – Licenses	20 (a)	8,721,467	9,863,260
Intangible assets – Goodwill	20 (a)	219,151	219,151
Investment in associate	21 (b)	115,908	11,819
Prepaid operating lease rentals	22	477	1,002
		129,242,044	124,367,073
Current assets			
Inventories	23	816,393	8,258,601
Receivables and prepayments	24	20,622,992	10,301,643
Restricted cash	25 (b)	2,391,563	2,113,938
Cash and cash equivalents	25 (a)	6,109,493	11,916,371
		29,940,441	32,590,553
Current liabilities			
Payables and accrued expenses	26	40,068,982	41,423,899
Current income tax		2,374,556	617,216
Borrowings	15	-	10,149,218
		42,443,538	52,190,333
Net current liabilities		(12,503,097)	(19,599,780)
		116,738,947	104,767,293

The financial statements on pages 104 to 164 were approved for issue by the Board of Directors on 10 May 2016 and signed on its behalf by:

Director,
Nicholas Nganga

Director,
Robert Collymore

COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2016

		At 31 March	
Equity	**Notes**	**2016 Shs'000**	**2015 Shs'000**
Share capital	13	2,003,271	2,003,271
Share premium	13	2,200,040	2,200,040
Retained earnings	-	82,866,067	75,584,707
Proposed dividend	14	30,483,432	25,641,874
Total equity		117,552,810	105,429,892
Non-current liabilities			
Borrowings	15	-	490,762
Total equity and non-current liabilities		117,552,810	105,920,654
Non-current assets			
Deferred income tax	16 (b)	1,407,269	1,653,376
Property, plant and equipment	17 (b)	113,402,203	107,724,849
Indefeasible Rights of Use (IRU)	18 (b)	4,456,065	4,757,055
Investment properties	19	845,000	-
Intangible assets – Licenses	20 (b)	8,712,350	9,852,858
Investment in subsidiaries	21 (a)	857,341	837,341
Investment in associate	21 (b)	115,908	11,819
Prepaid operating lease rentals	22	477	1,002
Loan to related parties	28 (x)	837,588	633,408
		130,634,201	125,471,708
Current assets			
Inventories	23	816,393	8,258,601
Receivables and prepayments	24	20,541,259	10,101,896
Restricted cash	25 (b)	2,391,563	2,113,938
Cash and cash equivalents	25 (a)	5,774,730	11,882,462
		29,523,945	32,356,897
Current liabilities			
Payables and accrued expenses	26	40,272,336	41,141,067
Current income tax	-	2,333,000	617,666
Borrowings	15	-	10,149,218
		42,605,336	51,907,951
Net current liabilities		(13,081,391)	(19,551,054)
		117,552,810	105,920,654

The financial statements on pages 104 to 164 were approved for issue by the Board of Directors on 10 May 2016 and signed on its behalf by:

Director, Nicholas Nganga

Director, Robert Collymore

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016

	Share capital	Share premium	Retained earnings	Proposed dividends	Total equity
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 March 2015					
At start of year	2,003,271	2,200,040	68,201,917	18,830,751	91,235,979
Profit and total comprehensive income for the year	-	-	31,871,303	-	31,871,303
Transactions with owners:					
Dividends:					
- Final for 2014	-	-	-	(18,830,751)	(18,830,751)
- Proposed final for 2015	-	-	(25,641,874)	25,641,874	-
	-	-	(25,641,874)	6,811,123	(18,830,751)
At end of year	2,003,271	2,200,040	74,431,346	25,641,874	104,276,531
Year ended 31 March 2016					
At start of year	2,003,271	2,200,040	74,431,346	25,641,874	104,276,531
Profit and total comprehensive income for the year	-	-	38,104,290	-	38,104,290
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	82,052,204	30,483,432	116,738,947
Notes	13	13		14	

The notes on pages on pages 110 to 164 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016

	Share capital	Share premium	Retained earnings	Proposed dividends	Total equity
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 March 2015					
At start of year	2,003,271	2,200,040	69,475,332	18,830,751	92,509,394
Profit and total comprehensive income for the year	-	-	31,751,249	-	31,751,249
Transactions with owners:					
Dividends:					
- Final for 2014	-	-	-	(18,830,751)	(18,830,751)
- Proposed final for 2015	-	-	(25,641,874)	25,641,874	-
	-	-	(25,641,874)	6,811,123	(18,830,751)
At end of year	2,003,271	2,200,040	75,584,707	25,641,874	105,429,892
Year ended 31 March 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
Notes	13	13		14	

The notes on pages on pages 110 to 164 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2016

	Notes	Year ended 31 March 2016 Shs'000	 2015 Shs'000
Cash flows from operating activities			
Cash generated from operations	27	79,203,275	74,636,662
Movement in restricted cash		(277,625)	(376,121)
Interest received	8	1,341,725	1,292,085
Income tax paid		(15,654,767)	(13,853,092)
Net cash generated from operating activities		64,612,608	61,699,534
Cash flows from investing activities			
Purchase of property, plant and equipment	17 (a)	(33,337,423)	(33,866,124)
Proceeds from disposal of property, plant and equipment		37,948	93,835
Investment in indefeasible rights of use	18 (a)	-	(228,990)
Acquisition of licenses	20 (a)	-	(9,692,259)
Acquisition of a subsidiary	21 (a)	-	(91,450)
Net cash used in investing activities		(33,299,475)	(43,784,988)
Cash flows from financing activities			
Dividends paid	14	(25,641,874)	(18,830,751)
Interest paid	8	(838,157)	(1,073,091)
Proceeds from long-term borrowings	15	8,696,700	5,914,152
Repayments on long-term borrowings	15	(19,336,680)	(7,889,552)
Net cash used in financing activities		(37,120,011)	(21,879,242)
Net increase in cash and cash equivalents		(5,806,878)	(3,964,696)
Movement in cash and cash equivalents			
At start of year		11,916,371	15,881,667
Decrease		(5,806,878)	(3,964,696)
At end of year	25 (a)	6,109,493	11,916,371

The notes on pages on pages 110 to 164 are an integral part of these consolidated financial statements.

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 thousands, 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 Directors 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.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

IAS 27, 'Separate financial statements'. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The Group and Company has early adopted.

(ii) New standards, amendments and interpretations not yet effective and not early adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group and Company.

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.
- According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/ accounting policies are not required for these amendments.

As these amendments merely clarify the existing requirements, they do not affect the Group's accounting policies or any of the disclosures.

IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are effective for annual periods beginning on or after 1 January 2016.

IFRS 11, 'Joint arrangements'. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016.

IFRS 16, "Leases". After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

Annual improvements 2014. These set of amendments, effective 1 January 2016, impacts 4 standards: IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal, IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts, IAS 19, 'Employee benefits' regarding discount rates and IAS 34, 'Interim financial reporting' regarding disclosure of information.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

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

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

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. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

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. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

The Group has assessed the above standards and believe that IFRS 9 and IFRS 15 are likely to affect the Group. Given the nature of the Group's assets and liabilities, IFRS 9 is not expected to have a significant impact to the Group. However, owing to the nature of the Group's products and sale arrangements, IFRS 15 is expected to have a significant impact on the financial information of the Group. The Group does not plan to early adopt any of the new IFRSs or IFRIC interpretations.

There are no other IFRSs or IFRIC interpretations that are effective that would be expected to have a material impact on the Group or Company.

(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

2 Summary of significant accounting policies (continued)

(b) Consolidation (continued)

(i) Subsidiaries (continued)

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 with the Group's accounting policies.

(ii) 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 interest are also recorded in equity.

(iii) 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.

(iv) 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.

2 Summary of significant accounting policies (continued)

(b) Consolidation (continued)

(iv) Associates (continued)

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.

(v) 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 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 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 Group 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.

(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. Income from sale of the airtime is deferred and recognised as revenue on usage. Customers can use airtime to make voice calls, send SMS and browse the internet.

2 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(i) Voice and SMS revenue

Voice and SMS enables customers both prepay and postpay 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, 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 rate is Shs 4 during the day and Shs 2 from 10pm to 8am and Shs 4 off-net applicable to both Prepay and Postpay customers. Both Prepay and Postpay customers, depending on their usage, also qualify for further discounts. Revenue from prepay voice customers is recognised on usage whereas post pay revenue is recognised at the end of every month based on a monthly charge.

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.

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 Shs 1 on both on-net and off-net. There are also attractive SMS bundles which offer an effective price per SMS lower than Shs 1. Revenue from SMS service is recognised on usage or sale of SMS bundle.

(ii) Data revenue

Mobile data enables both prepay and Postpay customers access the internet. Prepay customers top up their lines by purchasing credit or bundles in advance whereas Postpay customers are availed credit based on the tariff subscribed.

Prepay mobile data has a wide range of propositions available as per customer 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.

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.

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 Shs 1 (USD 0.001) and get loans from Shs 50 (USD 0.493) to Shs 1 million (USD 9,857.07). Revenue is shared on the interest charged to customers and interest earned on invested funds.

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. M-Shwari lock box product enables customers to make fixed deposit savings at a higher interest rate.

2 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(iv) Other service revenue

This includes among others access fees charged on Okoa Jahazi service when a customer borrows airtime and data bundles with the debt being repayable within five days.

(v) Loyalty programme

A loyalty programme, 'Bonga Points', was introduced in January 2007 to both prepay and postpay subscribers. In this scheme, subscribers earn one Bonga point for every Shs 10 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 point earned only on redemption. The position as at 31 March 2016 was that 82% (2015: 77%) of the points redeemed in the year were for non-merchandise items (voice minutes, data bytes and SMS) while 18% (2015: 23%) was redeemed for merchandise items.

(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 contracts

The Group 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.

The contract has a construction and management service elements. 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. 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 managed 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	Shorter of life of lease or useful life of the asset
Network maintenance spares	3 – 10 years

2 Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Effective 31 March 2015, the Group adopted 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 in 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 17.

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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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.

(g) Investment property

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.

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. Any negative goodwill arising from an acquisition is credited to the statement of comprehensive income.

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 identified according to operating segment.

2 Summary of significant accounting policies (continued)

(h) Intangible assets (continued)

(ii) Network licenses

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

A telecommunication 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 on a straight-line basis from commencement of the service of the network.

Currently, the Group has the following licences:

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

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

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

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

There are annual network licence fees associated with these licences which 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.
- 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. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in profit or loss. These derivatives are trading derivatives and are classified as a current asset or liability. Currently there are no derivatives held by the Group.

2 Summary of significant accounting policies (continued)

(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.

(l) Financial assets

(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 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.

2 Summary of significant accounting policies (continued)

(l) Financial assets (continued)

(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 lit 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.

2 Summary of significant accounting policies (continued)

(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)	5 days
Others	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 26. 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 (Shs 0.05) of the shares is classified as 'share premium' in equity

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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(s) Employee benefits

(i) Retirement benefit obligations

The Group and Company have defined contribution plan for its employees. The Group and Company and all its 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

2 Summary of significant accounting policies (continued)

(s) Employee benefits (continued)

(i) Retirement benefit obligations (continued)

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.

(t) 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 fulfilment of the vesting conditions.

The process of EPSAP includes the Group purchasing shares from the market prorata 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.

(u) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised 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.

2 Summary of significant accounting policies (continued)

(u) Current and deferred income tax (continued)

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 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 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.

(v) 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.

(w) 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.

(x) 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.

(y) Comparatives

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.

The consolidated statement of cashflows 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. The statements of financial position have been expounded to reflect this effect.

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 that are not traded in an active market 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.

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 20.

Income taxes

Significant judgment 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 for property, plant and equipment. The rates used are set out in Note 2 (f) above.

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 Shs 61 million respectively.

(ii) Critical judgments 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 Shs 12.5 billion (2015: Shs 19.6 billion) at the statement of financial position date as shown on page 105. For items that make up the net working capital refer to Notes 15 and 23 to 26.

The Shs 12.5 billion is explained by among others, creditors relating to network infrastructure. 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.

3 Critical accounting estimates and judgements (continued)

(iii) Critical judgement on going concern (continued)

Other significant portion of current liabilities is a result of how revenue is recognised, such liabilities are all held in the balances sheet and relate to:

- Unused airtime and data bundles by prepaid customers of Shs 2.8 billion (2015: 2.4 billion). Prepaid airtime when sold to customers is held as a liability in the balance sheet (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 Shs 3.2 billion (2015: Shs 3.0 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 and accessories) or non-merchandise (free airtime and data bundles). It is at this point that the liability is reduced and the redeemed Bonga points recognised as revenue.
- Deposits held for postpaid customers of Shs 981 million (2015: Shs 945 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.

These amounts are included under "trade and other payables" in the statement of financial position. Refer to Note 26.

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

The Group finances its long term projects with short term debt. As at 31 March 2016 the Group had paid all outstanding short term debts as evidenced by the significant improvement in net current liabilities to current assets position compared to March 2015. The Directors are confident that sufficient funds will be available and accessible to meet obligations as they fall due.

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 recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

At 31 March 2016, 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 Shs 116 million (2015: Shs 221 million) higher/lower, mainly as a result of US dollar denominated cash and bank balances, receivables and payables.

4 Financial risk management (continued)

Market risk (continued)

(i) Foreign exchange risk (continued)

Profit is less sensitive to movement in Shs/US dollar exchange rates in 2016 than 2015 because of the reduced amount of US dollar-denominated creditor balances.

At 31 March 2016, 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 Shs 67 million (2015: Shs 43 million) lower/higher, mainly as a result of increased Euro denominated creditors 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 long-term and 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. To manage interest rate risk the Group ensures that a portion of its borrowings are fixed rate borrowings. The Group and Company regularly monitor financing options available to ensure optimum interest rates are obtained.

At 31 March 2016, an increase/decrease of 100 basis points (2015: 100 basis points) would have resulted in a decrease/increase in consolidated post tax profit of Shs 67 million (2015: Shs 136 million). The Group did not carry any borrowings as at end of March 2016.

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	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Category 1	1,192,617	4,135,918	1,192,617	4,135,918
Category 2	3,994,729	4,125,954	3,974,052	4,105,267
Category 3	899,184	3,649,702	585,172	3,636,480
Others	22,963	4,797	22,889	4,797
Restricted cash	2,391,563	2,113,938	2,391,563	2,113,938
	8,501,056	14,030,309	8,166,293	13,996,400

4 Financial risk management (continued)

Credit risk (continued)

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. Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored.

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 538 (2015: 531) 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 aging 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.

4 Financial risk management (continued)

Credit risk (continued)

Trade and other receivables (continued)

	Group		Company	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Past due but not impaired:				
- by up to 30 days	710,068	259,553	710,068	259,553
- by more than 30 days	956,944	94,884	897,087	7,836
Total past due but not impaired	1,667,012	354,437	1,607,155	267,389
Receivables individually determined to be impaired	1,602,687	1,031,454	1,589,531	1,018,298

(a) Group

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	Shs'000	Shs'000	Shs'000	Shs'000
At 31 March 2016				
Dealers	170,513	158,542	1,590	330,645
Postpay	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
At 31 March 2015				
Dealers	165,154	267,389	2,928	435,471
Postpay	1,275,196	-	457,008	1,732,204
Roaming and interconnect	1,352,552	-	208,127	1,560,679
Amounts due from related parties	1,765,228	-	33,268	1,798,496
Other receivables	1,753,276	87,048	330,123	2,170,447
Total	6,311,406	354,437	1,031,454	7,697,297

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 31 March 2016				
Dealers	170,513	158,542	1,590	330,645
Postpay	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
At 31 March 2015				
Dealers	165,154	267,389	2,928	435,471
Postpay	1,275,196	-	457,008	1,732,204
Roaming and interconnect	1,352,552	-	208,127	1,560,679
Amounts due from related parties	1,972,940	-	33,268	2,006,208
Other receivables	1,465,892	-	316,967	1,782,858
Loan to related parties	633,408	-	-	633,408
Total	6,865,142	267,389	1,018,298	8,150,828

4 Financial risk management (continued)

Credit risk (continued)

Trade and other receivables (continued)

Dealers' debt is fully secured by bank guarantees. The Group has bank guarantees of Shs 376 million and Shs 492 million as at March 2016 and March 2015 respectively, 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, 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 equal their carrying balances, as the impact of discounting is not significant.

(a) Group

	Less than 1 year	Between 1 and 2 years	Total
	Shs'000	**Shs'000**	**Shs'000**
At 31 March 2016:			
- trade and other payables	33,633,144	-	33,633,144
Total financial liabilities	33,633,144	-	33,633,144
At 31 March 2015:			
- borrowings	6,082,030	512,605	6,594,635
- corporate bonds	4,753,690	-	4,753,690
- trade and other payables	34,530,264	-	34,530,264
Total financial liabilities	45,365,984	512,605	45,878,589

4 Financial risk management (continued)

Liquidity risk (continued)
(b) Company

	Less than 1 year	Between 1 and 2 years	Total
	Shs'000	Shs'000	Shs'000
At 31 March 2016:			
- trade and other payables	33,836,499	-	33,836,499
Total financial liabilities	33,836,499	-	33,836,499
At 31 March 2015:			
- borrowings	6,082,030	512,605	6,594,635
- corporate bonds	4,753,690	-	4,753,690
- trade and other payables	34,247,432	-	34,247,432
Total financial liabilities	45,083,152	512,605	45,595,757

Guarantees amounting to Shs 412 million (2015: Shs 406 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 29.

Excluded from the trade and other payables is deferred revenues arising from unused airtime, unused data bundles and unredeemed "Bonga points" under Loyalty Management System (LMS) amounting to Shs 5,987 million (2015: Shs 5,393 million) which are not expected to result into cash outflow in the normal course of business as detailed in Note 26.

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	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Total borrowings	-	10,639,980	-	10,639,980
Less: cash and cash equivalents	(8,501,056)	(14,030,309)	(8,166,293)	(13,996,400)
Excess cash	(8,501,056)	(3,390,329)	(8,166,293)	(3,356,420)
Total equity	116,738,947	104,276,531	117,552,810	105,429,892
Total capital	116,738,947	104,276,531	117,552,810	105,429,892
Gearing ratio	-	-	-	-

Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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.

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.

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.

4 Financial risk management (continued)

Fair value estimation (continued)

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Treasury bills worth Shs 976 million have been included in the statement of financial position. The bills mature within a period of three months and have therefore been categorised within "cash and cash equivalents in the statements of financial position". These would be classified as level 1.

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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

Management has determined the operating segment based on the reports reviewed by the Senior Leadership Team (SLT) for the purpose of allocating resources and assessing performance.

The SLT considers the business as one operating segment for purpose of financial performance. However, revenue targets are split between the three business units namely Consumer, Enterprise and Financial services units. Currently the SLT 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, 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.

The SLT assesses the performance of the operating segment from revenue to net income. The total revenue, direct costs, trading contribution, operating expenses, interest and foreign exchange gain and losses, tax and net income are reviewed.

Further key performance indicators are also reviewed; for instance, number of subscribers, minutes of use, originating minutes, terminating minutes, average revenue per user, average revenue per minute, number of sites, data usage etc. are also reviewed monthly. Impact of new financial policies are also explained to the SLT.

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

	2016 Shs' 000	2015 Shs' 000
Voice revenue	90,802,436	87,367,768
Messaging revenue	17,327,615	15,671,326
Mobile data revenue	21,154,136	14,823,188
Fixed service revenue	3,815,455	3,128,042
M-PESA revenue	41,499,923	32,625,688
Other service revenue	3,184,524	2,630,619
	177,784,089	156,246,631

5 Segment information (continued)

(a) Service revenue (continued)

Service revenue grew by 13.8% to Shs 177.8 billion driven by an increase in the customer base leading to growth across all revenue streams, predominantly mobile data and M-PESA. Voice revenue which now stands at 51.1% of our service revenue grew by 3.9%, to Shs 90.8 billion while non-voice service revenue which accounts for 48.9% of service revenue, recorded a growth of 26.3% to Shs 87.0 billion driven mainly by M-PESA, Mobile Data and Fixed Service.

This growth continues to be supported by our loyal customer base experiencing superior and affordable products, quality network, convenient airtime distribution and attractive consumer propositions.

Messaging revenue growth of 10.6% to Shs 17.3 billion which represents 9.7% of our service revenue was driven by an increase in the number of SMS users enjoying affordable SMS bundles.

Mobile data revenue, which accounts for 11.9% of our service revenue, grew at an impressive 42.7% driven by an increased uptake of affordable data bundles, now available in daily, 7 day, 30 day and 90 day bundle. This growth has been enhanced by a 21.5% growth in 30 day active mobile data customers now at 14.1 million. By 31 March 2016 we had 7.9 million customers on 3G and 4G enabled devices of which 7.7 million were smartphones.

Fixed service revenue has increased by 22.0% to Shs 3.8 billion driven by among others 21.6% growth in fixed data customers.

M-PESA remains at the forefront of deepening financial inclusion and contributed 23.3% to service revenue and continues to be a significant contributor to growth of non-voice revenue. M-PESA revenue grew by 27.2% to Shs 41.5 billion driven by a 19.8% increase in 30 day active M-PESA customers to 16.6 million as well as an increase in the average number of transactions per customer. Our M-PESA agent foot print grew by 17.5% to 100,744 bringing the M-PESA services even closer to our customers.

(b) Handsets and other revenues

	2016 Shs' 000	2015 Shs' 000
Handset revenue	6,367,593	5,670,727
Acquisition and other revenue	2,253,724	1,446,763
	8,621,317	7,117,490

(c) Construction revenue

	2016 Shs' 000	2016 Shs' 000
National Police Service contract revenue	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 and has not been billed to the customer. The percentage of completion is determined based on work done compared to the estimated costs to completion. As at 31 March 2016, 92% of the construction work had been completed.

Equivalent costs have been reported as construction costs. No profit or loss has been recognised as none is deemed at this point. A construction receivable equivalent to the reported revenue has been recognised under current assets. This relates to the unbilled work pending the acceptance process. Contracted suppliers for the project are paid in accordance with the normal business payment terms.

As at 31 March 2016 confirmation of the National Police Service Project deliverables had been received from the Inspector General of Police to the extent of completion. The acceptance process is on-going with billing expected upon receipt of the acceptance certificate from the Ministry of Interior and Coordination of the National Government. Once billed, the payment for this contract is spread over a 5 year contractual period. As at year end, no amounts had been received as advances and resultantly, no retentions were held. There are no contingent liabilities or assets foreseen as at the year end.

The carrying amounts of the construction receivables included under "trade and other receivables" approximate their fair values.

5 Segment information (continued)

(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 31 March 2016 and 2015 is as follows:

	31 March	
	2016 Shs'000	**2015 Shs'000**
Total equity and non-current liabilities	116,738,947	104,767,293
Non-current assets	129,242,044	124,367,073
Current assets	29,940,441	32,590,553
Current liabilities	(42,443,538)	(52,190,333)
Net current liabilities	(12,503,097)	(19,599,780)
	116,738,947	104,767,293

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	
	2016 Shs'000	**2015 Shs'000**
Gain on disposal of property, plant and equipment	27,445	83,549
Miscellaneous income	204,378	492,055
	231,823	575,604

7 (a) Direct costs

	Group	
	2016 Shs'000	2015 Shs'000
M-PESA commissions	14,685,220	12,284,482
Airtime commissions	10,783,845	10,627,538
License fees (spectrum, M-PESA and link leases)	9,799,504	8,035,527
Interconnect and roaming costs	7,467,557	7,035,439
Handset costs	6,426,675	6,593,263
Customer acquisition and retention	6,116,974	5,162,649
Value Added Services costs (Voice and SMS)	5,568,387	5,695,945
Other direct costs	1,461,841	1,273,733
	62,310,003	56,708,576

7 (b) Construction costs

	Group	
National Police Service contract costs	9,279,818	-

7 (c) Other expenses

	Group	
	2016 Shs'000	2015 Shs'000
Repairs and maintenance expenditure on property, plant and equipment	211,322	191,590
Operating lease rentals - buildings	817,100	750,489
Operating lease rentals - sites	1,568,536	1,084,596
Warehousing costs	222,250	235,606
Employee benefits expense	12,563,301	11,436,245
Auditor's remuneration	48,023	39,194
Sales and advertising	5,570,314	5,407,949
Consultancy including legal fees	1,135,420	735,415
Site and facilities costs	11,153,804	10,387,188
Travel and accommodation	741,247	606,677
Computer maintenance	1,225,527	1,052,223
Office upkeep	792,717	618,424
Bad debts	705,311	201,552
Net foreign exchange losses, other than on borrowings and cash and cash equivalents	271,855	80,530
Other operating expenses	4,234,226	3,212,312
	41,260,953	36,039,990

8 Net finance costs

	Group	
	2016 Shs'000	2015 Shs'000
Finance costs:		
Interest expense	838,157	1,073,091
Foreign exchange losses on cash and borrowings	561,350	274,629
	1,399,507	1,347,720
Finance income:		
Interest income	(1,341,725)	(1,292,085)
Foreign exchange gain on cash and borrowings	(959,330)	(480,504)
	(2,301,055)	(1,772,589)
Net finance income	(901,548)	(424,869)

9 Employee benefits expense

	Group	
	2016 Shs'000	2015 Shs'000
The following items are included within employee benefits expense:		
Salaries and wages	7,558,280	6,911,984
Employee Performance Share Award Plan (EPSAP)	226,873	328,790
Retirement benefits costs:		
- Defined contribution scheme	464,573	413,246
- National Social Security Fund	9,878	9,629
	8,259,604	7,663,649

10 Employee Performance Share Award Plan

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

During the year 14.9 million shares were bought by the Trust, at a cost of Shs 242 million. Additionally, 30.4 million shares historically valued at Shs 375.12 million (2015: 24.9 million valued at 194.7 million) vested and were exercised by eligible staff.

The Trust currently holds 28.31 million shares at a total cost of Shs 431.42 million (2015: 43.78 million shares at a cost of Shs 564.58 million).

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

11 Income tax expense

	Group	
	2016 Shs'000	2015 Shs'000
Current income tax	17,412,107	13,193,780
Deferred income tax (Note 16 (a))	246,108	1,084,462
Income tax expense	17,658,215	14,278,242

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:

	Group	
	2016 Shs'000	2015 Shs'000
Profit before income tax	55,762,505	46,149,545
Tax calculated at the applicable income tax rate of 30% (2015: 30%)	16,728,752	13,844,864
Tax effect of:		
Income not subject to tax	(37,565)	(41,055)
Expenses not deductible for tax purposes	1,036,480	504,065
Under provision of deferred tax in prior year	(58,769)	(1,230)
Over provision of current tax in prior years	(10,683)	(28,402)
Income tax expense	17,658,215	14,278,242

12 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.

	2016	2015
Profit attributable to equity holders of the Company (Shs thousands)	38,104,290	31,871,303
Weighted average number of ordinary shares in issue (thousands)	40,065,428	40,065,428
Basic earnings per share (Shs)	0.95	0.80
Diluted earnings per share (Shs)	0.95	0.80

13 Share capital and share premium

	Number of shares	Ordinary shares	Share premium	Total
	(Thousands)	Shs'000	Shs'000	Shs'000
At 1 April 2014, 31 March 2015 and 31 March 2016	40,065,428	2,003,271	2,200,040	4,203,311

The authorised share capital of the Company is Shs 6,000,000,000 divided into 119,999,999,600 ordinary shares of Shs 0.05 each and 5 non-redeemable preference shares of Shs 4 each.

The issued share capital comprises 40,065,428,000 (2015: 40,065,428,000) ordinary shares with a par value of Shs 0.05 each.

The non-voting non-participating redeemable preference shares previously issued were redeemed during the year.

14 Dividend per share

No interim dividend was paid during the year (2015: Nil). At the annual general meeting to be held on 2 September 2016, a final dividend in respect of the year ended 31 March 2016 of Shs 0.76 (2015: Shs 0.64) per share amounting to a total of Shs 30,483,432,000 (2015: Shs 25,641,874,000) 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.

15 Borrowings

Borrowings are made up as follows:

	Group and Company	
	2016 Shs'000	2015 Shs'000
Non-current:		
Bank borrowings	-	490,762
	-	490,762
Current:		
Bank borrowings	-	5,662,218
Corporate bond	-	4,487,000
	-	10,149,218
Total borrowings	-	10,639,980
Movement in the borrowings		
Opening balance	10,639,980	12,615,380
Borrowings	8,696,700	5,914,152
Repayments	(19,336,680)	(7,889,552)
	-	10,639,980

16 Deferred income tax

(a) Group

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

	Group	
	2016 Shs '000	**2015 Shs '000**
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	(580,216)	(508,333)
– Deferred tax assets to be recovered within 12 months	(1,450,095)	(695,365)
	(2,030,311)	(1,203,698)
Deferred tax liabilities:		
– Deferred tax assets to be recovered after more than 12 months	610,002	(466,078)
– Deferred tax liability to be recovered within 12 months	-	3,359
	610,002	(462,719)
	(1,420,309)	(1,666,417)

Deferred income tax is calculated using the enacted income tax rate of 30% (2015: 30%).

	Group	
	2016 Shs '000	**2015 Shs '000**
At start of year	(1,666,417)	(2,750,879)
Charge to statement of comprehensive income (Note 11)	246,108	1,084,462
At end of year	(1,420,309)	(1,666,417)

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:

16 Deferred income tax (continued)

(a) Group (continued)

	1.4.2015	Charged/ (credited) to SOCI	31.03.2016
	Shs'000	Shs'000	Shs'000
Year ended 31 March 2016			
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)

	1.4.2014	Charged/ (credited) to SOCI	31.03.2015
	Shs'000	Shs'000	Shs'000
Year ended 31 March 2015			
Deferred income tax liabilities			
Property, plant and equipment	(1,716,879)	1,250,801	(466,078)
Unrealised exchange gains	70	3,289	3,359
	(1,716,809)	1,254,090	(462,719)
Deferred income tax assets			
Unrealised exchange loss	(31,033)	13,826	(17,207)
Provisions	(989,997)	(183,454)	(1,173,451)
Arising from fair value adjustment on acquisition of subsidiary	(13,040)	-	(13,040)
	(1,034,070)	(169,628)	(1,203,698)
Net deferred income tax asset	(2,750,879)	1,084,462	(1,666,417)

An amount of Shs 95 million (2015: Shs 168 million) worth of deferred tax assets relating to One Communications Limited has not been recognised in the financial statements. Although the Directors are confident that taxable profits will be realised in One Communications Limited within the foreseeable future, Shs 72 million (being Shs 31 million and Shs 41 million for 2010 and 2011 respectively) included in this balance relates to tax losses that are time barred and are awaiting an extension of the statutory utilisation period from the Kenya Revenue Authority.

16 Deferred income tax (continued)

(b) Company

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

	2016 Shs'000	2015 Shs'000
Deferred income tax liabilities		
Property, plant and equipment	610,002	(466,078)
Unrealised exchange gains	-	3,359
Total deferred income tax liabilities	610,002	(462,719)
Deferred income tax assets		
Unrealised exchange loss	(3,683)	(17,206)
Provisions	(2,013,588)	(1,173,451)
Total deferred income tax assets	(2,017,271)	(1,190,657)
Net deferred income tax asset	(1,407,269)	(1,653,376)

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

17 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 31 March 2014							
Cost	179,656,346	14,854,128	-	4,324,520	22,483,580	4,452,788	225,771,362
Accumulated depreciation and impairment	(108,322,694)	-	-	(3,120,819)	(16,567,036)	(50,271)	(128,060,820)
Net book amount	71,333,652	14,854,128	-	1,203,701	5,916,544	4,402,517	97,710,542
Year ended 31 March 2015							
Opening net book amount	71,333,652	14,854,128	-	1,203,701	5,916,544	4,402,517	97,710,542
Transfers from inventory (Note 23)	-	-	890,763	-	-	-	890,763
Additions	-	32,812,634	-	-	-	-	32,812,634
Acquired in a business combination (Note 31)	-	1,036,714	-	-	16,776	-	1,053,490
Transfers	49,866	-	-	583	(50,449)	-	-
Transfers from CWIP	15,700,216	(25,793,531)	32,135	284,372	6,170,096	3,606,712	-
Disposal	(11,570)	-		(69,500)	(418,198)	-	(499,268)
Depreciation charge	(16,572,946)	-	(179,847)	(359,272)	(4,478,211)	(260,431)	(21,850,707)
Impairment of assets**	(2,582,122)	-	(267,396)	-	-	-	(2,849,518)
Depreciation on disposal	5,130	-	-	68,344	415,509	-	488,983
Closing net book amount	67,922,226	22,909,945	475,655	1,128,228	7,572,067	7,748,798	107,756,919
At 31 March 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

17 Property, plant and equipment (continued)

(a) Group (continued)	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
Year ended 31 March 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 19)		(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 31 March 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

17 Property, plant and equipment (continued)

(b) Company	Network infrastructure	Capital work in progress (CWIP)*	Network maintenance spares**	Leasehold improvements	Vehicles & equipment	Fibre	Total
	Shs000	**Shs000**	**Shs000**	**Shs000**	**Shs000**	**Shs000**	**Shs000**
At 31 March 2014							
Cost	179,519,003	14,832,130	-	4,324,518	22,400,830	4,446,428	225,522,909
Accumulated depreciation and impairment	(108,240,107)	-	-	(3,120,815)	(16,499,913)	(43,911)	(127,904,746)
Net book amount	71,278,896	14,832,130	-	1,203,703	5,900,917	4,402,517	97,618,163
Year ended 31 March 2015							
Opening net book amount	71,278,896	14,832,130	-	1,203,703	5,900,917	4,402,517	97,618,163
Transfer from Inventory (Note 23)	-	-	890,763	-	-	-	890,763
Additions	-	32,812,634	-	-	-	-	32,812,634
Acquired in a business combination (Note 31)	-	1,036,714	-	-	16,776	-	1,053,490
Reclassification	49,865	-	-	583	(50,448)	-	-
Transfer from CWIP	15,700,216	(25,771,533)	32,135	284,372	6,148,098	3,606,712	-
Disposal	(11,570)	-	-	(69,500)	(418,199)	-	(499,269)
Depreciation charge	(16,532,878)	-	(179,846)	(359,272)	(4,457,969)	(260,431)	(21,790,396)
Impairment of assets**	(2,582,122)	-	(267,397)	-	-	-	(2,849,519)
Depreciation on disposals	5,130	-	-	68,342	415,511	-	488,983
Closing net book amount	67,907,537	22,909,945	475,655	1,128,228	7,554,686	7,748,798	107,724,849
At 31 March 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

17 Property, plant and equipment (continued)

(b) Company (continued)	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
Year ended 31 March 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 19)		(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 31 March 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

* 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 Shs 1,790 million (2015: Shs 2,850 million), being the carrying value of the assets identified as impaired as a result of the ongoing modernisation programme prompted by evolution of technology, have been included in the consolidated statement of comprehensive income.

18 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 31 March 2015							
Opening net book amount	2,715,295	1,223,419	673,087	91,559	151,737	-	4,855,097
Additions	203,545	3,627	21,818	-	-	-	228,990
Acquired in a business combination	-	-	-	-	-	91,450	91,450
Amortisation charge	(157,679)	(76,728)	(72,946)	(7,419)	(12,260)	-	(327,032)
Closing net book amount	2,761,161	1,150,318	621,959	84,140	139,477	91,450	4,848,505
At 31 March 2015							
Cost	3,253,011	1,534,853	838,312	111,280	183,914	91,450	6,012,820
Accumulated amortisation	(491,850)	(384,535)	(216,353)	(27,140)	(44,437)	-	(1,164,315)
	2,761,161	1,150,318	621,959	84,140	139,477	91,450	4,848,505
Year ended 31 March 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 31 March 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

18 Indefeasible rights of use (IRUs) (continued)

(b) Company	TEAMS	SEACOM	KPLC	ETISALAT	TATA	Total
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Year ended 31 March 2015						
Opening net book amount	2,715,295	1,223,419	673,087	91,559	151,737	4,855,097
Additions	203,545	3,627	21,818	-	-	228,990
Amortisation charge	(157,679)	(76,728)	(72,946)	(7,419)	(12,260)	(327,032)
Closing net book amount	2,761,161	1,150,318	621,959	84,140	139,477	4,757,055
At 31 March 2015						
Cost	3,253,011	1,534,853	838,312	111,280	183,914	5,921,370
Accumulated amortisation	(491,850)	(384,535)	(216,353)	(27,140)	(44,437)	(1,164,315)
	2,761,161	1,150,318	621,959	84,140	139,477	4,757,055
Year ended 31 March 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 31 March 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

19 Investment property

	Group and Company
	2016 Shs'000
At 1 April 2015	-
Transfer from property, plant and equipment (Note 17)	1,211,859
Fair value loss	(366,859)
As at 31 March 2016	845,000

The investment property relates to Land Title No 164259 and Title No 164260; located in the Nairobi area.

The fair value measurement of the investment property as at 31 March 2016 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 31 March 2016 is as follows:

Financial asset	Fair Value as at 31 March 2016 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

20 Intangible assets

(a) Group

	Goodwill	License fees	Total
	Shs'000	**Shs'000**	**Shs'000**
Year ended 31 March 2015			
Opening net book amount	219,151	726,422	945,573
Additions	-	2,894,630	2,894,630
Acquired in a business combination	-	6,797,629	6,797,629
Amortisation charge for the year	-	(555,421)	(555,421)
Closing net book amount	219,151	9,863,260	10,082,411
At 31 March 2015			
Cost	219,151	16,465,833	16,684,984
Accumulated amortisation	-	(6,602,573)	(6,602,573)
Net book amount	219,151	9,863,260	10,082,411
Year ended 31 March 2016			
Opening net book amount	219,151	9,863,260	10,082,411
Amortisation charge for the year	-	(1,141,793)	(1,141,793)
Closing net book amount	219,151	8,721,467	8,940,618
At 31 March 2016			
Cost	219,151	16,465,832	16,684,983
Accumulated amortisation	-	(7,744,365)	(7,744,365)
Net book amount	219,151	8,721,467	8,940,618

The goodwill arose on acquisition of One Communications Limited. At the time of acquisition, the five year plan reflected positive future cash flows which when discounted resulted in the net present value (NPV) exceeding the goodwill recognised.

20 Intangible assets (continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGU) identified according to operating segment level.

On an annual basis, the goodwill is tested for impairment. Goodwill is monitored by management at the operating segment level. For the purposes of assessment of impairment of goodwill, One Communications Limited business is viewed as an operating segment.

In assessing impairment of the goodwill, management have reviewed the five year business plans of One Communications Limited and further discounted the cash flows for the same period to determine if the net present value exceeds the investment held in the books at year end. Revenue growth rates of 2% (2015: 1%) in the first year followed by 2.5% (2015: 2%) in the second and 2.5% (2015: 2%) for the third and fourth and 2.5% (2015: 2%) for the fifth year had been used. A discount rate of 9.25% (2015: 9.63%), being the Company's cost of capital has been used.

The recoverable amount calculated based on the value in use exceeded carrrying by Shs 39 million. A fall in the average annual revenue growth rate of 2.9% or a rise in discount rate of 2.0% would remove the remaining headroom.

From the assessment carried out at the end of the year, no impairment charge was accounted for as at 31 March 2016 (2015: Nil).

(b) Company

	License fees	
	2016 Shs'000	**2015 Shs'000**
Opening net book amount	9,852,859	714,931
Additions	-	2,894,630
Acquired in a business combination	-	6,797,629
Amortisation charge*	(1,140,509)	(554,332)
Closing net book amount	8,712,350	9,852,858
Cost	16,443,569	16,443,568
Accumulated amortisation and impairment	(7,731,219)	(6,590,710)
Net book amount	8,712,350	9,852,858

* In the year ended 31 March 2015, the Group received credit notes from Communications Authority of Kenya (CA) being rebates on 3G license fees net of related costs. The credit notes amounting to Shs 12 million were netted off against the period's licenses amortisation charge of Shs 555 million. As a result the net license amortisation charge amount of Shs 543 million is presented in the Statement of Comprehensive Income.

21 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 31 December year-end). They are all incorporated in Kenya. The investments relate to cost of shares held in the subsidiaries.

	Company	
	2016 Shs'000	2015 Shs'000
At start of year	837,341	745,891
Additional investment: East Africa Tower Company Limited	-	91,450
Safaricom Money Transfer Services Limited	20,000	-
At end of year	857,341	837,341

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

			Company	
	Year end	% interest Held	2016 Shs'000	2015 Shs'000
One Communications Limited and its subsidiaries (Comtec Training Management Service Limited, Comtec Integrations System Limited, and Flexible Bandwidth Service Limited)	31 March	100	741,941	741,941
Packet Stream Data Networks Limited	31 March	100	-	-
IGO Wireless Limited	31 March	100	-	-
Instaconnect Limited	31 March	100	3,950	3,950
East Africa Tower Company Limited	31 March	100	91,450	91,450
Safaricom Money Transfer Services Limited	31 December	100	20,000	-
			857,341	837,341

The investments in subsidiaries are carried at cost. These investments were assessed for impairment indicators as required as at 31 March 2016 and the Directors concluded that the investments are not impaired (2015: Nil).

Safaricom Money Transfer Services Limited has a 31 December 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 31 March 2016.

(b) Investment in associate

The movement in investment in associate is as follows:

	2016 Shs'000	2015 Shs'000
At start of year	11,819	15,860
Share of profit / (loss) after tax	104,089	(4,041)
At end of year	115,908	11,819

21 Investments (continued)

(b) Investment in associate (continued)

The investment in associate at 31 March 2016 represents the investment of 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 30 June year end and derives its revenues from the provision of submarine fibre optic cable system. The 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 to the Group's financial statements as at 31 March 2016.

Set out below are the summarised financial information for TEAMS as at 31 March 2016 which is accounted for using the equity method;

Summarised statement of financial position

	2016 Shs'000	2015 Shs'000
Current assets		
Cash and cash equivalents	588,538	519,561
Other current assets (excluding cash)	31,892	28,977
Total current assets	620,430	548,538
Other current liabilities (including trade payables)	(243,779)	(173,410)
Total current liabilities	(243,779)	(173,410)
Non-current		
Assets	12,857	80,565
Liabilities	-	(429,676)
Net assets	389,508	26,017
Summarised statement of comprehensive income for the 9 months period ended 31 March 2016		
Revenue	287,690	220,740
Depreciation	(191)	(148)
Other expenses	(216,196)	(219,987)
Profit before tax	71,303	605
Income tax expense	(21,391)	-
Profit after tax	49,912	605

The information above reflects the amounts presented in the financial statements of the associate (and not Safaricom Limited's share of those amounts) adjusted for differences in accounting policies between the Group and the Associates.

22 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:

	2016 Shs'000	2015 Shs'000
At start of year	443,564	301,082
Additions	961,590	902,604
Amortisation charge for the year	(921,837)	(760,122)
At end of year	483,317	443,564
Current portion reflected in prepayments	(482,840)	(442,562)
Non-current portion	477	1,002

23 Inventories – Group and Company

	Group and Company	
	2016 Shs'000	2015 Shs'000
Network spare parts	-	1,065,857
Transfer to property, plant and equipment (Note 17)	-	(890,763)
Less: Provision for impairment losses	-	(175,094)
	-	-
Handsets and accessories	640,598	808,072
Scratch cards	94,364	78,114
Starter packs	195,783	121,856
Stationery and other stocks	5,617	3,261
Set top boxes	114,249	-
Less: Provision for impairment / obsolesce losses	(234,218)	(11,488)
	816,393	999,815
Inventory work-in-progress	-	7,258,786
	816,393	8,258,601

The cost of inventories recognised as an expense and included in the direct costs amounted to Shs 10,084 million (2015: Shs 10,262 million).

The decrease in inventory work in progress is due to recognition of revenue relating to the contract for provision of a national secure communication network and surveillance system for the National Police Service in the year ended 31 March 2016. Refer to Note 5 (c) for details on this contract.

24 Trade and other receivables

	Group		Company	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Current:				
Trade receivables	5,834,473	4,726,111	5,343,556	4,523,099
Less: Provision for impairment losses	(1,585,390)	(985,030)	(1,585,390)	(985,030)
	4,249,083	3,741,081	3,758,166	3,538,069
Receivable from related parties (Note 28 (viii))	2,283,134	1,798,496	2,672,758	2,006,208
Less: Provision for impairment losses	(1,987)	(33,268)	(1,987)	(33,268)
	2,281,147	1,765,228	2,670,771	1,972,940
Other receivables	1,808,636	2,204,145	1,833,912	2,006,413
Less: Provision for impairment losses	(15,310)	(13,156)	(2,154)	-
	1,793,326	2,190,989	1,831,758	2,006,413
Prepayments	3,019,618	2,562,660	3,000,746	2,542,789
Acquired in a business combination	-	41,685	-	41,685
Construction contract receivable	9,279,818	-	9,279,818	-
	20,622,992	10,301,643	20,541,259	10,101,896

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

	Group		Company	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
At start of year	1,031,454	1,074,966	1,018,298	1,061,463
Provisions made in the year:				
– trade and other receivables	736,592	318,442	736,592	318,442
– related parties	-	17,893	-	17,893
Release prior year provisions	(31,281)	(83,508)	(31,281)	(83,508)
Receivables written off during the year as uncollectible	(134,078)	(296,339)	(134,078)	(295,992)
	1,602,687	1,031,454	1,589,531	1,018,298

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

25 (a) Cash and cash equivalents

Cash and cash equivalents comprise the following for the purpose of the statement of cash flows:

	Group		Company	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Cash at bank and in hand	5,133,190	9,916,371	4,798,427	9,882,462
Short term bank deposits	-	2,000,000	-	2,000,000
Investment in short term treasury bills	976,303	-	976,303	-
	6,109,493	11,916,371	5,774,730	11,882,462

(b) Restricted cash

	Group 2016 Shs'000	Group 2015 Shs'000	Company 2016 Shs'000	Company 2015 Shs'000
Restricted cash	2,391,563	2,113,938	2,391,563	2,113,938

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 security to the staff mortgage loans and its withdrawal is restricted.

26 Trade and other payables

	Group		Company	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Trade payables	3,210,969	5,168,700	2,943,672	4,977,891
Amounts due to related companies (Note 28 (ix))	883,497	1,296,946	1,140,487	1,468,092
Accrued liabilities				
- Network infrastructure	8,981,584	15,111,622	8,981,584	15,110,677
- Customer loyalty credits	3,229,945	2,995,093	3,229,945	2,995,093
- Deferred revenue	2,757,763	2,398,208	2,757,763	2,398,208
- Inventory	359,961	821,918	359,961	821,918
- Other expenses	9,969,745	8,622,868	9,932,652	8,416,127
Other payables	10,675,518	5,008,544	10,926,272	4,953,061
	40,068,982	41,423,899	40,272,336	41,141,067

All customer loyalty credits (Bonga points) which form a separate component of the sales transaction are reported as deferred revenue and forms part of accrued liabilities.

The accrued liability relating to customer loyalty credits of Shs 3,230 million (2015: Shs 2,995 million) is expected to be recognised into revenue as customers redeem their points.

26 Trade and other payables (continued)

Deferred revenue Shs 2,758 million (2015: Shs 2,398 million) relates mainly to unused airtime and data bundles which will be recognised as revenue upon customer usage and un-earned fibre revenue recognised over the lease period.

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 position.

27 Cash generated from operations

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

	Group	
	2016 Shs'000	**2015 Shs'000**
Profit before income tax	55,762,505	46,149,545
Adjustments for:		
Interest income (Note 8)	(1,341,725)	(1,292,085)
Interest expense (Note 8)	838,157	1,073,091
Transfer of inventory to property, plant and equipment (Note 17 (a))	-	(890,763)
Depreciation on property, plant and equipment (Note 17 (a))	24,662,315	21,850,707
Impairment charge on property, plant and equipment (Note 17 (a))	1,790,267	2,849,518
Amortisation of intangible assets (Note 20 (a))	1,141,793	555,421
Share of profit / (loss) from associate (Note 21 (b))	(104,089)	4,041
Amortisation of IRUs (Note 18 (a))	348,171	327,032
Movement in non-current prepaid operating lease rentals (Note 22)	525	525
Profit on sale of property, plant and equipment (Note 6)	(27,445)	(83,549)
Fair value loss on investment properties (Note 19)	366,859	-
Changes in working capital		
– receivables and prepayments	(10,321,349)	(2,555,026)
– inventories	7,442,208	(5,302,634)
– payables and accrued expenses	(1,354,917)	11,950,839
Cash generated from operations	79,203,275	74,636,662

28 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 license 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 which is based on the amounts transacted. The Company also uses the M-PESA platform to sell air time to M-PESA account holders as well as run the M-Shwari and KCB M-PESA product as detailed out in Note 2(e).

The 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 license fee is charged quarterly.

The license fee is a percentage of the M-PESA revenue including airtime distribution commission savings to Safaricom as a result of the sale of airtime through the M-PESA Service. 10% was charged up to 31 July 2015 and 5% effective from 1 August 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 1 April 2011 to 31 March 2014, renewable every year. 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.

28 Related party transactions (continued)

The following relationships exist within Safaricom Limited Group:

Related parties	Held by	Percentage of interest held as at 31 March	
		2016	2015
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%

The following transactions were carried out with related parties:

i) Sale of goods and services

	Group	
	2016 Shs'000	2015 Shs'000
Vodafone (UK) Limited	13,021	53,338
Vodacom Tanzania Limited	103,076	118,248
Other Vodafone affiliates	17,782	63,895
M-PESA Holding Company Limited	40,088,345	32,625,688
	40,222,224	32,861,169

ii) Purchase of goods and services

	Group	
	2016 Shs'000	2015 Shs'000
Vodafone Sales and Services Limited	4,107,222	4,620,199
Vodafone Group Services Limited	531,137	584,223
Vodafone (UK) Limited	3,924	27,109
Other Vodafone affiliates	12,228	46,507
Vodacom Tanzania Limited	449,766	414,783
	5,104,277	5,692,821

28 Related party transactions (continued)

iii) Directors' remuneration

	Group	
	2016 Shs'000	**2015 Shs'000**
Fees for services as Director	21,352	16,585
Other emoluments	257,812	267,683
Total remuneration of Directors of the Company	279,164	284,268

iv) Key management compensation

	Group	
	2016 Shs'000	**2015 Shs'000**
Salaries and other short-term employment benefits	656,252	709,769
Employee Performance Share Award Plan	96,640	63,563
Pension contribution	12,266	12,608
Termination benefits	28,595	-
	793,753	785,940

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 no loans from shareholders outstanding at 31 March 2016 (2015: Nil).

vi) Loans to Directors of the Company

There are no loans to Directors of the Company at 31 March 2016 (2015: Nil).

vii) Donations to Safaricom Foundation

Donations made during the year amounted to Shs 414 million (2015: Shs 335 million).

28 Related party transactions (continued)

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

	Group		Company	
	2016 Shs'000	**2015 Shs'000**	**2016 Shs'000**	**2015 Shs'000**
Current:				
Vodafone (UK) Limited	1,726	3,791	1,726	3,791
Vodafone Group Enterprises	21,241	30,536	21,241	30,536
M-PESA Holding Company Limited	2,258,606	1,727,288	2,258,606	1,727,288
Other Vodafone affiliates	1,561	32,017	1,561	32,017
Vodacom Tanzania	-	4,864	-	4,864
One Communications Limited	-	-	106,907	120,664
Packet Stream Data Networks Limited	-	-	76,642	76,642
IGO Wireless Limited	-	-	10,406	10,406
Safaricom Money Transfer Limited	-	-	115,524	-
East Africa Tower Company Limited	-	-	80,145	-
	2,283,134	1,798,496	2,672,758	2,006,208

The receivables arise mainly from trading, are unsecured and bear no interest. A provision of Shs 1.99 million (2015: Shs 33.2 million) (Note 24) is held against receivables from related parties.

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

	Group		Company	
	2016 Shs'000	**2015 Shs'000**	**2016 Shs'000**	**2015 Shs'000**
Vodafone Sales and Services Limited	785,730	1,226,854	785,730	1,226,854
Vodafone Group Services Limited	58,846	56,333	58,846	56,333
Other Vodafone affiliates	13,675	7,378	13,675	7,378
Vodacom Tanzania	25,246	6,381	25,246	6,381
One Communications Limited	-	-	106,429	168,674
East Africa Towers Limited	-	-	147,126	-
IGO Wireless Limited	-	-	2,472	2,472
Safaricom Money Transfer Limited	-	-	963	-
	883,497	1,296,946	1,140,487	1,468,092

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.

28 Related party transactions (continued)

(x) Loan to related parties

	Company	
	2016 Shs'000	**2015 Shs'000**
One Communications Limited	337,588	633,408
Safaricom Money Transfer Services Limited	500,000	-
	837,588	633,408

The loan made by the Company to its subsidiary company, One Communication Limited is at an interest rate based on 91 days treasury bill rate plus 100 basis points. The repayment date is based on future profit expected from One Communications Limited but has no fixed repayment terms. During the year, Shs 295.8 million (2015: Shs 74.5 million) was repaid. The fair value of the loan approximates its carrying amount.

During the year, the Company has availed to its subsidiary company, Safaricom Money Transfer Services Limited, a five year revolving loan facility at an interest rate based on 91 day Treasury bill rate plus 500 basis points. During the current year Shs 87.8 million has been charged as interest on this loan. The fair value of the loan approximates its carrying amount.

29 Contingent liabilities

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

At 31 March 2016, a guarantee of Shs 25,000,000 (2015: Shs 25,000,000) had been given to Barclays Bank of Kenya against credit cards for the use of senior staff during travel and a guarantee of Shs 387,412,232 (2015: Shs 381,375,171) to various suppliers for goods and services regularly provided to the Company.

The Company has outstanding matters with Kenya Revenue Authority (KRA) 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.

30 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	
	2016 Shs'000	**2015 Shs'000**
Property, plant and equipment	5,783,488	11,019,446
Operating lease commitments		
Not later than 1 year	853,873	1,023,680
Between 1 year and 5 years	2,693,468	2,803,301
Later than 5 years	3,433,563	2,030,991
	6,980,904	5,857,972

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

31 Business combination

On 22 December 2014 Safaricom Limited completed its part of the transaction of acquisition of assets related to Essar Telecom Kenya Limited (ETKL) business in exchange for a total cash consideration of Shs 7,539 million. The acquired business consists of ETKL Wireless network spectrum, passive network equipment, computer equipment, office fixtures and fittings and a 100% owned subsidiary, East Africa Tower Company Limited (EATCL). This was executed through three different agreements; direct asset transfer agreement, share purchase agreement and hive down agreement.

The acquisition was expected to bring synergy for Safaricom Limited and improve the quality of service offered to customers.

As at 31 March 2016, the consolidated statement of comprehensive income includes revenue contributed by some of the ETKL assets but due to the nature of Safaricom business, revenues generated from individual assets cannot be economically identified.

No additional significant amounts have been incurred by the Company in concluding the final stages of the working capital adjustment settlement that require to be disclosed.

The amount of gain on asset purchase arising on acquisition was Shs 107.7 million

------000------

Shareholding Information

Principal Shareholders

The ten largest shareholdings in the Company (ordinary shares only) and the respective number of shares held as at 31 March 2016 are as follows:

	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 KENYA NOMINEES LIMITED, A/C KE002112	417,715,500
4	STANDARD CHARTERED NOMINEES NON-RESIDENT, A/C 9069	214,841,737
5	STANDARD CHARTERED KENYA NOMINEES LIMITED, A/C KE19796	194,377,500
6	STANDARD CHARTERED NOMINEES NON RESIDENT, A/C 9835	191,407,768
7	KENYA COMMERCIAL BANK NOMINEES LIMITED, A/C, 1019D	182,542,500
8	STANDARD CHARTERED KENYA NOMINEES LIMITED, A/C KE20531	173,446,600
9	STANDARD CHARTERED NOMINEES NON-RESIDENT, A/C 9853	133,561,919
10	KENYA COMMERCIAL BANK NOMINEES LIMITED, A/C 915B	119,088,386
11	OTHERS	8,415,873,510
	Total	**40,065,428,000**

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
1 to 1000	386,151	232,963,961	0.58%
1001 – 10,000	189,837	545,530,757	1.36%
10,001 – 100,000	22,234	558,071,717	1.39%
100,001 – 1,000,000	1,955	529,286,374	1.32%
1,000,001 – 10,000,000	465	1,564,063,417	3.90%
10,000,001 – 100,000,000	176	4,642,036,695	11.59%
100,000,001 – 1,000,000,000	11	1,970,902,499	4.92%
1,000,000,001 – 100,000,000,000	2	30,022,572,580	74.93%
Total	**600,831**	**40,065,428,000**	**100.00%**


5

additional information

Notice of the Annual General Meeting

SAFARICOM LIMITED

TO ALL SHAREHOLDERS

NOTICE is hereby given that the Annual General Meeting of Safaricom Limited for the year 2016 will be held at the Bomas of Kenya, Langata/Forest Edge Road, Nairobi on Friday, 2 September 2016 at 11 :00 a.m. to conduct the following business:

1. To receive, consider and adopt the audited Financial Statements for the year ended 31 March 2016 together with the Chairman's, Directors' and Auditor's reports thereon.

2. Dividend

a) To approve a first and final dividend of Shs 0.76 per share for the Financial Year ended 31 March 2016 as recommended by the Directors. The dividend will be payable on or before 1 December 2016 to the Shareholders on the Register of Members as at the close of business on 2 September 2016.

b) To note that a special dividend of Shs 0.68 per share for the Financial Year ending 31 March 2017, as approved by the Directors on 25 July 2016 and payable from retained earnings will be payable on or before 1 December 2016 to the Shareholders on the Register of Members as at the close of business on 2 September 2016.

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) Mr Michael Joseph retires in accordance with Clause 2.5 of the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015. Special notice is hereby given pursuant to Section 287 of the Companies Act 2015, that notice has been received of the intention to propose the following Resolution as an Ordinary Resolution at the 2016 Annual General meeting:

   'That Mr Michael Joseph who has attained the age of over 70 years, be and is hereby re-elected a Director of the Company.'

4. To note that Messrs PricewaterhouseCoopers continues in office as Auditors by virtue of Section 721 (2) of the Companies Act, 2015 and to authorise the Directors to fix the Auditor's remuneration for the ensuing financial year.

5. Any other business of which due notice has been given.

BY ORDER OF THE BOARD

KATHRYNE MAUNDU (MS)

COMPANY SECRETARY

1 August 2016

NOTES

(i) A member entitled to attend and vote at this meeting is permitted 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, PO 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 4 August 2016 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 2016 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 2 September 2016. 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 Shs 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 20 2230330/ +254 20 2212065/ +254 20 2246449 Mobile: +254 724 699667 / +254 735565666/ +254 770 0521 16, Email: info@image.co.ke) or Safaricom Limited's Investor Relations Team (Mobile: +254 722 00 4746/3725, 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 the 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

Registrars

Image Registrars Limited

5th Floor, Barclays Plaza

Loita Street

P.O. Box 9287, 00100 Nairobi

Telephone: +254 20 2230330/2212065/2246449

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 ____

Of ____

Being a member of the above Company, hereby appoint:

Of ____

Failing whom, the Chairman of the Meeting, as 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 2 September 2016 and at any adjournment thereof.

As witness my/our hand this ____________________ day of __________ 2016.

Signed ____________________

Signed ____________________

Note:

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

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