Notes

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 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 (Kshs), 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 management to exercise its judgement in the process of applying the Group's accounting policies.

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

Changes in accounting policy and disclosures

(i) New standards and interpretations that are effective in the current year

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012 and have been applied in preparing these financial statements.

Amendment to IAS 1, 'Presentation of Financial Statements' (effective 1 July 2012) regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

(ii) New standards and interpretations that are not yet effective and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2013.

IFRS 10, Consolidated financial statements' (effective 1 January 2013), builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group and the Company intend to adopt IFRS 10 in the accounting period beginning 1 April 2013.

IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013), includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group and the Company intend to adopt IFRS 10 in the accounting period beginning 1 April 2013.

IFRS 13, 'Fair value measurement' (effective 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

IFRS 9, 'Financial instruments' (effective 1 January 2015), addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch. The directors are yet to assess IFRS 9's full impact and intend to adopt IFRS 9 no later than the accounting period beginning 1 April 2015. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB. The Group and the Company are yet to assess IFRS 9's full impact and intends to adopt IFRS 9 as may be deemed appropriate no later than the accounting period beginning 1 April 2015.

2 Summary of significant accounting Policies (continued)

(a) Basis of preparation (continued)

(iii) New standards and interpretations that are not yet effective, have not been early adopted and are not expected to have a significant impact on the Group and Company

Amendment to IAS 19, 'Employee benefits' (effective 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

Amendment to IFRS 7, 'Financial instruments: Disclosures (effective 1 January 2013)', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013). This standard includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11, 'Joint arrangements' which has no impact on the Group.

Amendment to IAS 32, 'Financial instruments: Presentation' (effective 1 January 2014), on asset and liability offsetting. This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the 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.

Acquisition-related costs are expensed as incurred.

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.

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

(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 interests are also recorded in equity.

2 Summary of significant accounting Policies (continued)

(b) Consolidation (continued)

(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.

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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Results of associates as reported in the Group's financial statements have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

(v) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, 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.

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 are reclassified to profit or loss.

(c) Functional currency and translation of foreign currencies

(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 (Kshs), which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other expenses'.

(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

2 Summary of significant accounting Policies (continued)

(d) Segment reporting (continued)

resources and assessing performance of the operating segments, has been identified as the Executive Committee that makes strategic decisions.

The directors 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 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 sale of airtime for use in voice and data transmission. The business is transforming itself to a Total Telecommunication Solution provider. Phones, starter packs and other accessories are sold through dealers and retail centres spread across the country. Starter packs consist of a SIM card and information brochures. There is no right of return for SIM cards.

M-PESA is a Safaricom Limited service allowing customers to transfer money using a mobile phone. Kenya was the first country in the world to use this service, which is operated under license from Vodafone. 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.

Safaricom Limited in partnership with Commercial Bank of Africa (CBA) launched a product called "M-Shwari" in the year. M-Shwari is a first of its kind service in the world. M-Shwari is essentially a bank service that allows our customers to save, earn interest and borrow money using their mobile phones. M-Shwari customers can save as little as Kshs 1 (USD 0.012) and get loans from as little as Kshs 100 (USD 1.22). This has enabled more and more Kenyans to get access to banking services that they did not have before. As added value to our customers, M-Shwari has 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 M-Shwari and vice versa. Revenue from this service is earned from the facilitation fee charged at the point of loan disbursement and this is shared between Safaricom Limited and CBA.

The Safaricom Limited headline tariff for Voice is called Uwezo tariff at on net rate of Kshs 4 during the day and Kshs 2 from 10pm to 8am and Kshs 4 for off net. The headline tariff is applicable to both PrePay and PostPay customers. PostPay tariffs are available for subscribers who opt to pay their bills at the end of the month. Corporate customers, depending on their usage, also qualify for further discounts.

On SMS, customers can send messages on net for Kshs 1 and off net for Kshs 2. There are also attractive SMS bundles which offer an effective price per SMS lower than Kshs 1. On data a wide range of propositions are available based of customers' requirements. These include daily bundles, limited bundles and time based billing.

Income from sale of scratch cards is deferred and recognized as revenue on usage.

Sales of mobile phones and starter packs are recognised in the period in which the Group delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

A loyalty programme, 'Bonga', was introduced in January 2007 to both PrePay and PostPay subscribers. In this scheme, subscribers earn one Bonga point for every Kshs 10 spent on voice calls, short messages service (SMS) and data. These points can be redeemed for free airtime, SMS or merchandise such as phones, modems and laptops.

Management defers revenue for every point accumulated and recognises the revenue relating to the point earned only on redemption. The position in March 2013 was that 74% of the points redeemed were for non- merchandise items (airtime, voice minutes, data bytes and SMS) while 26% was redeemed for merchandise items.

For fixed data services, revenue is based on the bandwidth and speed contracted by the customer. Revenue is recognized at the end of every month based on a standard monthly charge. For mobile data customers there are various offers including data bundles which are priced in proportion to the bandwidth in the bundle.

Revenue arising from the different service plans and tariffs are recognised as and when the airtime and bandwidth is used by the customer. All unutilised airtime is accounted for as deferred revenue.

Interest income is recognised using the effective interest method.

(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.

2 Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

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
Leasehold improvements	Shorter of life of lease or useful life of the asset

Capital work in progress, which represents additions to property, plant and equipment that have not yet been brought into use, is not depreciated. Additions are transferred into the above depreciable asset classes once they are brought into use.

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 (note 2 (i)).

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 and equipment are determined by comparing proceeds with their carrying amounts and are taken into account in determining profit for the period.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the aggregate of the fair value of compensation transferred, the acquisition date fair value of any previously held interest and any non-controlling interest over fair value of assets and liabilities acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investment in associates.

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

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

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

(ii) Licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 15 to 20 years.

A network licence is a requirement of the Communications Commission of Kenya (CCK) for mobile telephone companies. The licence is renewable for an additional period upon its lapse.

Network 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 licensed under the Unified Licence Framework which means it possesses

- a Network Services Provider licence Tier 1,
- Applications Services Provider licence,
- Content Service Provider licence and an International Gateway licence
- 3G licence.

These licences are deemed to have been issued in June 1999 for a 15 year term. Renewal proceedings have already been engaged with CCK.

Initial amortisation of the licence was calculated in proportion to the average actual customers of the network in the relevant period against total planned customers at maturity. As at 31 March 2002, the network was considered mature and the amortisation policy changed to a straight line basis and the remaining net book value is being amortised over the remaining life of the licence.

There are annual network licences fees associated to these licences which are expensed each year. The following licences are in place:

- Local Loop Operator Licence (LLO) issued to Comtec Training and Management Services Limited in March 2006;

2 Summary of significant accounting policies (continued)

(g) Intangible assets (continued)

(ii) Licences (continued)

- Digital Carrier Network Operation (DCNO) issued to Comtec Integration Systems Limited in March 2006;
- Internet Service Provider (ISP) issued to Flexible Bandwidth 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); and
- 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.

The LLO and DCNO Licences were acquired by the Group on 31 August 2008 when Safaricom Limited purchased 51% of the issued share capital of One Communications Limited, a WIMAX service provider. Safaricom Limited subsequently acquired 49% of OCL on 31 July 2012.

The CSP and ASP licences were acquired by the Group on 3 November 2010 when Safaricom Limited purchased 100% of the issued share capital of Instaconnect Limited.

The 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.

(h) Accounting for derivative financial instruments and hedging activities

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the end of the period. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in statement of comprehensive income.

(i) 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.

(j) 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.

(k) Indefeasible rights of use

The Company 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 statement of comprehensive income on a straight-line basis over the life of the contract.

IRU	Contract period
TEAMS	20 years
KPLC	20 years
SEACOM	20 years
TATA	15 years
ETISALAT	15 years

(l) 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 in the ordinary course of business, less the costs of completion and selling expenses.

Network spares are used to refurbish the network. The Group has a contract with one of the suppliers to repair faulty spares and return them in a near-new condition. For this service, a unit repair price is paid to the supplier based on the spare log. A provision for impairment of inventories is established when there is objective evidence that the inventory items cannot be used within the network.

(m) 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.

2 Summary of significant accounting policies (continued)

(m) Trade and other receivables (continued)

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. 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 difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

(n) 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).

(o) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value 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.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(p) 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.

(q) Employee benefits

(i) Retirement benefit obligations

The Group operates a defined contribution retirement benefit scheme for its employees. 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 obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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.

The assets of the scheme are held in separate trustee administered funds, which are funded by contributions from both the Group and employees. The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The Group's contributions to the defined contribution schemes are charged to the statement of comprehensive income in the period to which they relate

(ii) 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.

(iii) Employee share options

Employee Share Ownership Plan

The Group set up an Employee Share Ownership Plan (ESOP) in March 2010 under which, subject to vesting conditions, eligible employees are entitled to purchase units in a separately administered trust, each unit in the trust representing one share in the Company.

The process of allocating shares to the trust from the authorised unissued shares of the company is on-going. The options vested on 26 February 2013 and will lapse on 26 February 2014.

The fair value of the options is measured using the intrinsic method and charged to the statement of comprehensive income over the vesting period.

2 Summary of significant accounting policies (continued)

(q) Employee benefits (continued)

(iii) Employee share options (continued)

Employee Share Grant Option Plan

On 1 July 2011, the Group implemented an Employee Share Grant Option Plan where shares were allocated to some staff members (outright grant) based on performance rating in the previous performance appraisal process.

The process of outright grant would include the Company purchasing shares from the market and then issue the same to the eligible employees after a 3 year vesting period at no cost. The shares are to be purchased through a trust and held by the same until the end of the vesting period (July 2014 for tranche I and August 2015 for tranche II).

The scheme is a 'cash settled share based scheme' as described in "IFRS 2, Share based payments" as the Company will provide money to a trust to purchase shares which will be distributed to the entitled employees on the vesting date (3 years' time). For cash-settled transactions, the fair value of the liability should be re-measured at each reporting date and at the settlement date. Fair value is determined using an option pricing model, taking into account the terms and conditions of the award. Any changes in the fair value are recognised in the statement of comprehensive income for the period.

(r) Current and deferred income tax

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the 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 nor loss, it is not accounted for.

Deferred income tax is determined using tax rates enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

The current income tax rate applicable in the period was 30% (2012: 27%). A tax rate of 27% was previously applicable since June 2009 when the company was initially listed on the Nairobi Securities Exchange.

(s) 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.

(t) 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 declared.

(u) 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. Restructuring provisions comprise employee termination payments. 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.

(v) Comparatives

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

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 (g). 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 18.

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 voice, SMS, data or merchandise.

(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 Kshs 11,235.0 million (2012: Kshs 16,421.7 million) at the statement of financial position date.

This net current liability position is expected to remain in the near future. However, the Group continues to grow its revenue and to generate sufficient cash to meet its obligations as they arise and in line with the long term plans of the business. Management reviews the cash forecast monthly and determines its cash requirements.

A significant portion of creditors relate to network infrastructure investments rather than ongoing trading, hence net working capital is typically a negative amount. This is typical to telecommunication companies during periods of intense network expansion. If there is a shortfall in cash to meet investment requirements, borrowing shall be explored subject to board approval.

Other significant portion of current liabilities relate to deferred income on both airtime and the loyalty programme which are recognized as income on usage of airtime and redemption of loyalty points.

In the circumstances, the directors are of the opinion that the going concern basis of preparing the financial statements is appropriate.

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.

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.

4 Financial risk management (continued)

Market risk (continued)

(i) Foreign exchange risk (continued)

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

At 31 March 2013, 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 Kshs 461.6 million (2012: Kshs 386.0 million) higher/lower, mainly as a result of US dollar denominated cash and bank balances.

At 31 March 2013, 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 Kshs 34.7 million (2012: Kshs 13.0 million) lower/higher, mainly as a result of Euro denominated cash and bank 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 2013, an increase/decrease of 100 basis points (2012: 100 basis points) would have resulted in an decrease/increase in consolidated post tax profit of Kshs 15.7 million (2012: Kshs 15.0 million), as a result of higher/lower interest charges/income on variable rate borrowings and cash balances.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from derivative financial instruments, 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	
	2013	**2012**	**2013**	**2012**
	Kshs'000	**Kshs'000**	**Kshs'000**	**Kshs'000**
Category 1	4,242,997	27	4,242,997	27
Category 2	7,526,908	5,367,204	7,506,199	5,359,147
Category 3	3,067,548	3,382,769	3,054,578	3,373,210
Others	152,026	57,926	152,026	57,926
	14,989,479	8,807,926	14,955,800	8,790,310

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 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. The credit risk associated with these dealers is low. This is supported by stringent review of account balances.

Post-pay debtors have a 15 day credit period after which payment must be made. Post-pay debtors comprise individuals as well as corporate customers.

4 Financial risk management (continued)

Credit risk (continued)

The auto-bar feature ensures that once the limit has been reached the customer account is closed. This minimises the credit risk associated with these customers. Most of the overdue balances arose before this feature was introduced. Collection efforts are in place.

The Group currently has 471 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 Syniverse, 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.

	Group		Company	
	2013	2012	2013	2012
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Past due but not impaired:				
- by up to 30 days	762,118	1,245,704	762,118	1,245,704
- by more than 30 days	786,274	946,188	782,082	946,188
Total past due but not impaired	1,548,392	2,191,892	1,544,200	2,191,892
Receivables individually determined to be impaired	1,686,207	1,523,769	1,672,704	1,511,984

(a) Group	Neither past due nor impaired Kshs'000	Past due but not impaired Kshs'000	Impaired Kshs'000	Total Kshs'000
At 31 March 2013:				
Dealers	1,292,532	417,868	441,266	2,151,666
Post-pay	582,912	448,767	461,888	1,493,567
Roaming and interconnect	251,744	378,687	605,911	1,236,342
Amounts due from related parties	1,510,522	57,658	9,997	1,578,178
Other receivables	1,176,906	245,412	167,145	1,589,463
Total	4,814,616	1,548,392	1,686,207	8,049,216
At 31 March 2012:				
Dealers	1,127,690	472,146	455,380	2,055,216
Post-pay	482,689	528,446	439,628	1,450,763
Roaming and interconnect	694,116	858,084	508,908	2,061,108
Amounts due from related parties	1,731,534	-	-	1,731,534
Other receivables	1,158,446	333,216	119,853	1,611,515
Total	5,194,475	2,191,892	1,523,769	8,910,136

4 Financial risk management (continued)

Credit risk (continued)

(b) Company	Neither past due not impaired	Past due but not impaired	Impaired	Total
At 31 March 2013:	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Dealers	1,292,532	417,868	441,266	2,151,666
Post-pay	582,912	448,767	461,888	1,493,567
Roaming and interconnect	251,744	378,687	605,911	1,236,342
Amounts due from related parties	1,620,604	57,658	9,997	1,688,259
Other receivables	1,107,957	245,412	153,641	1,507,010
Loan to related parties	850,000	-	-	850,000
Total	5,705,749	1,548,392	1,672,703	8,926,844
At 31 March 2012:				
Dealers	1,127,690	472,146	455,380	2,055,216
Post-pay	482,689	528,446	439,628	1,450,763
Roaming and interconnect	694,116	858,084	508,908	2,061,108
Amounts due from related parties	2,064,958	-	-	2,064,958
Other receivables	874,563	333,216	108,068	1,315,847
Loan to related parties	898,482	-	-	898,482
Total	6,142,498	2,191,892	1,511,984	9,846,374

Dealers' debt is fully secured by bank guarantees. The Group has bank guarantees of Kshs 1,430.0 million and Kshs 1,439.0 million as at March 2013 and March 2012 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, debt collectors as well as the legal department are following up on the impaired balances.

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, fixed 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 overleaf 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 overleaf are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

4 Financial risk management (continued)

Liquidity risk (continued)

(a) Group	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
At 31 March 2013:	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Liabilities				
- borrowings	8,827,499	-	-	8,827,499
- corporate bonds	1,278,424	8,484,332	4,754,860	14,517,617
- trade and other payables	27,664,504	-	-	27,664,504
- current income Tax	537,749	-	-	537,749
Total financial liabilities	38,308,176	8,484,332	4,754,860	51,547,369
At 31 March 2012:				
Liabilities				
- borrowings	7,020,413	-	104,554	7,124,967
- corporate bonds	540,372	1,246,608	15,739,826	17,526,806
- trade and other payables	30,463,358	97,525	-	30,560,883
Total financial liabilities	38,024,143	1,344,133	15,844,380	55,212,656
(b) Company				
At 31 March 2013:				
Liabilities				
- borrowings	8,827,499	-	-	8,827,499
- corporate bonds	1,278,424	8,484,332	4,754,860	14,517,617
- trade and other payables	27,399,572	-	-	27,399,572
- current income Tax	538,202	-	-	538,202
Total financial liabilities	38,043,697	8,484,332	4,754,860	51,282,890
At 31 March 2012:				
Liabilities				
- borrowings	7,020,413	-	-	7,020,413
- corporate bonds	540,372	1,246,609	15,739,826	17,526,807
- trade and other payables	30,142,213	97,525	-	30,239,738
Total financial liabilities	37,702,998	1,344,134	15,739,826	54,786,958

Guarantees amounting to Kshs 66.0 million (2012: Kshs 48.6 million) have been issued against credit cards for use by senior staff and to various customers for services provided by the company as detailed under Note 28.

Included in the trade and other payables is deferred revenues arising from unused airtime and unredeemed "Bonga points" under Loyalty Management System (LMS) amounting to Kshs 5,707.0 million (2012: Kshs 4,737.3 million) which are not expected to result into cash outflow in the normal course of business as detailed in Note 25.

4 Financial risk management (continued)

Capital management

The Group'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, as the Company's previous dividend policy was based on other considerations and past dividend payments should not be taken as an indication of future payments.

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 for the year ended 31 March 2013.

	Group		Company	
	2013 Kshs'000	2012 Kshs'000	2013 Kshs'000	2012 Kshs'000
Total borrowings	20,227,958	19,110,096	20,227,958	19,005,542
Less: cash and cash equivalents	(14,996,922)	(8,808,058)	(14,963,243)	(8,790,444)
Net debt	5,231,036	10,302,038	5,264,715	10,215,098
Total equity	80,265,128	72,081,698	81,703,750	73,183,565
Total capital	85,496,164	82,383,736	86,968,465	83,398,663
Gearing ratio	6%	13%	6%	12%

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).

4 Financial risk management (continued)

Fair value estimation (continued)

The following table presents the Group's and company's liabilities that are measured at fair value:

31 March 2013	Level 1 Kshs' 000	Level 2 Kshs' 000	Level 3 Kshs' 000	Total balance Kshs' 000
Derivative financial instruments	-	-	-	-
31 March 2012				
Derivative financial instruments	147,000	-	-	147,000

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

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 Executive Committee (EXCOM) for the purpose of allocating resources and assessing performance.

The EXCOM considers the business as one segment. Currently the EXCOM reviews the results of the segment on a monthly basis in a formal session where the Chief Financial Officer takes the EXCOM 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 solutions to its customers.

The EXCOM assesses the performance of the operating segment from revenue to net income. The total revenue, direct costs, trading contribution, operating expenses by division, 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, etc. are also reviewed monthly. Impacts of new financial policies are also explained to the EXCOM.

The Group's interest-bearing liabilities are equal to the segment liabilities and are managed by the treasury function.

5 Segment information (continued)

The segment information provided to the EXCOM for the reportable segment for the years ended 31 March 2013 and 2012 is as follows:

	31 March 2013 Kshs'000	31 March 2012 Kshs'000
Total equity and non-current liabilities	92,265,128	84,283,777
Non-current assets	103,500,133	100,705,482
Current assets	25,356,024	21,194,195
Current liabilities	36,591,029	37,615,900
Net current liabilities	(11,235,005)	(16,421,705)
	92,265,128	84,283,777

The amounts reported to the EXCOM 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.

Revenue from subscribers is derived from the sale of airtime, handsets, accessories, M-PESA commissions and other data products through our wide dealer network or through our 36 retail outlets across the country.

Breakdown of the revenue from all services is as follows:

	2013 Kshs'000	2012 Kshs'000
Voice revenue	77,663,239	68,957,386
Messaging revenue	10,132,443	7,767,623
Mobile Data revenue	6,299,091	5,222,796
Fixed Service revenue	2,112,552	1,371,346
M-PESA revenue	21,844,032	16,873,775
Service revenue	118,051,357	100,192,926
Handset revenue	4,932,011	5,935,978
Acquisition and other revenue	1,304,488	866,625
Total Revenue	124,287,856	106,995,529

The Company and its subsidiaries are domiciled in Kenya. A high percentage of the Group's revenue is attributable to Kenya and all its non-current assets are located in Kenya.

Total revenue has grown to Kshs 124.3 billion over the financial year with strong growth evidenced across all our revenue streams. Most notable was our growth in non-voice service revenue with a 29% increase in the year, underpinning our strategy to diversify our revenue channels.

Voice remains a major revenue generator and recorded impressive growth of 13% and contributed 66% to service revenues. This was primarily driven by an improved network experience, recovery from damaging price wars, convenient airtime distribution as well as attractive consumer propositions and promotions.

M-PESA continues to be a major revenue driver contributing 18% of total revenue (2012: 16%). In line with our growth strategy to make M-PESA services accessible to all our customers, we expanded our agent footprint by 66% and closed the year with 65,547 agents, up from 39,401 agents in the previous year.

There were no revenues deriving from transactions with a single customer that amounted to 10% or more of the group's revenue.

6 Other Income

	Group 2013 Kshs'000	Group 2012 Kshs'000
Gain on disposal of property, plant and equipment	64,643	388,482
Shareholder loan write off (Note 27 (vii))	104,554	-
Miscellaneous income	28,691	99,399
	197,888	487,881

7 Expenses by nature

The following items have been charged/(credited) in arriving at the operating profit:

	Group 2013 Kshs'000	Group 2012 Kshs'000
Depreciation on property, plant and equipment (Note 17)	19,951,597	17,078,877
Employee benefits expense (Note 9)	8,386,939	7,505,290
Sales and advertising	3,744,383	3,013,935
Impairment charge on property, plant and equipment (Note 17)	1,280,789	-
Inventory adjustments	67,369	1,485,035
Amortisation of licences (Note 18(a))	672,940	627,755
Computer maintenance	641,310	621,178
Operating lease rentals - Buildings	543,779	307,111
Consultancy including legal fees	465,556	157,864
Receivables – provision for impairment losses (Note 22)	448,808	848,864
Travel and accommodation	449,705	371,191
Site/facilities costs	360,211	398,180
Office upkeep	309,921	350,582
Amortisation of intangible IRUs (Note 20)	233,719	237,621
Repairs and maintenance expenditure on property, plant and equipment	138,185	138,825
Auditor's remuneration	29,291	31,590
Net foreign exchange losses / (gains), other than on borrowings and cash and cash equivalents	342,378	(268,310)

8 Net finance costs

	Group 2013 Kshs'000	Group 2012 Kshs'000
Finance costs:		
Interest expense	2,192,078	2,138,250
Foreign exchange losses on cash and borrowings	647,171	1,518,030
	2,839,249	3,656,280
Finance income:		
Interest income	(740,395)	(436,081)
Foreign exchange gain on cash and borrowings	(458,903)	(437,437)
	(1,199,298)	(873,518)
Net finance costs	1,639,951	2,782,762

9 Employee benefits expense

	Group 2013 Kshs'000	Group 2012 Kshs'000
The following items are included within employee benefits expense:		
Salaries and wages	5,119,845	4,933,940
Employee Share Grant Option Plan	96,017	25,600
Retirement benefits costs:		
- Defined contribution scheme	303,393	306,509
- National Social Security Fund	6,586	7,948
	5,525,841	5,273,997

10 Employee Share Option

(i) Employee Share Ownership Plan

The Group has an Employee Share Ownership Plan where 101 million shares have been allotted from the authorised share capital for issue to eligible staff upon vesting. The scheme is aimed at rewarding employees for the long term success of the Group and to give them an opportunity to participate in the growth of the value of the Company. The Company has offered eligible staff the option to purchase units within a fixed period of time (the option term currently set at 3 years) at a prescribed unit price.

To be eligible for the scheme one must be a permanent employee of the Company who has completed probation period or has been confirmed. Eligible employees have been granted options with a view to potentially exercising them from 2013. The staff will then be issued with an option certificate giving details of their option and the relevant terms.

The options vested in February 2013. However, shares purchased as at 31 March 2013 were minimal. The grant price was determined on the grant date, 26 February 2010 as Kshs 5.40. Whilst the allotment has been done, the issue of shares was still in process as at 31 March 2013. In 2014, should the option be fully exercised, there will be dilution of earnings per share of 0.25% based on the current shareholding structure.

(ii) Employee Share Grant Option Plan

On 1 July 2011, the Group implemented an Employee Share Grant Option plan where shares were allocated to some staff members (outright grant) based on performance rating in the previous performance appraisal process.

The process of outright grant would include the Company purchasing shares from the market and then issue the same to the eligible employees after a 3 year vesting period at no cost. The shares are to be purchased through a trust and held by the same until the end of the vesting period. 13.6 million shares have since been purchased at a cost of Kshs 56.5 million for the scheme and are being held in a trust.

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

11 Income tax expense

	Group 2013 Kshs'000	Group 2012 Kshs'000
Current income tax	7,984,357	4,800,714
Deferred income tax (Note 16(a))	(73,602)	(58,921)
Income tax expense	7,910,755	4,741,793

11 Income tax expense (continued)

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:

	2013 Kshs'000	2012 Kshs'000
Profit before income tax	25,450,565	17,369,400
Tax calculated at the applicable income tax rate of 30% (2012: 27%)	7,635,170	4,689,738
Tax effect of:		
Income not subject to tax	(1,332)	(299,623)
Expenses not deductible for tax purposes	259,783	257,983
Under provision of deferred income tax in prior year	17,134	93,695
Income tax expense	7,910,755	4,741,793

As indicated in Note 2(r) the tax rate applicable for the current year was 30%.

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.

	2013	2012
Profit attributable to equity holders of the Company (Kshs thousands)	17,539,810	12,737,837
Weighted average number of ordinary shares in issue (thousands)	40,000,000	40,000,000
Basic earnings per share (Kshs)	0.44	0.32
Diluted earnings per share (Kshs)	0.44	0.32

The potential dilution is as a result of the 101 million shares allotted for issue to the Employee Share Option Plan (ESOP) upon vesting in February 2013.

13 Share capital and share premium

	Number of shares (Thousands)	Ordinary shares Kshs'000	Share premium Kshs'000	Total Kshs'000
Balance at 1 April 2011, 31 March 2012 and 31 March 2013	40,000,000	2,000,000	1,850,000	3,850,000

The total authorised number of ordinary shares is 119,999,999,600 with a par value of Kshs 0.05 per share.

The total number of non-voting non-participating redeemable preference shares is 5 with a par value of Kshs 4 per share. These 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 the Company subject to the provisions of the Kenyan Companies Act.

The issued share capital comprises 40,000,000,000 ordinary shares with a par value of Kshs 0.05 each and 5 non-voting non-participating redeemable preference shares of Kshs 4 each. All issued shares are fully paid.

14 Dividend per share

No interim dividend was paid during the year (2012: Nil). At the annual general meeting to be held on 12 September 2013, a final dividend in respect of the year ended 31 March 2013 of Kshs 0.31 (2012: Kshs 0.22) per share amounting to a total of Kshs 12,400.0 million (2012: Kshs 8,800.0 million) 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		Company	
	2013	2012	2013	2012
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Non-current				
Shareholder loans	-	104,554	-	-
Corporate bond	12,000,000	12,000,000	12,000,000	12,000,000
	12,000,000	12,104,554	12,000,000	12,000,000
Current				
Bank borrowings	8,227,958	7,005,542	8,227,958	7,005,542
Total borrowings	20,227,958	19,110,096	20,227,958	19,005,542

The Group has a five-year corporate bond of Kshs 12,000,000,000 issued as a medium term note in two tranches and in fixed and floating rate portions.

Tranche 1 which matures in November 2014 has a fixed portion of Kshs 7,049,600,000 at a fixed rate of 12.25% and a floating portion of Kshs 463,400,000 at a floating rate of 182-day treasury bill rate plus 1.85% margin.

Tranche 2 which matures in December 2015 has a fixed portion of Kshs 4,287,000,000 at a fixed rate of 7.75% and a floating portion of Kshs 200,000,000 at a floating rate of 182-day treasury bill rate plus 1.85% margin.

The Group has two 1-year unsecured renewable facilities denominated in Kenya Shilling from Barclays Bank Kenya Limited (BBK) of Kshs 4,100,000,000 and of Kshs 628,502,000. As at 31 March 2013, the Group had utilised a total of Kshs 3,026,561,000 from these facilities. Interest is payable monthly in arrears at a rate of 1% above the reference 91 day treasury bill rate.

The Group has a 1-year unsecured renewable facility from Standard Chartered Bank Limited (SCB) of up to Kshs 2,400,000,000. As at 31 March 2013, the Group had utilised Kshs 1,201,397,000 from the facility at a rate of 1% above the reference 91 day treasury bill rate.

The Group has a 3 year Revolving Credit Facility with various local banks of up to Kshs 8,000,000,000. As at 31 March 2013, the Group had utilised Kshs 4,000,000,000 from the facility. Interest on this facility is paid at the end of the agreed interest period at the rate of 1.50% above the 182 day Treasury bill rate.

The carrying amounts of the Corporate bond and the bank borrowings approximate to their fair value. None of the borrowings was in default at any time during the year.

The facilities expiring within one year are subject to review at various dates during the year.

16 Deferred income tax

(a) Group

Deferred income tax is calculated using the enacted income tax rate of 30% (2012: 30%).

	2013	2012
	Kshs'000	Kshs'000
At start of year	(2,480,063)	(2,421,142)
Credit to statement of comprehensive income (Note 11)	(73,602)	(58,921)
At end of year	(2,553,665)	(2,480,063)

16 Deferred income tax (continued)

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

Year ended 31 March 2013	1.4.2012 Kshs'000	Charged/ (credited) to SOCI Kshs'000	31.03.2013 Kshs'000
Deferred income tax liabilities			
Unrealised exchange gains	326,692	(247,426)	79,266
	326,692	(247,426)	79,266
Deferred income tax assets			
Property, plant and equipment	(2,068,308)	204,602	(1,863,706)
Unrealised exchange loss	(74,128)	(177,968)	(252,096)
Provisions	(651,279)	147,190	(504,089)
Arising from fair value adjustment on acquisition of subsidiary	(13,040)	-	(13,040)
	(2,806,755)	173,824	(2,632,931)
Net deferred income tax asset	(2,480,063)	(73,602)	(2,553,665)

Year ended 31 March 2012	1.4.2011 Kshs'000	Charged/ (credited) to SOCI Kshs'000	31.03.2012 Kshs'000
Deferred income tax liabilities			
Unrealised exchange gains	79,713	246,979	326,692
	79,713	246,979	326,692
Deferred income tax assets			
Property, plant and equipment	(2,316,946)	248,638	(2,068,308)
Unrealised exchange loss	8,596	(82,724)	(74,128)
Provisions	(179,465)	(471,814)	(651,279)
Arising from fair value adjustment on acquisition of subsidiary	(13,040)	-	(13,040)
	(2,500,855)	(305,900)	(2,806,755)
Net deferred income tax asset	(2,421,142)	(58,921)	(2,480,063)

16 Deferred income tax (continued)

(b) Company

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

	2013 Kshs'000	2012 Kshs'000
Deferred income tax liabilities		
Unrealised exchange gains	79,266	326,692
	79,266	326,692
Deferred income tax assets		
Property, plant and equipment:	(1,863,706)	(2,048,580)
Unrealised exchange loss	(252,096)	(93,856)
Provisions	(504,089)	(651,279)
	(2,619,891)	(2,793,715)
Net deferred income tax asset	(2,540,625)	(2,467,023)

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 Kshs'000	Capital work in progress Kshs'000	Leasehold Improvements Kshs'000	Vehicles & equipment Kshs'000	Total Kshs'000
Year ended 31 March 2012					
Opening net book amount	63,818,366	13,839,983	1,472,778	3,891,463	83,022,590
Additions	21,026,083	839,395	435,766	2,977,184	25,278,428
Reclassification	3,735	-	(3,735)	-	-
Fair value of swapped assets	461,946	-	-	-	461,946
Disposal	(442,379)	-	-	(14,139)	(456,518)
Depreciation charge	(14,008,582)	-	(464,154)	(2,606,141)	(17,078,877)
Depreciation on disposal	418,395	-	-	13,254	431,649
Closing net book amount	71,277,564	14,679,378	1,440,655	4,261,621	91,659,218
At 31 March 2012					
Cost	140,640,611	14,679,378	3,537,890	14,538,932	173,396,811
Accumulated depreciation	(69,363,047)	-	(2,097,235)	(10,277,311)	(81,737,593)
Net book amount	71,277,564	14,679,378	1,440,655	4,261,621	91,659,218
Year ended 31 March 2013					
Opening net book amount	71,277,564	14,679,378	1,440,655	4,261,621	91,659,218
Additions*	21,055,296	(848,201)	331,528	4,337,342	24,875,965
Reclassification	9,096	-	-	(9,096)	-
Disposal	(536)	-	-	(230,076)	(230,612)
Depreciation charge	(16,482,823)	-	(568,940)	(2,899,834)	(19,951,597)
Impairment of assets**	(1,280,789)	-	-	-	(1,280,789)
Depreciation on disposal	92	-	-	224,121	224,213
Closing net book amount	74,577,900	13,831,177	1,203,243	5,684,078	95,296,398
At 31 March 2013					
Cost	161,695,370	13,831,177	3,869,419	18,646,198	198,042,164
Accumulated depreciation	(87,117,470)	-	(2,666,176)	(12,962,120)	(102,745,766)
Net book amount	74,577,900	13,831,177	1,203,243	5,684,078	95,296,398

17 Property, plant and equipment (continued)

(b) Company

	Network infrastructure Kshs'000	Capital work in progress Kshs'000	Leasehold Improvements Kshs'000	Vehicles & equipment Kshs'000	Total Kshs'000
Year ended 31 March 2012					
Opening net book amount	63,743,455	13,812,424	1,469,043	3,851,047	82,875,969
Additions	21,026,082	844,955	435,767	2,977,184	25,283,988
Fair value of swapped assets	461,946	-	-	-	461,946
Disposal	(442,379)	-	-	(14,139)	(456,518)
Depreciation charge	(14,002,888)	-	(464,154)	(2,595,765)	(17,062,807)
Depreciation on disposals	418,395	-	-	13,254	431,649
Closing net book amount	71,204,611	14,657,379	1,440,656	4,231,581	91,534,227
At 31 March 2012					
Cost	140,496,910	14,657,379	3,537,890	14,456,180	173,148,359
Accumulated depreciation	(69,292,299)	-	(2,097,234)	(10,224,599)	(81,614,132)
Net book amount	71,204,611	14,657,379	1,440,656	4,231,581	91,534,227
Year ended 31 March 2013					
Opening net book amount	71,204,611	14,657,379	1,440,656	4,231,581	91,534,227
Additions*	21,055,296	(848,201)	331,528	4,337,342	24,875,965
Reclassification	9,096	-	-	(9,096)	-
Disposal	(536)	-	-	(230,076)	(230,612)
Depreciation charge	(16,477,130)	-	(568,940)	(2,893,723)	(19,939,793)
Impairment of assets**	(1,280,789)	-	-	-	(1,280,789)
Depreciation on disposals	92	-	-	224,121	224,213
Closing net book amount	74,510,640	13,809,178	1,203,244	5,660,149	95,183,211
At 31 March 2013					
Cost	161,551,669	13,809,178	3,869,418	18,563,447	197,793,712
Accumulated depreciation	(87,041,029)	-	(2,666,174)	(12,903,298)	(102,610,501)
Net book amount	74,510,640	13,809,178	1,203,244	5,660,149	95,183,211

* The restructuring within the technical division, which was concluded during the year ended 31 March 2013, resulted in the capitalisation of additional directly attributable costs in the construction of network infrastructure amounting to Kshs 1,026.0 million that did not meet the recognition criteria contained in IAS 16 prior to the restructuring. These costs are capitalised prospectively from the current year being the time when they can be reliably measured as required by IAS 16. The amount is included in the additions for the year.

** Impairments amounting to Kshs 1,280.8 million (2012: Kshs Nil) have been included in other operating expenses in the consolidated statement of comprehensive income.

18 Intangible assets

(a) Group

	Goodwill	Licence Fees	Total
Year ended 31 March 2012	**Kshs'000**	**Kshs'000**	**Kshs'000**
Opening net book amount	219,151	2,722,706	2,941,857
Additions	-	-	-
Amortisation charge	-	(627,755)	(627,755)
Closing net book amount	219,151	2,094,951	2,314,102
At 31 March 2012			
Cost	219,151	6,772,768	6,991,919
Accumulated amortisation	-	(4,677,817)	(4,677,817)
Net book amount	219,151	2,094,951	2,314,102
Year ended 31 March 2013			
Opening net book amount	219,151	2,094,951	2,314,102
Amortisation charge	-	(672,940)	(672,940)
Closing net book amount	219,151	1,422,011	1,641,162
At 31 March 2013			
Cost	219,151	6,772,768	6,991,919
Accumulated amortisation	-	(5,350,757)	(5,350,757)
Net book amount	219,151	1,422,011	1,641,162

18 Intangible assets (continued)

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.

On an annual basis, the goodwill is tested for impairment. 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 10% in the first year, 7% in the second and 5% in the third to the fifth year have been used. A discount rate of 11.3%, being the Company's cost of capital has been used.

From the assessment carried out at the end of the year, no impairment charge was accounted for as at 31 March 2013 (2012: Nil).

(b) Company

	Licence Fees Kshs'000
At 31 March 2012	
Opening net book amount	1,878,297
Transfer of licences previously held by Packet Stream Data Networks Limited and IGO Wireless Limited (Note 19)	827,559
Amortisation charge	(624,778)
Closing net book amount	2,081,078
Cost	6,751,309
Accumulated amortisation and impairment	(4,670,231)
Net book amount	2,081,078
At 31 March 2013	
Opening net book amount	2,081,078
Amortisation charge	(671,744)
Closing Net book amount	1,409,334
Cost	6,751,309
Accumulated amortisation and impairment	(5,341,975)
Net book amount	1,409,334

19 Investments

(a) Investment in subsidiaries

All subsidiaries are unlisted and have the same year end as the Company. The investments relate to cost of shares held in the subsidiaries.

	Company 2013 Kshs'000	Company 2012 Kshs'000
At start of year	189,511	1,017,070
Additional investment: One Communications Limited	556,380	-
Transfer to intangible assets during the year:		
- Packet Stream Data Networks Limited	-	(373,309)
- IGO Wireless Limited	-	(454,250)
At end of year	745,891	189,511

The Company's interest in its subsidiaries, all of which are incorporated in Kenya and are unlisted was as follows:

	Year end	% interest Held	Company 2013 Kshs'000	Company 2012 Kshs'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	185,561
Packet Stream Data Networks Limited	31 March	100	-	-
IGO Wireless Limited	31 March	100	-	-
Instaconnect Limited	31 March	100	3,950	3,950
			745,891	189,511

The investments in subsidiaries are carried at cost. These investments were assessed for impairment indicators as required as at 31 March 2013 and the directors concluded that the investments are not impaired (2012: Kshs Nil).

19 Investments (continued)

(b) Investment in associate

The Group acquired 22.5% of the issued share capital of The East African Marines Systems Limited (TEAMS) in June 2009, at a cost of Kshs 1,125,000. The other significant shareholders of TEAMS are the Government of Kenya (20%) and Telkom Orange Kenya Limited (20%).

The movement in investment in associate is as follows:

	2013 Kshs'000	2012 Kshs'000
At start of year	9,678	8,873
Share of (loss) / profit (before tax)	(9,678)	805
At end of year	-	9,678
The summary of the financial information of the Associate as at 31 March was as follows:		
Total liabilities	(848,911)	(528,841)
Total assets	839,658	549,923
Revenue	331,648	229,948
Profit	12,985	71,998

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 in the Group's financial statements as at 31 March 2013. As at 31 March 2012, a profit of Kshs 16.2 million being the Company's share of estimated profit was recognised in the results of the Group. The year end audited results of TEAMS reported a significant loss which on adjustment has absorbed the previously recognised share of profit.

Notes (continued)

20 Indefeasible rights of use (IRUs) - Group and Company

	TEAMS Kshs'000	SEACOM Kshs'000	KPLC Kshs'000	ETISALAT Kshs'000	TATA Kshs'000	Total Kshs'000
Year ended 31 March 2012						
Opening net book amount	1,804,715	1,199,096	797,112	-	-	3,800,923
Additions	-	123,964	-	111,280	183,914	419,158
Foreign currency revaluation	111,612	-	-	-	-	111,612
Adjustment to accumulated amortisation	146,328	-	-	-	-	146,328
Amortisation charge	(94,679)	(86,416)	(43,990)	(4,883)	(7,653)	(237,621)
Closing net book amount	1,967,976	1,236,644	753,122	106,397	176,261	4,240,400
At 31 March 2012						
Cost	2,062,655	1,401,627	816,494	111,280	183,914	4,575,970
Accumulated amortisation	(94,679)	(164,983)	(63,372)	(4,883)	(7,653)	(335,570)
	1,967,976	1,236,644	753,122	106,397	176,261	4,240,400
Year ended 31 March 2013						
Opening net book amount	1,967,976	1,236,644	753,122	106,397	176,261	4,240,400
Amortisation charge	(103,133)	(71,695)	(39,210)	(7,419)	(12,262)	(233,719)
Closing net book amount	1,864,843	1,164,949	713,912	98,978	163,999	4,006,681
At 31 March 2013						
Cost	2,062,655	1,401,627	816,494	111,280	183,914	4,575,970
Accumulated amortisation	(197,812)	(236,678)	(102,582)	(12,302)	(19,915)	(569,289)
	1,864,843	1,164,949	713,912	98,978	163,999	4,006,681

21 Inventories – Group and Company

	2013 Kshs'000	2012 Kshs'000
Network spare parts	1,718,311	2,236,007
Less: Provision for impairment losses	(764,320)	(1,342,293)
	953,991	893,714
Handsets and accessories	1,120,669	1,919,089
Scratch cards	109,922	108,648
Starter packs	273,872	244,691
Stationery and other stocks	58,070	22,949
Less: Provision for impairment/obsolesce losses	(282,230)	(535,966)
	2,234,294	2,653,125

The cost of inventories recognised as an expense and included in the consolidated 'cost of sales' amounted to Kshs 9,143.2 million (2012: Kshs 9,346.1 million).

22 Trade and other receivables

	Group 2013 Kshs'000	Group 2012 Kshs'000	Company 2013 Kshs'000	Company 2012 Kshs'000
Trade receivables	5,052,895	5,599,280	5,017,659	5,438,774
Less: Provision for impairment losses	(1,676,210)	(1,523,769)	(1,662,707)	(1,511,984)
	3,376,685	4,075,511	3,354,952	3,926,790
Receivable from related parties (Note 27 (v))	1,578,177	1,731,533	1,688,259	2,064,958
Less: Provision for impairment losses	(9,997)	-	(9,997)	-
	1,568,180	1,731,533	1,678,262	2,064,958
Prepayments	1,761,799	803,931	1,690,653	731,797
Other receivables	1,418,144	1,579,323	1,370,926	1,444,161
	8,124,808	8,190,298	8,094,793	8,167,706
Loans to related parties – non-current (Note 27 (v))	-	-	850,000	898,482

The loan to related party is a loan made by the Company to its subsidiary company, One Communication Limited 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. The fair value of the loan approximates its carrying amount.

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

	Group 2013 Kshs'000	Group 2012 Kshs'000	Company 2013 Kshs'000	Company 2012 Kshs'000
At start of year	1,523,769	700,113	1,511,984	691,544
Provisions made in the year;				
– trade receivables	438,811	848,864	437,093	845,648
– related parties	9,997	-	9,997	-
Receivables written off during the year as uncollectible	(286,370)	(25,208)	(286,370)	(25,208)
	1,686,207	1,523,769	1,672,704	1,511,984

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

Notes (continued)

23 Derivative financial instruments

	Group		Company	
	2013	2012	2013	2012
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Forward foreign exchange contracts- liabilities	-	147,000	-	147,000
	-	147,000	-	147,000

24 Cash and cash equivalents

	Group		Company	
	2013	2012	2013	2012
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Cash at bank and in hand	10,361,506	4,952,984	10,339,243	4,942,506
Short term bank deposits	4,635,416	3,855,074	4,624,000	3,847,938
	14,996,922	8,808,058	14,963,243	8,790,444

25 Trade and other payables

	Group		Company	
	2013	2012	2013	2012
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Trade payables	1,896,458	7,766,433	1,870,391	7,472,452
Amounts due to related companies (Note 27)(vi)	2,073,648	2,499,575	2,076,120	2,624,340
Accrued liabilities				
- Network infrastructure	7,998,813	7,348,906	7,998,813	7,329,358
- Customer loyalty	3,211,496	2,449,751	3,211,496	2,449,751
- Deferred revenue	2,495,503	2,287,580	2,495,503	2,287,580
- Inventory	85,528	483,348	85,528	483,348
- Other expenses	6,824,128	5,360,178	6,782,732	5,265,114
Other payables	3,239,748	2,365,112	3,039,806	2,327,795
	27,825,322	30,560,883	27,560,389	30,239,738
Non-current portion	-	(97,525)	-	(97,525)
Current portion	27,825,322	30,463,358	27,560,389	30,142,213

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 Kshs 3,211.4 million (2012: Kshs 2,449.8 million) is expected to be recognised into revenue as customers redeem their points.

Deferred revenue relates mainly to unused airtime which will be recognized as revenue upon customer usage and un earned fibre revenue recognized over the lease period.

The carrying amounts of the current trade payables and accrued expenses approximate to their fair values.

26 Cash generated from operations

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

	Group	
	2013	2012
	Kshs'000	Kshs'000
Profit before income tax	25,450,565	17,369,400
Adjustments for:		
Interest income (Note 8)	(740,395)	(436,081)
Interest expense (Note 8)	2,192,078	2,138,250
Exchange gain/(loss) on loans	2,992	(3,371)
Changes in fair value of derivative financial instruments	(147,000)	258,382
Depreciation on property, plant and equipment (Note 17)	19,951,597	17,078,877
Impairment charge on property, plant and equipment (Note 17)	1,280,789	-
Movement in non-current prepaid operating lease rentals	(206)	640
Amortisation of intangible assets (Note 18)	672,940	627,755
Foreign currency revaluation gain on IRU (Note 20)	-	(111,612)
Adjustment to accumulated amortisation of IRU (Note 20)	-	(146,328)
Amortisation of IRUs (Note 20)	233,719	237,621
Profit on sale of property, plant and equipment	(64,642)	8,821
Fair value of swapped assets	-	(461,946)
Share of loss (profit) from associate (Note 19b)	9,678	(805)
One Communications Limited shareholder loan write off (Note 27(vii))	(104,554)	-
Changes in working capital		
- receivables and prepayments	65,490	1,205,583
- inventories	418,831	3,227,712
- payables and accrued expenses	(2,735,561)	(954,178)
Cash generated from operations	46,486,321	40,038,720

27 Related party transactions

Vodafone Kenya Limited incorporated in Kenya, whose ultimate parent is Vodafone Group Plc, incorporated in the United Kingdom, has the largest controlling interest in the Group. 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. The Company also has a Kama Kawaida contract, which allows its customers to enjoy international interconnection with Vodacom Tanzania Limited, a company that is controlled by Vodacom Group Limited, a company in which Vodafone Group Plc has an indirect interest.

(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 simple money transfer transactions by 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 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 licence fee is due quarterly.

The licence fee is based on either the higher of the number of active subscribers multiplied by a service fee rate which is graduated depending on the number of subscribers (the service fee rate reduces with increase in number of active subscribers) or 10% of M-PESA revenues and is capped at 25% of the revenue for that quarter with a floor of 10% of revenue per quarter. The fee is payable quarterly.

M-PESA Holding Company Limited, which is controlled by directors who are independent of Safaricom 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 is effective from 1st 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 Euros (EUR 6,000,000).

(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 to the Company for payment on a monthly basis.

27 Related party transactions (continued)

The following transactions were carried out with related parties:

i) Sale of goods and services

	Group	
	2013	2012
	Kshs'000	Kshs'000
Vodafone (UK) Limited	121,180	422,393
Vodacom Tanzania Limited	314,520	211,558
Other Vodafone affiliates	118,205	529,978
M-PESA Holding Company Limited	21,844,032	16,873,775
	22,397,937	18,037,704

ii) Purchase of goods and services

	Group	
	2013	2012
	Kshs'000	Kshs'000
Vodafone Sales and Services Limited	3,536,858	2,801,965
Vodafone Group Services Limited	368,172	239,593
Vodafone (UK) Limited	45,311	95,867
Other Vodafone affiliates	198,544	148,881
Vodacom Tanzania Limited	578,997	565,290
M-PESA Holding Company Limited	8,595,421	6,702,399
	13,323,303	10,553,995

iii) Key management compensation

	Group	
	2013	2012
	Kshs'000	Kshs'000
Salaries and other short-term employment benefits	425,024	421,586
Pension contribution	11,999	11,024
Termination benefits	16,561	6,752
	453,584	439,362

iv) Directors' remuneration

	Group	
	2013	2012
	Kshs'000	Kshs'000
Fees for services as director	11,995	10,500
Other emoluments	154,090	193,712
Emoluments in relation to past service	221,570	-
Total remuneration of directors of the Company	387,655	204,212

27 Related party transactions (continued)

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

	Group		Company	
	2013	2012	2013	2012
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Amounts due from:				
Vodafone (UK) Limited	21,792	286,038	21,792	286,038
Vodafone Group Services Limited	-	150,189	-	150,189
Vodafone Group Enterprises	5,925	-	5,925	-
M-PESA Holding Company Limited	1,482,148	1,068,517	1,482,148	1,068,517
Other Vodafone affiliates	54,445	196,369	54,445	196,370
Vodacom Tanzania	13,867	30,215	13,867	30,215
Vodafone Kenya Limited	-	205	-	205
One Communications Limited	-	-	23,034	246,510
Packet Stream Data Networks Limited	-	-	76,642	76,689
IGO Wireless Limited	-	-	10,406	10,225
	1,578,177	1,731,533	1,688,259	2,064,958
Loan to One Communications Limited (Non-current)	-	-	850,000	898,482
	1,578,177	1,731,533	2,538,259	2,963,440

The receivables are unsecured and bear no interest. A provision of Kshs 9.9 million (Note 23) is held against receivables from related parties (2012: Nil).

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

	Group		Company	
	2013	2012	2013	2012
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Amounts due to:				
Vodafone Sales and Services Limited	932,917	994,130	932,917	994,130
Vodafone Group Services Limited	178,293	297,021	178,293	297,021
Vodafone (UK) Limited	2,250	-	2,250	-
M-PESA Holding Company Limited	798,373	582,668	798,373	582,668
Other Vodafone affiliates	130,227	512,052	130,227	512,052
Vodacom Tanzania	31,588	113,704	31,588	113,704
One Communications Limited	-	-	-	122,293
IGO Wireless Limited	-	-	2,472	2,472
	2,073,648	2,499,575	2,076,120	2,624,340

The payables to related parties arise mainly from purchase transactions. The payables bear no interest.

vii) Loans from shareholders

The non-controlling interest in One Communications Limited discharged the subsidiary of an obligation of Kshs 104.6 million during the year (2012: Nil).

viii) Loans to directors of the Company

There are no loans to directors of the Company at 31 March 2013 and 31 March 2012.

ix) Donations to Safaricom Foundation

Donations made during the year amounted to Kshs 210.0 million (at the rate of Kshs 17.5 million per month) (2012: Kshs 210.0 million). The balance payable as at 31 March 2013 was Kshs Nil (2012: Nil).

28 Contingent liabilities

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

At 31 March 2013, a guarantee of Kshs 15.0 million (2012: Kshs 150 million) had been given to Barclays Bank of Kenya against credit cards for the use of senior staff during travel and a guarantee of Kshs 51.0 million (2012: Kshs 33.6 million) to various customers for services regularly provided by the Company.

The company has outstanding matters with KRA.

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.

29 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		Company	
	2013	**2012**	**2013**	**2012**
	Kshs'000	**Kshs'000**	**Kshs'000**	**Kshs'000**
Property, plant and equipment	4,141,534	3,159,989	4,141,534	3,159,989
Operating lease commitments				
Not later than 1 year	801,703	628,111	797,406	607,457
Later than 1 year and not later than 5 years	2,509,613	1,344,588	2,507,909	1,338,320
Later than 5 years	1,774,169	778,372	1,774,169	778,372
	5,085,485	2,751,071	5,079,484	2,724,149

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.

30 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:

	2013	**2012**
	Kshs'000	**Kshs'000**
At start of year	297,078	304,502
Additions	563,654	501,064
Amortisation charge for the year	(601,331)	(508,488)
At end of year	259,401	297,078
Current portion reflected in prepayments	(257,174)	(295,057)
Non-current portion	2,227	2,021

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