

Annual Report & Group Accounts

For the year ended 31st March 2012





Shareholder's Diary

Financial year end	31st March
Annual General Meeting:	Thursday 13th September 2012
Dividend book's closure date:	Thursday 13th September 2012

Dividends

Declared dividend	Cents per share	22
	Payable	On or before 11th December 2012

For more information please visit our website www.safaricom.co.ke

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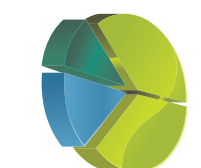
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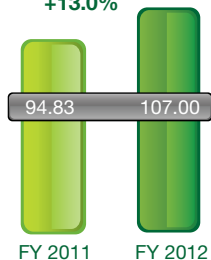
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Revenue

Ksh. Billion

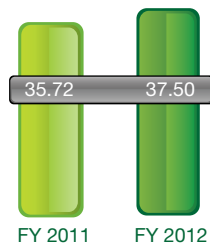
+13.0%



EBITDA

Ksh. Billion

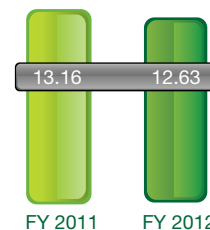
+5.0%



Net Income

Kshs. Billion

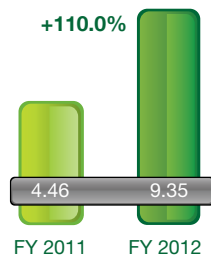
-4.0%



Free Cash Flow

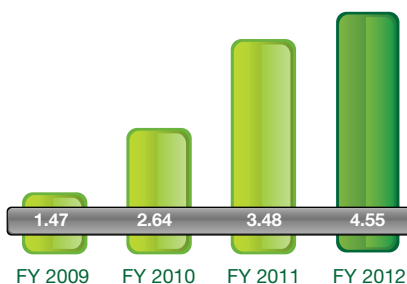
Kshs. Billion

+110.0%



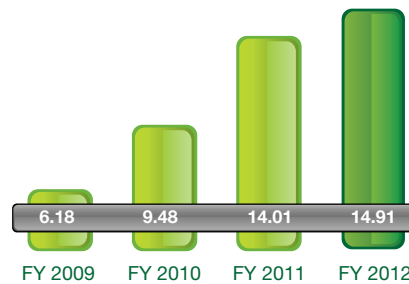
Mobile & Fixed Data Customers

Million

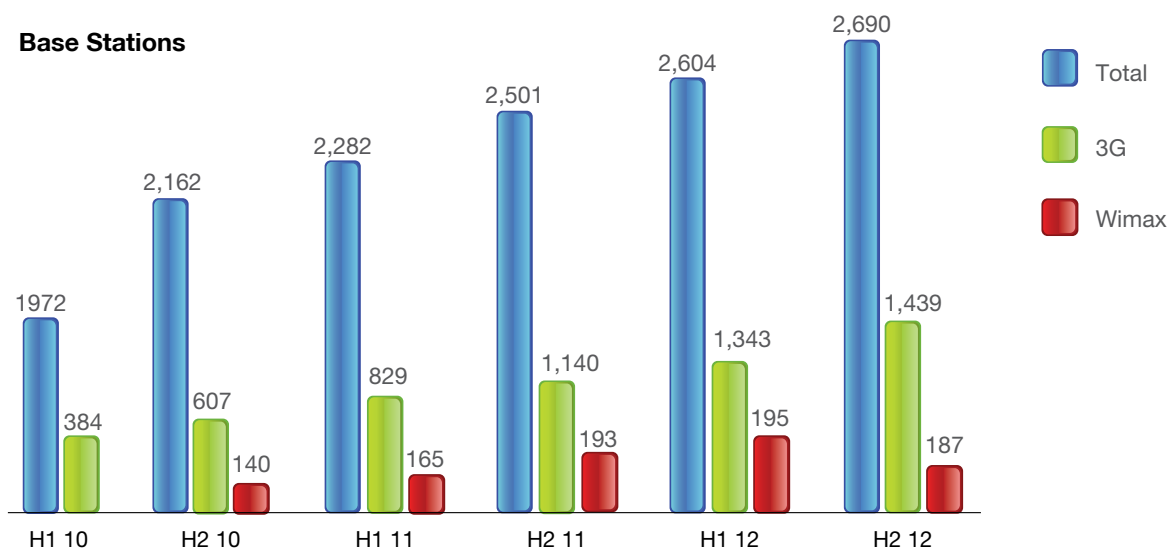


M-PESA Customers

Million



Base Stations



We have made good progress on our strategic priorities.

PRIORITY	GOAL	2012 PERFORMANCE
<p>Provide excellent customer experience</p> 	<p>Grow the customer base through innovation and delivering superior customer interactions</p> <p>Employee development as the interface with our customers</p> <p>Improve on Network quality and capacity</p>	<ul style="list-style-type: none"> • 1st in market to launch online customer support • Market leader with 67% of market share • 11% growth to 19.1 million customers • Deepened our culture of Speed, Simplicity and Trust • Network expansion to 2,690 sites (8% growth) • 54% of base stations are 3G enabled
<p>Sustained revenue generation</p> 	<p>Reduce dependence on voice</p> <p>Have Data where we have voice</p> <p>Grow M-PESA functionality</p>	<ul style="list-style-type: none"> • Total revenue up 13% to Kshs. 107.00bn • Voice revenue grew by +9% to Kshs. 68.96bn • Non voice revenue now makes up 31% of service revenue • M-PESA revenue growth of +43% • 14.9m M-PESA registered customers • 25% data penetration of our customer base • Mobile data revenue up by 23%
<p>Drive operational excellence</p> 	<p>Take up cost initiatives aimed at protecting the bottom line and improving our margins</p>	<ul style="list-style-type: none"> • Direct costs and operating costs held flat in H2 • Cost saving initiatives in the areas of transmission costs, inventory costs, network and IT operating costs

Customers: We have 19.1 million customers

- We offer mobile voice and data prepaid and postpaid services to consumers and businesses.
- We offer converged services, to businesses from small and medium enterprises to corporates.
- A large percentage of our customers, including consumer and business, are prepaid customers.

Network: We have 2,690 base stations

- Our mobile operations use GSM 2G technology at least and 1,439 of our base stations are 3G active.
- 3G is available in the metropolitan parts of Kenya
- Our network is being modernized to Internet Protocol (IP) so as to improve the quality of the network and the capacity of existing base stations to handle customer and minutes of use growth. We have rolled out a new single real time billing system as well as upgraded our 3G network to the latest available technology that will enable speeds of 21 and 42 Mbps on Internet services.

Distribution: Our Retail reach now boasts of over 250,000 outlets and 36 retail shops

- We distribute our products and services through a dealership network of 553 exclusive dealers with 20,000 employees directly and indirectly employed within this channel.
- Our M-PESA agent network has also expanded to 39,400 agents countrywide.
- The Enterprise Business Unit has a large direct sales team that sells mobile voice, data products and converged services to business customers.

Devices: In 2012 we sold 2.98 million devices

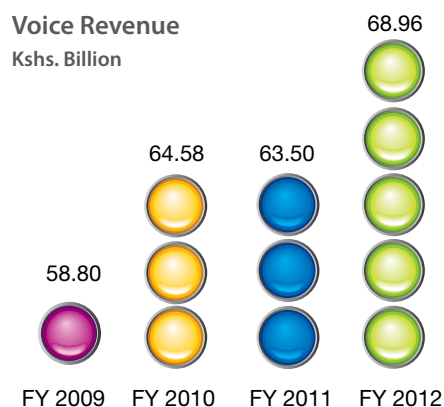
- We offer a wide range of devices such as mobile handsets, mobile broadband modems, routers, tablets, netbooks and laptop computers.
- Through partnership with Vodafone, we get access to the latest smartphones and to lower-cost devices.

We have rolled out a new single real time billing system as well as upgraded our 3G network to the latest available technology that will enable speeds of 21 and 42 Mbps on Internet services.

VOICE

We offer a wide range of voice pricing plans on prepaid and postpaid options often bundled with SMS and/or data services.

- Okoa Jahazi is an emergency top up service on credit basis.
- Voice services include national, regional and international roaming services.
- Bonga is a customer loyalty program based on usage
- Value added services including "Skiza", a caller ring back tone service.

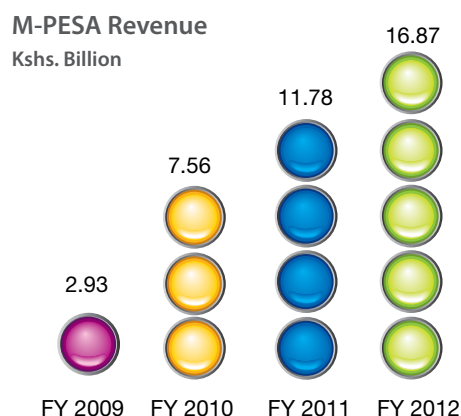


Total MOU per customer up 20.5% to 116 minutes

M-PESA

M-PESA is a fast, safe, and affordable way to send and receive money via a mobile phone.

- M-PESA has provided financial inclusion to many Kenyans without access to banking services.
- It offers money transfer services to individuals and businesses, paybill services, bulk payments, dividend payments and international money transfers.
- M-PESA has 14.9 million customers, 39,400 agent outlets, 900 paybill partners and 300 bulk payment partners.



M-PESA customers up 6.4% to 14.9 million

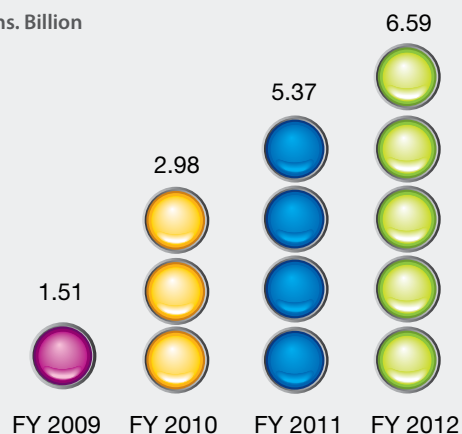
DATA

We offer high-speed data connectivity for access to email, internet and corporate connectivity through fixed and mobile broadband.

- Mobile data services on modems, handsets and tablets.
- Safaricom Live web portal avails a large selection of local content.
- Data bundles for both prepaid and postpaid customers.
- Routers where several devices share a mobile data connection.

Mobile & Fixed Data Revenue

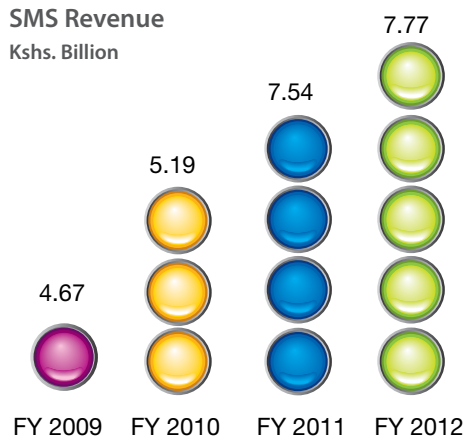
Kshs. Billion



Data customers up 30.9% to 4.6 million users

SMS Revenue

Kshs. Billion



SMS customers up 22.0% to 9.58 million customers

MESSAGING

We offer a variety of messaging services

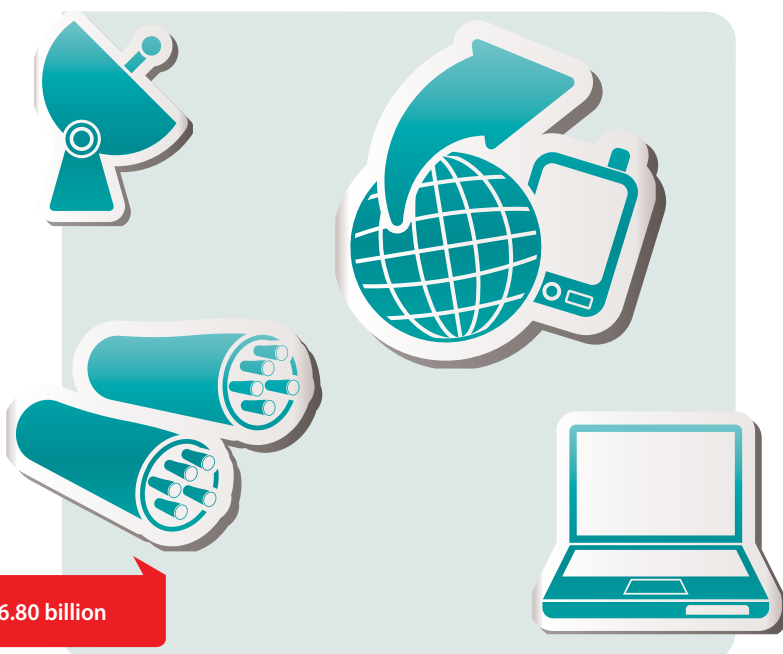
- Basic SMS as well as SMS bundles.
- MMS allows customers to send pictures, music, sound and video messages.
- "Please Call Me" allows customers to request a call using SMS from another mobile user for free (with daily limits).
- A call back SMS notification for missed calls.

OTHER SERVICES

We provide other communication services such as sale of devices, value added services and converged business services.

- Access services such as wireless, fixed line and mobile solutions, including fibre and leased lines.
- Dedicated internet solutions for enterprises and hosted services such as data storage, hosting and security solutions.
- We sell devices such as handsets, laptops, tablets and accessories through our retail outlets and dealer network.

Other revenue up 2.53% to Kshs. 6.80 billion





Chairman's Statement

Tried and Tested

Welcome to the fourth edition of Safaricom's annual report since listing on the Nairobi Securities Exchange in 2008.

Significant Micro-economic impact

This past financial year has been a turbulent year with the country experiencing a number of challenges that hampered its economic recovery. In the first half of the year, global events had a marked impact on our local operating environment. Heightened inflationary pressures driven by escalating fuel prices especially for Kerosene and Diesel which are consumed by a vast majority of Kenyans translated into higher costs of production for businesses and higher costs of commodities for consumers. The situation further worsened from July with high food prices stretching an already overburdened economy. The shilling recorded one of its worst performances in recent history and this compounded by high interest rates weakened Kenya's already fragile economy.

Despite operating in an increasingly tough environment characterized by low voice tariffs, intense inflationary pressures, high borrowing costs and foreign exchange fluctuations, we grew our customer base by 11% to 19.1 million customers.

Strategy and Operational Performance

Overall performance for the company was good in line with our strategic focus as detailed in our previous annual report. This is testament to the hard work by management, staff, our suppliers and our network of dealers & agents.

Despite the fierce competitive environment and an overall drop in total minute usage in the industry, we maintained our leadership position by contributing 78% to this number at the close of the financial year. Top-line revenues increased by 13% to Kshs. 107 billion buoyed by an increase in voice tariffs in the 2nd half of the financial year, the continued growth in significance of non-voice revenue stream and strong cost control measures. Earnings per share had a slight drop of 4% to Kshs. 0.32 per share from Kshs. 0.33. Our dividend per share has increased by 10% in line with our progressive payout policy to Kshs. 0.22 per share for this financial year.



Mr. Nicholas Nganga

Risk Management at Safaricom

As a company that operates in and understands emerging markets, Safaricom believes that risk management is fundamental to effective corporate governance and the development of a sustainable business. The Group has adopted a risk philosophy that is aimed at maximizing business success and shareholder value by effectively balancing risk and reward.

This is through the development of processes to ensure that all major risks are proactively managed and ensuring that our customers get quality and reliable products and services by employing best practices across all touch points. We hold our management team, employees and business partners to the highest standards of integrity and will constantly ensure principles of good corporate governance are upheld.

Key Regulatory Highlights

Review of Spectrum Fees and Licence Operating Fees:

In October 2011, CCK announced a 40-58% reduction in annual frequency usage fee for mobile operators. The CCK also announced a 20% reduction in annual operating licence fees from 0.5% to 0.4% of annual gross revenue. These changes are expected to take effect from 1st July 2012.



Mandatory Registration of Mobile Subscribers:

In preparation for legislation on mandatory registration, Safaricom in March 2012 re-launched SIM registration for our subscribers. The campaign covers registration of unregistered subscribers, provision of additional details for partly registered subscribers as well as querying of registration details for fully registered subscribers.

Vandalism of Communications Infrastructure - Energy & Communications Amendment Bill, 2011

Following a joint effort between Safaricom and other mobile and fibre-cable operators, the Energy & Communications Bill, 2011 was drafted and published with the assistance of the Parliamentary Committee on Energy Communications & Information. This Bill proposes to increase the criminal penalties for persons who vandalise or otherwise cut fibre-optic cables. It also seeks to increase the penalties for persons who steal copper cables under the Scrap Metals Act. The Bill is awaiting the second reading in Parliament.

Corporate Governance

Board Changes: During the year there were some changes in the composition of the Board.

Mrs. Enid Muriuki was appointed to the board as non-executive member in the capacity of Secretary to the Board. Mrs. Muriuki was appointed by the Directors under the terms of the Articles of Association of the Company.

Mr. John Tombleson was appointed as Alternate to Bob Collymore in his capacity as Chief Finance Officer in Safaricom.

The following board members resigned during the year

- Mr. Chris Tiffin (Alternate to Bob Collymore)
- Mr. J. L. Maonga (Secretary to the Board)

I welcome the new Directors to the Board and I wish to thank those leaving for their contribution during the year.

Ethics Committee: An Ethics committee has been constituted comprising of nominated Executive committee members and chaired by the Chief Executive Officer.

Looking Forward

Despite the challenges that we faced, we still firmly believe that there is opportunity for growth and that our citizens still demand innovative and relevant products and services. Mobile penetration currently standing at 71% is still way off international standards and we hope to leverage and expand our network to bring as many Kenyans as possible into the mobile world. Data will continue to be a key growth pillar for Safaricom as we seek to make the Internet a part of every Kenyan's daily life.

In the last financial year, we also reaffirmed our position as one of Kenya's leading corporate citizens through the 'Kenyans for Kenya' initiative. The Safaricom foundation and the M-PESA platform were at the centre of the success of this fundraising initiative that had unprecedented success with donations of Kshs 165 million being transferred on the M-PESA platform in just 4 weeks.

In the next financial year, we will consolidate our position as market leader by being more innovative and staying closer to our customer. We will continue to improve our voice and data network to provide our customers with quality and uninterrupted service.

We see the rest of this year as one still fraught with challenges. 2012 is an election year and with it comes the challenges of ensuring that government and business continue to focus on delivery. We remain committed to a united and peaceful Kenya where individual and business rights are safeguarded at all times.



In the next financial year, we will consolidate our position as market leader by being more innovative and staying closer to our customer. We will continue to improve our voice and data network to provide our customers with quality and uninterrupted service.



Umadhubuti uliyojaribiwa na kufaulu

Karibuni katika toleo la nne la Ripoti ya Mwaka ya Kifedha ya Safaricom tangu kuorodheshwa katika Soko la Hisa La Nairobi mwaka wa 2008.

Athari kubwa katika uchumi

Mwaka wa kifedha uliyopita ulikuwa mwaka wenye misukosuko wakati ambapo taifa letu lilipata changamoto tele zilizozuia kufufuka kwa uchumi. Katika kipindi cha mwanzo wa mwaka, matukio kadhaa ulimwenguni yaliathiri pakubwa mazingira ya humu tunakoendesha biashara zetu. Shinikizo la kuendelea kupanda kwa gharama ya maisha kutokana na kuongezeka kwa bei ya mafuta hasa zaidi mafuta ya taa na diseli ambayo hutumiwa na wakenya wengi hii ilizidisha mno gharama ya kuendesha biashara na kupanda kwa bei za bidhaa muhimu kwa watumiaji. Hali hii iliendelea kuharibika zaidi kuanzia mwezi wa Julai ukiwa na ongezeko kubwa la bei za chakula hii ikilemeza zaidi uchumi ambao tayari ulikuwa katika hali mbaya. Thamani ya shilingi ilidorora na kufikia kiwango kibaya zaidi kuwahi kudhihirika hivi karibuni na hii ilisababisha kupanda kwa kima cha riba na kudhoofisha mno uchumi wa Kenya.

Licha ya kuendesha shughuli zetu katika mazingira magumu ya kiuchumi yaliyoleta kupungua kwa ada ya maongezi, shinikizo la kupanda kwa gharama za maisha, gharama za juu za mikopo na kuyumbayumba kwa kima cha ubadilishanaji pesa za kigeni, tulipata ukuaji wa wateja wa 11% na kufikia wateja milioni 19.1.

Utendaji wa Mikakati na Shughuli zetu

Kwa ujumla utendaji wa kampuni hii ulikuwa mzuri na uliambatana na mikakati na malengo yetu kama yalivyoelezewa kwa kina katika ripoti yetu ya kifedha ya mwaka uliopita. Huu Unadhihirisha jitihada na bidii za wasimamizi, wafanyikazi, wasambazaji wetu na wauzaji na mawakala wa mtandao wetu.

Licha ya kuweko kwa hali ya ushindani mkubwa wa kibiashara na kuanguka kwa ujumla kwa utumiaji wa simu kwa maongezi katika biashara hii, tulidumisha nafasi yetu ya uongozi kwa kuchangia 78% ya kiwango hiki kufikia mwisho wa mwaka tunaokariria. Mapato ya upeo wa juu yaliongezeka kwa 13% hadi kufikia Kshs. bilioni 107 ikisaidiwa na ongezeko la ada ya maongezi katika kipindi cha nusu ya pili ya mwaka huu wa kifedha, kuendelea kukua kwa mapato kutokana na upande



Bw. Nicholas Nganga

usio wa maongezi pamoja na kuthibitiwa kwa gharama. Faida kwa kila hisa ilipungua kidogo kwa 4% hadi Kshs. 0.32 kwa hisa kutoka Kshs. 0.33. Mgao wetu kwa kila hisa umezidi kwa 10% hadi Kshs. 0.22 kwa kila hisa katika mwaka huu wa kifedha, hii ikichukua na sera yetu inayoendelea ya ongezeko ya malipo.

Usimamizi wa dhima katika Safaricom

Ikiwa kama kampuni inayoendesha shughuli zake kwenye masoko yanayoibuka na huku tukitambua masoko hayo vyema, Safaricom inaamini kuwa usimamizi wa dhima ni muhimu sana kwa usimamizi ufaao wa shirika na ustawishaji wa biashara iliyo imara. Kundi limeazimia kuwa na sera ya dhima inayolenga kufanikisha biasahara hadi upeo na kuongeza thamani kwa mmiliki hisa kwa kuweka uwiano unaostahili baina ya dhima na faida.

Hii ni kupitia kubuni mifumo itakayohakikisha kuwa dhima zote kubwa zinasimamiwa kwa moyo wa kujituma na kuhakikisha kuwa wateja wetu wanapata bidhaa na huduma bora za kutegemewa kwa sisi kutumia njia maridhawa mahala kote tunakowahudumia. Tunasisitiza kwa kundi letu la wasimamizi, wafanyikazi na wahusika wetu wa kibiashara kudumisha uadilifu wa hali juu kabisa na kuhakikisha sera bora za usimamizi wa shirika zinazingatiwa wakati wote.



Matukio muhimu ya Kisheria

Kukaririwa kwa Ada za Miale (Spectrum Fees) na Ada za Leseni ya Kuendesha biashara:

Katika mwezi wa Oktoba 2011, CCK walitangaza kupunguzwa kwa 40-58% ya ada ya kila mwaka kufidia leseni ya kutumia mawimbi kwa watoa huduma wa simu za mkono. CCK pia walitangaza kupunguzo cha 20% kwa leseni za kila mwaka za kuendesha biashara kutoka 0.5% hadi 0.4% ya jumla ya faida ya mwaka. Mabadiliko haya yanatarajiwa kuanza kutekelezwa tarehe 1, Julai 2012.

Agizo la Kuwasajili Wateja wote wa Simu za Mkono:

Katika kujitayarisha kutii sheria ya kusajili wateja, Safaricom katika mwezi wa Machi 2012 ilizindua tena kampeni ya Kuandikisha SIM kwa wateja wetu. Kampeni hii iliangazia kusajilisha wateja ambao hawajasajiliwa, kupata maelezo ziada kwa wale wateja ambao hawajakamilisha usajili wao pamoja na kuthibitisha maelezo ya wateja wale waliosajiliwa kikamilifu.

Uharibifu wa Muundo-msingi wa Mawasiliano - Mswada wa Kurekebisha sheria za Kawi na Mawasiliano, 2011

Kufuatia juhudi za pamoja kati ya Safaricom na watoaji huduma wengine wa simu za mkono na wa nyaya za fibre, pendekezo la marekebisha ya sheria za Kawi na Mawasiliano, 2011 lilichapishwa kwa ushirikiano na kamati ya bunge ya Kawi, Mawasiliano na Habari. Mswada huu unapendekeza kuongeza adhabu kwa wahalifu watakaopatiakana wakiharibu au kukata nyaya za fibre-optic. Vile vile inapendekeza kuongeza adhabu kwa watu wanaoiba nyaya za shaba chini ya kifungu cha sheria zinazosimamia uuzaji wa masalio ya vyuma. Mswada huu unasubiri kwa kusomwa kwa mara ya pili bungeni.

Usimamizi wa Shirika

Mabadiliko katika Bodi: Mwakani kulikuwa na mabadiliko kidogo katika Bodi ya wakurugenzi.

Bi. Enid Muriuki aliteuliwa kujiunga kwenye Bodi kama mwanachama asiye mtendaji akiwa na wadhifa wa Katibu katika Bodi. Bi. Muriuki alitueliwa na wakurugenzi kwa mujibu wa Ibara ya Kanuni za Kampuni.

Bw. John Tombleson aliteuliwa kuwa mwanachama mbadala wa Bob Collymore kwa ajili ya wadhifa wake wa Afisa Msimamizi wa maswala ya kifedha katika kampuni ya Safaricom.

Wanabodi wafuatao walijiuzulu mwakani

- Bw. Chris Tiffin (mwanachama mbadala wa Bob Collymore)
- Bw. J.L Maonga (Katibu wa Bodi)

Nachukua fursa hii kuwakaribisha Wakurugenzi wapya katika Bodi na ningependa kuwashukuru wale ambao wanaondoka kwa mchango wao katika mwaka huu uliomalizika.

Kamati ya Maadili: Kamati ya maadili imeundwa ikijumuisha Wanakamati watendaji na mwenyekiti wake akiwa Afisa Mkuu Mtendaji.

Tukitazama mstakabala wetu

Licha ya changamoto zilizotukabili, bado tunaamini kuwa kuna fursa ya kukua na kwamba wananchi wetu bado wana haja ya bidhaa na huduma bunifu na zinazowafaa. Kuenea kwa matumizi ya simu za mkono kwa sasa ni 71% ikiwa hii bado iko chini zaidi ya kiwango cha kimataifa na tunatarajia kutumia hali hii kama fursa ya kupanua mtandao wetu na kuwaleta wakenya wengi zaidi katika ulimwengu wa simu za mkononi. Data itaendelea kuwa nguzo muhimu ya ukuaji kwa Safaricom tunapoendelea kujitahidi kufanya internet kuwa sehemu muhimu katika maisha ya kila siku ya Wakenya.

Katika mwaka wa kifedha uliomalizika, pia tulidhihirisha tena nafasi yetu ya kuwa moja ya makampuni ya Kenya yanayoongoza kuwa shirika raia mwema kupitia ile kampeni ya "Kenyans for Kenya". Safaricom Foundation na huduma ya M-PESA waliongoza kufanikisha kampeni hii ya kuchangisha pesa za msaada ambayo ilikuwa kampeni iliyofana sana kukipatikana mchango wa kiasi cha Kshs. Milioni 165 zote zikihawilishwa kupitia huduma ya M-PESA katika muda wa wiki 4 pekee.

Katika mwaka ujao wa kifedha, tutajizatiti kuendelea kushikilia nafasi yetu ya uongozi katika soko hili kwa kuzidi kuwa wabunifu na kuwa karibu zaidi na wateja wetu. Tutaendelea kuimarisha mtandao wetu wa maongezi na data ili tuwapatie wateja wetu huduma bora na isiyokatizwa.

Tunaona masiku yaliyobakia ya mwaka huu yakiwa bado yana changamoto tele. 2012 ni mwaka wa uchaguzi na huja na changamoto kwa serikali na mashirika kuhakikisha wanafuatilia malengo yao ya kuwasilisha faida. Bado tunasimama imara kuhimiza umoja na amani wa taifa letu la Kenya na kuwa haki za watu binafsi na haki za wanabiashara zinalindwa wakati wote.



Katika mwaka ujao wa kifedha, tutajizatiti kuendelea kushikilia nafasi yetu ya uongozi katika soko hili kwa kuzidi kuwa wabunifu na kuwa karibu zaidi na wateja wetu. Tutaendelea kuimarisha mtandao wetu wa maongezi na data ili tuwapatie wateja wetu huduma bora na isiyokatizwa.



Interview with the CEO

Q Walk us through the year – what were the highlights and what kept you awake?

A From an operational and financial perspective there is a lot for my team and I to be proud of. Despite an increasingly tough environment we grew our customers by 11% to 19.1 million and our revenue to Kshs. 107 billion – a 13% increase. In October we increased our headline voice tariffs, in response to tough economic conditions, and this combined with our increased customer base, helped grow voice revenues by 9% in the year. Free cashflow for the year significantly improved by 110% to Kshs 9.4 billion through EBITDA margin improvement and a positive impact from working capital management initiatives.

M-PESA remains a key driver of this growth with revenue of Kshs 16.9bn and a growth of 43% in the year. We continue to improve access to this service for our 15 million registered users, through opening over 12,000 new outlets in the year – we now have close to 40,000 outlets nationwide. We introduced more bands and lowered transaction fees for the lower bands in the M-PESA tariff structure, making it more convenient and cheaper for the bulk of our customers. M-PESA continues to offer valuable employment opportunities to the Kenyan population and currently employs over 50,000 people directly.

Despite the overall reduction in Safaricom's broadband tariffs, data revenue grew by 23% to Kshs 6.6bn with distinct internet users increasing 31% to 4.6 million by the end of the year. This growth was supported by increased penetration of data enabled phones with just over 400,000 smart phones in use on our network. Internet usage growth was largely driven by aggressive device sales, availability of local content to our customers and targeted tariffs geared to various customer segments. Several campaigns were launched in the year like "Bamba Unlimited", to create awareness of the content available on the internet such as music and video downloads as well as social networks.

As part of our commitment to offer a best in class service, we upgraded our 3G network to the latest available technology that will enable speeds of 21 and 42 Mbps. We continued to invest in the capacity and reach of our 3G network with 1,439 3G enabled sites and 187 Wimax sites. With over 75% of the market using Safaricom connected mobile devices to access the internet, we are the undisputed market leader in Data.



Mr. Robert Collymore

The key challenges in the year will have to include quality of the network especially in the western region of the country. We have legacy equipment that needs to be modernized and we have embarked on a modernization exercise that will ensure that our customers enjoy our portfolio of services without interruptions.

The rampant cable cuts witnessed across the country is a matter of great concern to the company and to the country at large. Majority of the cable cuts have been as a result of road construction. To curb this problem, the Government in conjunction with stakeholders is considering the setting up of a special department within the Ministry of Roads to co-ordinate all infrastructure approvals. It is anticipated that this department will undertake the digitisation of all way leaves for infrastructure development to bring this problem to an end. In addition, Safaricom supports ongoing efforts for amendment of the law [the Energy and Communications Law (Amendment) Bill, 2011] to ensure that there are stiffer penalties for cable vandalism and to further categorise this as an economic crime.

The other key issue would have to be on the issue of Mobile Termination Rates (MTRs) and the impact this has had on the industry in the past couple of years. This was through price wars which has seen profitability stripped out of the entire industry and led to a number of operators being loss making. There is need for a comprehensive cost study to be undertaken taking into account the prevailing macro-economic conditions. For example, in Uganda PriceWaterhouseCoopers undertook a cost study and have set their current MTR at Kshs. 4.00 equivalent.

Q You reorganized the company in the last financial year – an exercise dubbed Safaricom 2.0 – could you highlight the gains of this transformation?

A Safaricom 2.0 is about changing our structure, our culture and our mindsets focusing on the stakeholders who make up our business ecosystems. We have completed the structural re-organisation with a renewed focus on delivering superior customer service through 3 Strategic business units namely; Consumer, Enterprise and Financial Services.

In the last year we have seen strong customer growth. We believe this has been achieved through innovation and delivering excellent customer experience. In addition to our 36 retail stores our distribution footprint extends to more than 250,000 outlets through our dealer network. We have also expanded the reach of M-PESA through nearly 40,000 M-PESA agents countrywide – a 46% increase since last year.

Another example of our innovation to meet customer needs is the launch of our online customer service support. We were the first large Kenyan corporate to offer customer care via Facebook and Twitter. We find this engagement with our customers is driving speedier resolution of their issues and providing us with greater and more immediate insight into their needs.

Q So what's the way forward?

A Safaricom is committed to maintaining its market leader position through an uncompromising focus on understanding and meeting the needs of its customers. As we move into the future, in addition to protecting the growth and profitability of our core business, we will focus on deepening the scope of our data and M-PESA businesses.

We have invested heavily in our network to establish the widest data coverage in Kenya with speeds of up to 21 and 42 Mbps. We will continue to grow the data business through prudent investment in 3G and associated technologies.

We intend to democratize data through the provision of low cost data enabled devices, affordable tariffs, relevant local content and more content based Value Added Services.

Our ambition is to become the most admired business partner by developing cost effective solutions that will enable businesses to succeed. With an increased focus on our enterprise business we will offer converged services to Kenyan SME businesses as well as provide true integration across fixed and mobile platforms. We also intend to drive uptake of managed services solutions for data storage, disaster recovery & cloud based enterprise applications

We will evolve M-PESA to offer a more comprehensive suite of financial services. Financial inclusion levels in Kenya are at 80% with M-PESA accounting for approximately 75%. To enable this we will increase access to basic financial services through partnerships with various financial institutions and we are also working with health care providers utilizing M-PESA to increase patient access to health care. We will increase our M-PESA agent outlet footprint and the increased utility of M-PESA value adds (e-wallet, m-ticketing).

As a responsible citizen; Safaricom aspires to always make a lasting difference in the communities we operate in. To this end we are contributing to the Millennium Development Goals (MDGs). Many of our commercial innovations deliver both returns and significant social benefits in areas such as m-Health, e-Learning and agriculture. At all times we endeavour to have a sustainable approach to business.

“

Our ambition is to become the most admired business partner by developing cost effective solutions that will enable businesses to succeed.

”



Mahojiano na Afisa Mkuu Mtendaji

S Hebu tusimulie matukio katika mwaka tunaouzungumzia – kulikuwa na matukio muhimu na mashaka gani yaliwakabili?

J Kwa mtazamo wa utekelezaji na mafanikio ya kifedha kuna mengi ambayo mimi na timu yangu tunaweza kujivunia. Licha ya kuzidi kuwoko kwa hali ngumu tulizidisha idadi ya wateja wetu kwa 11% hadi kufikia milioni 19.1 na mapato yetu hadi Kshs. Bilioni 107 – ikiwa ni ongezeko la 13%. Katika mwezi wa Oktoba tuliongeza bei zetu za maongezi kutokana na hali ngumu ya kiuchumi iliyokuwoko, na hii pamoja na ongezeko la idadi ya wateja, ilisaidia kuongezeka kwa faida yetu kutokana na maongezi kwa 9% katika mwaka huu. Kulipatikana ustawi wa maana katika mapato halisi mwakani kwa 110% kufikia hadi Kshs. Bilioni 9.4 kwa sababu ya kuimarika kwa faida kupitia EBTIDA na kutokana na mikakati ya usimamizi imara wa rasilimali.

M-PESA inaendelea kuwa kichocheo cha ukuaji huku ikileta faida ya Kshs. Bilioni 16.9 ambao ni ukuaji wa 43% katika mwaka huu. Tunaendelea kuiboresha zaidi huduma hii kwa manufaa ya wateja wake milioni 15 waliosajiliwa, kwa kufungua vituo zaidi 12,000 vipya vya uwakala mwakani – hivi sasa tuko na jumla ya vituo 40,000 kote nchini. Tulizindua viwango vipya na kupunguza ada ya shughuli kwa viwango vya chini katika orodha ya malipo ya M-PESA, hivyo basi kurahisisha mambo na kuwapa unafuu wateja. M-PESA bado inaendelea kutoa fursa ya ajira kwa halaiki ya wakenya na kwa sasa imeajiri moja kwa moja zaidi ya watu 50,000.

Licha ya kupunguzwa kwa bei ya kutumia internet ya Safaricom Broadband kwa ujumla, faida kutokana na data iliongezeka kwa 23% hadi Kshs. Bilioni 6.6 kukiwa na ongezeko la watumiaji internet kufikia 31% hadi milioni 4.6 mwisho wa mwaka tunaokariria. Ongezeko hili lilisaidiwa na kuzidi kuenea kwa simu zenye uwezo wa kutumia internet kukiwa watumiaji zaidi ya 400,000 wenye simu za kisasa za smart phone kwenye mtandao wetu. Matumizi ya internet yalizidi hasa zaidi kutokana na uuzaji wetu wenye hima wa simu, kupatikana kwa mambo ya humu nchini kwenye internet kwa wateja wetu na uwekaji wa orodha za bei zinazolenga vikundi vya wateja kulingana na matumizi yao. Kampeni mbali mbali za mauzo zilizinduliwa mwakani kama ile ya “Bamba Unlimited”, ambayo ilihamasisha kuhusu mambo yaliyomo kwenye internet yanayoweza kudondolewa kama vile muziki na video pamoja na mitandao ya kijamii.

Kama moja ya nia yetu ya kujitolea kuwapa wateja wetu huduma bora za hali ya juu, tuliboresha mtandao wetu wa 3G hadi kiwango cha kisasa kabisa kinachoweza kutoa kasi za Mbps 21 na 42. Tulizidi kuwekeza katika ujazo wetu na kuenea kwa mtandao wetu wa 3G kwa maeneo 1,439 yenye uwezo wa 3G na maeneo 187 ya Wimax. Kukiwa na zaidi ya 75% ya watu katika soko hili wanaotumia vifaa vyao kupata internet kupitia mtandao wa Safaricom, hakika sisi ndiyo tunaongoza katika soko hili la data.




Bw. Robert Collymore

Changamoto za kutajika mwakani bila shaka zinajumuisha ubora wa mtandao wetu hasa katika eneo magharibi ya nchi. Tuko na baadhi ya mitambo ambayo ni ya zamani na inahitaji kuboreshwa na ya kisasa na tayari tumeanzisha harakati za kuboresha ili wateja wetu wapate kufaidika na huduma zetu mbali mbali bila ya tashwishi.

Kukatwakatwa kwa nyaya kunakoshuhudiwa kila mara kote nchini ni jambo linaloleta wasiwasi mkubwa kwa kampuni hii na taifa lote kwa ujumla. Mara nyingi nyaya hizi hukata wakati wa ujenzi wa barabara. Kuthibiti tatizo hili, serikali ikishirikiana na washikadau inapendekeza kuundwa kwa idara maalum katika Wizara ya Barabara kuweka utaratibu wa kuidhinisha muundo-msingi wowote. Inatarajiwa kuwa idara hii itafanya juhudi kuweka kwenye kompyuta barabara zote za ukweli kusaidia wakati wa ujenzi wowote wa muundo-msingi ili kumaliza kabisa tatizo hili. Zaidi ya hivyo, Safaricom wanaunga mkono juhudi zinazoendelea za kuleta bungeni mswada wa kurekebisha sharia za Kawi na Mawasiliano, 2011, ili kuhakikisha kuwa adhabu kali inatolewa kwa wanaopatikana na hatia ya kukata nyaya na kuchukulia hii kama moja ya kosa la kuhujumu uchumi.

Matukio mengine muhimu itakuwa ni lile swala la Ada ya Kukatiza Maongezi (MTRs) na athari zake katika biashara hii katika miaka kadhaa iliyopita. Hii ilikuwa kupitia vita vya ukataji bei ambako kulipunguza kabisa faida ya watoa huduma wote na kupelekea wengi wao hata kupata hasara. Kuna haja ya kufanya utafiti wa kina juu ya njia za kupunguza gharama hasa tukizingatia hali iliyoko ya uchumi. Kwa mfano, nchini Uganda shirika la uhasibu la PriceWaterhouseCoopers lilifanya utafiti wa gharama na kuweka Ada yake ya Kukatiza Maongezi kuwa ya kima cha kama Kshs. 4.


Mwaka jana ulifanyiza upya mpangilio wa kampuni – kwa kuleta mfumo wa Safaricom 2.0 –Unaweza kugusia mambo muhimu yaliopatikana kutokana na badiliko hili?

 Mfumo wa Safaricom 2.0 unanuiya kuleta mabadiliko katika utamaduni wetu wa kazi na mawazo yetu tukiwapa umuhimu washikadau ambao ndio wanaotuauni kufanikisha kazi yetu. Tumekamilisha umbile jipya la mpangilio wa kazi kukiwa na mtazamo mpya kwenye kuwasilisha huduma bora kwa wateja kupitia mikakati mitatu ya kibiashara; Huduma kwa Wateja, Shughuli za kibiashara na za Kifedha.

Katika kipindi cha mwaka uliopita tulipata ongezeko imara la idadi ya wateja. Tunaamini kuwa tuliweza kutekeleza haya kutokana na ubunifu wetu katika kutoa huduma bora kabisa kwa wateja. Pamoja na maduka yetu ya kuuza reja reja 36, mtandao wetu wa kusambaza huduma ulienea zaidi na kufikia vituo 250,000 vya wauzaji wetu rasmi. Vile vile tumeeneza zaidi huduma ya M-PESA kupitia takriban mawakala 40,000 wa M-PESA kote nchini – likiwa ni ongezeko la 40% ikilinganishwa na mwaka uliopita.

Mfano mwingine wa ubunifu wetu katika kutimiza mahitaji ya wateja ni kule kuzinduliwa kwa huduma ya kuwasaidia wateja moja kwa moja kupitia internet. Sisi ndio shirika kubwa la kwanza Kenya kuanza kuhudumia wateja kupitia Facebook na Twitter. Tunaonelea maingiliano haya yetu na wateja yanafanya utatuji wa msawala yao kufanyika upeşi zaidi na pia kutupa sisi undani zaidi na wa papo hapo wa mahitaji yao.

Tutarajie nini kutoka hapa?

 Safaricom inajizatiti kuendelea kudumisha nafasi ya ke kama kampuni inayoongoza katika nyanja hii kupitia dhamira thabiti ya kuyaelewa na kuyatimiza mahitaji ya wateja wake. Tunapoendelea katika siku zijazo, pamoja na kuendeleza usitawi na upataji faida wa biashara yetu kuu, tutaangazia pia katika kukuza zaidi biashara yetu ya data na ya M-PESA.

Tumewekeza kiasi kikubwa katika mtandao wetu kuufanya uwe wenye data inayopatikana katika eneo kubwa zaidi hapa Kenya na yenye kasi za hadi kufikia Mbps 21 na 42. Tutaendelea kukuza biashara ya data kupitia kuwekeza zaidi katika mfumo wa 3G pamoja na teknolojia zingine husika.

Tuko na nia ya kueneza data kwa watu wote kupitia uuzaji wa simu zenye uwezo wa internet za bei ya chini, malipo ya bei nafuu, kuweka mambo yanayohusu hapa nchini na mengine zaidi yahasuyo Thamani Ziada kwa Huduma.

Hamasa yetu ni kuwa shirika linaloheshimika zaidi na wafanyibiashara kwa kuanzisha huduma za kufaa na za kuwapunguzia gharama wanabiashara ili waweze kufaulu katika shughuli zao. Tukiwa tunatilia hima zaidi huduma kwa wafanyibishara tuna mpango kuwapa huduma laini za simu za ofisini pamoja na za rununu kwa minajili ya shughuli zao. Pia tunanua kuwahimiza wachukue huduma za usimamizi wa mawasiliano kama vile uhifadhi wa data, kurejesha kumbukumbu patokeapo baa na program za uhifadhi za cloud.

Tutaiendeleza huduma ya M-PESA iweze kutoa huduma kamili za kifedha. Viwango vya matumizi ya huduma za kifedha ni 80% huku M-PESA ikishikilia takriban 75%. Kuweza kutimiza lengo hili tuaongeza kupatikana kwa huduma hii ya kifedha kwa kushirikiana na mabenki mbali mbali na vile vile tunafanya kazi pamoja na watoaji huduma za kiafya wanaotumia M-PESA wahimiza wagonjwa zaidi kutumia huduma hii kufidia matibabu. Tutaongeza mawakala zaidi wa M-PESA na pia kuongeza utumiaji wa huduma mbali mbali za ziada zilizo kwenye M-PESA (kama vile e-wallet, m-ticketing).

Kama shirika-raia lenye kuwajibika, Safaricom tunawania wakati wote kuleta mabadiliko ya kudumu na ya kufaa katika jumuiya tunakoendesha shughuli zetu. Kwa lengo hili tunachangia katika kufikia Malengo ya Maendeleo ya Milenia (MDGs). Nyingi ya huduma zetu bunifu inaleta faida na mafanikio ya kijamii katika maeneo ya kupata huduma za kiafya kupitia rununu (m-Health), mapato kupitia internet (e-earning) na kilimo. Wakati wote huwa tunajitahidi kuleta mwelekeo uliyo imara katika shughuli za biashara yetu.



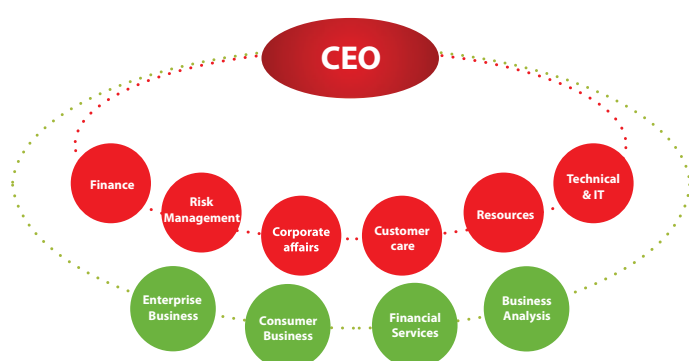
Hamasa yetu ni kuwa shirika linaloheshimika zaidi na wafanyibiashara kwa kuanzisha huduma za kufaa na za kuwapunguzia gharama wanabiashara ili waweze kufaulu katika shughuli zao



Board of Directors



Executive Committee



Risk management

At Safaricom, Risk management is everyone's responsibility. The Risk Management Division inculcates and embeds a culture of continuous and proactive identification and management of risk factors that ensure that emerging opportunities and threats are optimally harnessed. Management has embraced this practice and carries out periodic risk assessments to monitor our rapidly changing environment.

These assessments are also used to ensure that our responses and controls are aligned to maximise value to the business. Independent assurance is provided by both internal and external audit functions while benchmarking to other leading Telecommunications operators is undertaken to ensure our Risk Management practices are improved year on year.



Ethics

We are committed to ensuring that ethics and integrity become part of day to day Business in Safaricom.

- We have constituted an ethics committee as an oversight body driving the ethics and integrity agenda in the company
- We took an active role in drafting and signed up for the Kenyan Businesses Code of Ethics.
- We reviewed our ethical position and ethics management process to identify any improvement areas.
- We reviewed and approved code of ethics related policies such as the anti bribery policy, insider trading policy, gift policy and the blacklisting policy.



Governance

Good governance is fundamental to business sustainability. We continue to make sure that our governance structures support effective decision-making and robust control, and are aligned to changing requirements as well as local and international best practice.

Remuneration

Our remuneration policy aims to attract and retain leaders of the highest calibre, while making sure that our executives are compensated according to their performance.

- Our talent pool and leadership teams benefit from various leadership and management programs to ensure strategic guidance and maintenance of a competitive edge.
- Annual pay increase awarded to executive directors in line with overall Employee pay increases.
- Share allocation programs offered to senior management.



Mr. Nicholas Nganga

Chairman & Non Executive Director - 72 Years

- Experience in public sector
- Board leadership experience
- Knowledge in organisation leadership



Mr. Robert Collymore

Executive Director & CEO - 54 Years

- Expertise in corporate governance
- Strategic vision
- Knowledge of emerging markets



Mrs. Susan Mudhune

Non Executive Director - 62 Years

- Corporate governance insight
- Corporate leadership expertise
- Understands corporate best practise



Mr. Joseph Kinyua

Non Executive Director - 59 Years

- Financial expertise
- Experience in public sector
- Corporate governance and leadership insight



Mr. Michael Joseph

Non Executive Director - 66 Years

- Understands innovation
- Strategy and business leadership experience
- Technical expertise



Ms. Karen Witts

Non Executive Director - 48 Years

- Global financial expertise
- Corporate governance expertise
- Business and operational leadership

For the full CV's of the Board of Directors turn to the appendix on page 98



Ms. Nancy Macharia

Non Executive Director - 46 Years

- Technical and innovation expertise
- Knowledge in technology industry
- Strategic insight



Mr. Timothy Harrabin

Non Executive Director - 50 Years

- Strategic leadership
- Understands international best practise
- Commercial and operational expertise



Mr. Nicholas Read

Non Executive Director - 47 Years

- Operational best practice
- Insight into diverse multinational organisations
- Financial focus



Mr. John Tombleson

Alternate To Bob Collymore - 49 Years

- Financial expertise
- Corporate leadership experience
- Vast knowledge of industry



Mrs. Esther Koimett

Alternate To Mr. Joseph Kinyua - 54 Years

- Investment affairs experience
- Understands public sector relations
- Risk management expertise



Mrs. Enid Muriuki

Company Secretary - 38 Years

- Experienced in sector's best practice
- Experience in corporate governance
- Corporate leadership



CENTRE FRONT:

Robert Collymore
CEO

FROM Left to Right.

Betty Mwangi
GENERAL MANAGER, FINANCIAL SERVICES

Joseph Ogutu
DIRECTOR, RESOURCES

Nicholas Mulila
EXECUTIVE BUSINESS ANALYST AND PMO

Ivor Wekesa
DIRECTOR, RISK MANAGEMENT

John Tombleson
CHIEF FINANCE OFFICER

Peter Arina
GENERAL MANAGER, CONSUMER BUSINESS UNIT

Nzioka Waita
DIRECTOR, CORPORATE AFFAIRS

Thibaud Rerolle
DIRECTOR, TECHNICAL & IT

Pauline Warui
DIRECTOR CUSTOMER MANAGEMENT

Sylvia Mulinge
GENERAL MANAGER, ENTERPRISE BUSINESS UNIT

For the full CV's of the Executive Committee turn to the appendix on page 98

Robert Collymore
CEO

- Over 1 year at Safaricom
- Strategic vision
- Corporate governance expertise
- Operational leadership experience

Betty Mwangi
GENERAL MANAGER, FINANCIAL SERVICES

- Over 4 years at Safaricom
- Expertise in mobile money
- Industry experience
- Innovation insight

Nicholas Mulila
EXECUTIVE BUSINESS ANALYST AND PMO

- 11 years at Safaricom
- Financial experience
- Strategic planning expertise
- Commercial knowledge

Joseph Ogutu
DIRECTOR, RESOURCES

- 7 years in Safaricom
- Change management know-how
- Human Resource expertise
- Industry knowledge

Ivor Wekesa
DIRECTOR, RISK MANAGEMENT

- 5 years at Safaricom
- Expertise in Risk Management and Audit
- Understands international best practice
- Focus on integrity

John Tombleson
CFO

- Joined in November 2011
- Financial expertise
- Strategic planning knowledge
- Corporate leadership experience

Peter Arina
GENERAL MANAGER, CONSUMER BUSINESS UNIT

- Over 7 years at Safaricom
- Intimate knowledge of customer needs
- Focus on service delivery
- Product deployment expertise

Nzioka Waita
DIRECTOR, CORPORATE AFFAIRS

- 11 years at Safaricom
- Legal and regulatory expertise
- Understands stakeholder relations
- Industry knowledge
- Public sector insight

Thibaud Rerolle
DIRECTOR, TECHNICAL & IT

- Joined in January 2012
- In-depth technical knowledge
- Network and systems expertise
- Corporate operational insight

Pauline Warui
DIRECTOR CUSTOMER MANAGEMENT

- 4 years at Safaricom
- Industry insight
- Passion for the customer
- Customer service delivery expertise

Sylvia Mulinge
GENERAL MANAGER, ENTERPRISE BUSINESS UNIT

- 6 years at Safaricom
- Entrepreneurial outlook
- Innovation insight
- Commercial expertise
- Knowledge on service delivery



At Safaricom, the Board of Directors and senior management are committed to the highest level of corporate governance, which we consider critical to business integrity and to maintaining investors' trust in the Company. We foster a culture that values and rewards the highest ethical standards and personal and corporate integrity. The Company expects all its directors, employees and suppliers to act with honesty, integrity and fairness. Our business principles set out the business standards and in turn, the standards we set ourselves, ensure we operate lawfully, with integrity and with respect, observing and respecting the cultures of the Kenyan people.

Board organization and structure

The role of the Board

The Board is responsible for the overall conduct of Safaricom's business and has the powers, authorities and duties vested in it by and pursuant to the relevant laws of Kenya and the company's Articles of Association. The Board:

- has final responsibility for the management, direction and performance of the company and its businesses;
- is required to exercise objective judgment on all corporate matters independent from executive management;
- is accountable to shareholders for the proper conduct of the business; and
- is responsible for ensuring the effectiveness of and reporting on the company's system of corporate governance.

Activities of the Board

It is the responsibility of the Chairman and the Company Secretary to work closely together in planning the annual program and agendas for meetings. The Board meets at least four times a year and the meetings are structured to allow open discussion. All substantive agenda items have comprehensive briefing papers, which are circulated two weeks before the meeting.

In addition to regular Board meetings, there are a number of other meetings to deal with specific matters. When Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman or the Chief Executive prior to and/or after the meeting.

2012 BOARD MEETINGS ATTENDANCE

Directors	18 May 2011	31 Aug 2011	1 Sept 2011	9 Nov 2011	24 Feb 2012
Mr. Nicholas Nganga	✓	✓	✓	✓	✓
Mr. Robert Collymore	✓	✓	✓	✓	✓
Mr. Timothy Harrabin	✓	✓	✓	✓	✓
Mr. Michael Joseph	✓	✓	✓	✓	✓
Mr. Joseph Kinyua					
Mrs. Esther Koimet (Alt to Mr. Joseph Kinyua)	✓	✓	✓	✓	✓
Ms. Nancy W Macharia	✓	✓	✓	✓	✓
Mrs. Susan Mudhune	✓	✓	✓	✓	✓
Mr. John Tombleson (Alt to Mr. Robert Collymore)				✓	✓
Mrs. Karen Witts	✓	✓	✓	✓	✓
Mr. Nicholas Read		✓	✓	✓	
Mrs. Enid Muriuki (appointed 9 September 2011)				✓	✓



Our business principles set out the business standards and in turn, the standards we set ourselves, ensure we operate lawfully, with integrity and with respect, observing and respecting the cultures of the Kenyan people.



Board effectiveness

Appointments to the Board

There is a formal, rigorous and transparent procedure, which is based on merit and against objective criteria, for the appointment of new directors to the Board.

Independent advice

The Board recognizes that there may be occasions when one or more of the directors feel it is necessary to take independent legal and/or financial advice at the Company's expense. There is an agreed procedure to enable them to do so.

Board committees

The Board has established an Audit Committee, Ethics Committee and a Nominations & Remuneration Committee, each of which has formal terms of reference approved by the Board. The Board is satisfied that the terms of reference for each of these committees satisfy the requirements of the Capital Markets Authority and are reviewed internally on an ongoing basis by the Board.

The committees are provided with all necessary resources to enable them to undertake their duties in an effective manner.

The Company Secretary or his delegate acts as Secretary to the committees. The minutes of committee meetings are circulated to all directors.

Each committee has access to such information and advice, both from within the Group and externally, at the cost of the Company as it deems necessary. This may include the appointment of external consultants where appropriate. Each committee undertakes an annual review of the effectiveness of its terms of reference and makes recommendations to the Board for changes where appropriate.

Audit committee

The audit committee assists the board in discharging its duties relating to the safeguarding of assets, the operation of adequate financial systems and control processes, and the preparation of financial statements and related financial reporting in compliance with all applicable legal requirements and accounting standards.

The Audit Committee's responsibilities include:

- monitoring and reviewing the integrity of the financial statements, including a review of the significant financial reporting judgments contained in them;
- overseeing the relationship with the external auditors; including their independence and management's response to any major external audit recommendations;
- monitoring compliance with statutory and listing requirements for any exchange on which the Company's shares and debt instruments are quoted;
- reviewing the scope, extent and effectiveness of the activity of the Risk Management Division;
- engaging independent advisers as it determines is necessary and to perform investigations;
- reporting to the Board on the quality and acceptability of the Company's accounting policies and practices including, without limitation, critical accounting policies and practices;
- playing an active role in monitoring the Company's compliance to policies and procedures; and
- reviewing the company's overall approach to securing compliance with laws, regulations and the company policies in the area of risk.

The Audit Committee is comprised of financially literate members having the necessary ability and experience to understand financial statements.

The members of the Audit Committee during the year, together with a record of their attendance at scheduled meetings which they were eligible to attend, are set out below:

Member	17 May 2011	7 Sept 2011	8 Nov 2011	13 Dec 2011	23 Feb 2012
Mr. Timothy Harrabin (non-executive member)	✓	✓	✓	✓	✓
Mrs. Esther Koimett (non-executive member)	✓		✓	✓	✓
Ms. Nancy W Macharia (non-executive member)	✓	✓	✓		✓
Mrs. Susan Mudhune (non-executive member) appointed 9 November 2011)				✓	✓

The Chief Executive Officer, Chief Finance Officer and Director – Risk Management as well as external audit representatives (the Company auditors) attend all committee meetings as permanent attendees. The Director – Risk Management and the external auditors have unrestricted access to the committee and its chairman. Risk management matters relating to operations are regularly reported to the Board audit committee.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration committee includes the review of the remuneration and incentives for the Board and Senior Management. The terms of reference for this committee satisfy the requirements of the Capital Markets Authority. The committee is composed of five members, four non-executive directors and one executive director.

Member	Designation
Mr. Nicholas Nganga	Chairman and Non-executive member
Mr. Robert Collymore	Executive member
Mr. Michael Joseph	Non-executive member
Mrs. Esther Koimet	Non-executive member
Mrs. Susan Mudhune	Non-executive member

Company Secretary

The Company Secretary acts as secretary to the Board and to the committees of the Board and, with the consent of the Board, may delegate responsibility for the administration of the committees to other suitably qualified staff. The Company Secretary:

- assists the Chairman in ensuring that all directors have full and timely access to all relevant information; and
- is responsible for ensuring that the correct Board procedures are followed and is responsible for convening Board meetings.

Board of Directors Shareholding in Safaricom Limited

Member	Number of Shares
Mr. Nicholas Nganga	850,100
Mr. Robert Collymore	588,000
Mr. Timothy Harrabin	0
Mr. Michael Joseph	2,357,200
Mr. Joseph Kinyua	42,500
Mrs. Esther Koimett	517,600
Ms. Nancy W Macharia	43,000
Mrs. Susan Mudhune	51,200
Mr. Nicholas Read	0
Mr. John Tombleson	0
Ms. Karen Witts	0
Mrs. Enid Muriuki	0

Business Continuity Planning

Key for our business and leading up to an election year is the need to ensure that our business can continue to operate no matter what challenges we face as a country. Business Continuity planning at Safaricom is coordinated centrally by the Enterprise Risk department but responsibility for the adequacy and testing of business continuity and disaster recovery plans rests with the management of each department. EXCOM and the Board Audit Committee take a keen interest in quarterly progress reports made on the adequacy and results of our testing and are committed to ensuring adequate resources are provided for continuity planning to succeed.

Business Continuity Planning (BCP) at Safaricom is based on the Business Continuity Standard BS 25999 as well as international good practices. We apply a holistic approach that identifies potential impacts that threaten the business and provides a framework for building resilience and the capability for effective responses that safeguards the interests of key stakeholders, reputation, brand and value-creating activities.

Virtually all elements of the network have built-in redundancy and alternative procedures for key processes are designed and tested annually. The BCP programme is constantly being updated and improved as annual reviews and tests are conducted and in particular is considered when planning for new scenarios and events.

Critical to business continuity planning is ensuring that the communication component of crisis management is taken care of. In order to ensure that the right skills across the business are brought to bear in a crisis, we have implemented a Crisis Management Team who are trained and primed to coordinate activities and ensure adequate communication occurs both internally and externally during a crisis.

Ethics Committee

An Ethics committee has been constituted comprising of nominated Executive committee members and chaired by the Chief Executive Officer. The primary mandate of the committee is to be the oversight body that drives the ethics and integrity agenda in the company particularly monitoring ethics related programmes and activities to ensure ethics and integrity become part of day to day business. The ethics committee is also the guardian and custodian of the code of conduct which enumerates and enforces acceptable business conduct.

Some of the key initiatives spearheaded by the Committee in the last financial year include;

- Safaricom signing up to the recently drafted Kenyan Businesses Code of Ethics. The Kenyan Business Community under the directorship of the UN Global Initiative has developed a code of ethics to guide Kenyan businesses on matters relating to ethics. Safaricom took an active role in drafting the code and was one of the first companies to sign up to the code.
- Kicking off a review of Safaricom's ethical position and ethics management process to identify any improvement areas.
- Reviewing and approving code of ethics related policies such as the anti bribery policy, gift policy and the blacklisting policy.



Critical to business continuity planning is ensuring that the communication component of crisis management is taken care of. In order to ensure that the right skills across the business are brought to bear in a crisis, we have implemented a Crisis Management Team who are trained and primed to coordinate activities and ensure adequate communication occurs both internally and externally during a crisis.





Excellence In Customer Experience

What we want to Achieve

- ✓ Sustained growth in our customer base
- ✓ Deliver excellent customer experience
- ✓ Improve on the network
- ✓ Build trust with our customers and partner with them to do good

Our customers are vital to our sustainability, especially in a highly competitive industry. Our focus is to deliver an unmatched customer experience as a key driver of our business.

We also recognize that our employees are fundamental in developing excellent customer experiences and we continuously develop them to deliver our values of Speed, Simplicity and Trust.

The network is core to our success and we are working towards wider, deeper, faster and smarter networks.

✓ CUSTOMER ENGAGEMENT

We continuously enhance our engagement and relationship building with our customers through creating diverse channels for them to access us. These include Voice, Walk-in, SMS, Email and Social Media platforms, which has resulted into a remarkable improvement in the way our customers have been able to access us.

Our customers provide us with good feedback on our services through direct interaction and periodic research surveys. This has helped us to continuously improve our product and service offering during the financial year.

Our achievements in the year

During the year we achieved improvements in our customer experience scores based on customer rating of our services. Our customers continuously rate us highly on various parameters that we measure.

1. Customer Experience

In the year we revamped our Interactive Voice Response (IVR) and simplified the options while increasing the content available to our customers which is accessible in both English and Kiswahili. Overall customers have rated the IVR well on general satisfaction and clarity of the instructions provided.



There was good uptake in our alternative channels with the highest engagement being experienced on Twitter and Face book. There was also a notable improvement in the customer experience at all touch points which consequently improved the number of customers who would recommend our services to others.

We continue to upgrade the skill set of our customer service team through training, recognition and reward while assuring customers of a first touch point resolution at all points.

We recognize that exceptional customer experience is important and we expect this will result in customers continuing to do business with us.

2. Customer Loyalty Support

Customer Intimacy is paramount for us as we endeavour to become more responsive to our customers. To enhance this we introduced a customer loyalty support function which follows through the customer life cycle. We created a platform for bringing on board new customers thus ensuring accessibility to help and provide any required information.

3. Business Process Outsourcing (BPO)

We created a function to generate new revenue streams for the Safaricom's Jambo Contact Centre and during the year we managed to grow our partners to 4 with our newest being "Daktari 1525". This is a tele-triage service served by qualified doctors that provides medical services quickly to customers through the phone. Other partners are in the Insurance Industry and In-house customer support services to our various departments.

4. Data

Customer Support on Data products is a new trend. We have been adaptive to the new upcoming technologies by ensuring we understand the nature and diversity of supporting these new innovations. We have set up new channels for our data customers and continuously train our

For Customer Care assistance, contact us on:



@SafaricomLtd, Customer Care @Safaricom_Care



www.facebook.com/SafaricomLtd



teams to be responsive to these needs. We have created experience centers for ease of information access. We understand the new and discerning customer and have created more 'Do it yourself' platforms to ensure that we bring service at the customers doorstep for convenience.

5. Systems and Processes

To serve our customers better we invested in an IP contact centre which is more adaptive to customer needs by increasing more channels, content and customer empowerment to use self – service e.g. PIN –PUK requests, Bar or Unbar your line or receiving Internet settings. We also managed to achieve compliance of all our processes to ISO standards during the quality audit done in the year.

We believe that by providing exceptional service we shall enjoy trusted long term relationships with our customers that will continue to sustain our market leadership.

We are therefore focusing on continuously addressing the customer demand for our services through the various channels including addressing all customer feedback.

Our focus is on improving process and procedures to ensure that we are able to serve our customers efficiently and faster by increasing the choice of alternative channels of contacts and building robust knowledge management systems.

We also expect to invest in the year on customer education through radio and direct contact with customers during customer open day events to ensure demand reduction.

CELEBRATING THE BRAND

The Strategic Marketing function undertook a number of initiatives as part of its mandate to promote the Safaricom Brand, to further improve how we communicate to internal and external customers and to further enhance the relevance and resonance of the Safaricom Brand.

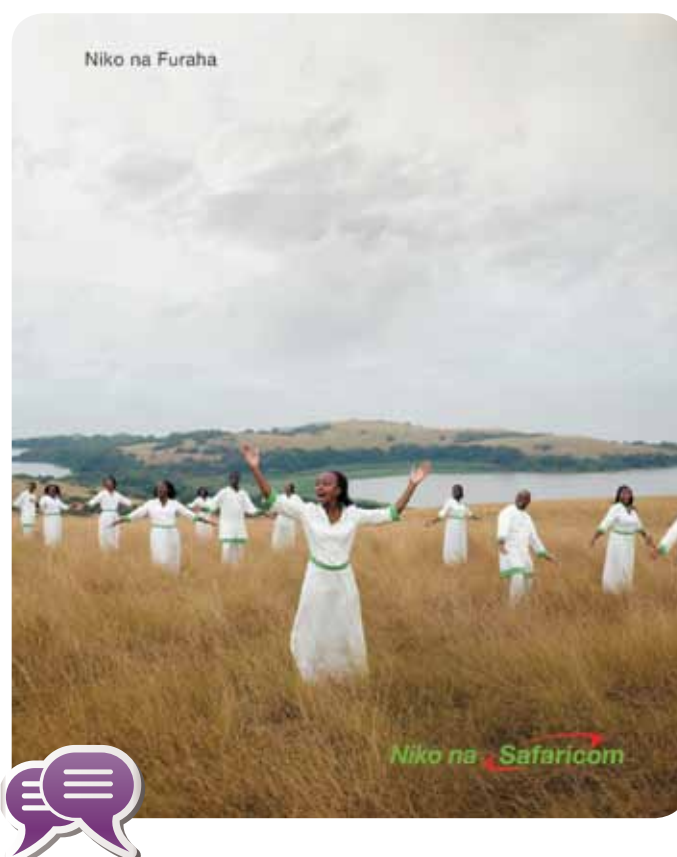
Safaricom occupies a strong position in the market place - a brand equity position that must be fiercely protected and aligned with customer expectations. Several initiatives were launched to enhance the Brand understanding across the organization and external market by way of structuring the brand definition and meaning in a formal and professional way. The results have been more uniformity, consistency and enhanced resonance with our customers of the Safaricom Brand within the market place.

“As a culmination of the efforts employed in cementing the Safaricom brand, the company was voted the most valuable Brand in Kenya.”

Safaricom Sakata Ball

Safaricom Sakata Ball was launched in 2010 as a national youth engagement platform through soccer. 2011 saw the Safaricom Sakata Ball challenge grows to greater heights. Driven by national public demand, the 2011 leg incorporated girls' teams and also saw the birth of the partnership between Safaricom and UNICEF's sponsored National Youth Talent Academy (NYTA) which has delivered further talent

development and exposure to the best talent. A total of 2,092 teams; 1,526 boys and 566 girls teams, participated in the tournament. We are proud of the fact that the current national U-20 girls squad is dominated by talents identified from the Safaricom Sakata Ball challenge.



Safaricom Sakata Ball has also emerged as a Finalist in the GBCHealth Business in Action Awards 2012, in the category of Health & Beyond: Eradicating Root Causes category. The achievement exemplifies best-in-class private sector programs and demonstrates the powerful impact of business engagement on communities at large.

Safaricom KENYA LIVE

Launched in October 2010, the Safaricom KENYA LIVE is an exciting engagement between Safaricom and the Kenyan music industry whose aim is to promote music excellence and talent among our Kenyan artistes, across all genres and regions as well as provide a platform for musicians to showcase their music talent. The initiative was borne out of Safaricom's long standing engagement with Kenyan music (sponsorships of Chaguo La Teeniez (CHAT) awards & Groove awards; Kenyan Classical Fusion). Safaricom KENYA LIVE in its entirety entails series of live music concerts in various regional towns across Kenya and provision of mobile fresh and homegrown content /downloads. To this end, in keeping with its tradition as a truly Kenyan brand, Safaricom partnered with local artistes across various genres and regions.

Apart from the sizzling concerts and professional training by established resource people, Safaricom KENYA LIVE artistes were also busy in studio producing songs, customized ring tones, SMS alerts and other mobile content.

Safaricom KENYA LIVE was well-received in the market as evidenced by thousands of fans in the Safaricom KENYA LIVE concerts and Safaricom portal downloads.

✓ SAFARICOM CHAMPIONS

We continue to develop our staff to not only enhance their current performance but focus more on achieving future business needs. Data and technical skills to support data Product & Services development support and sales were given priority in the year.

An E-learning platform with over 3,000 courses in ICT, management and soft skills was implemented to enhance self learning. Our staff also benefitted from health and safety awareness training to ensure safe working practices, operations and environment.

Going forward, our talent pool will benefit from secondments to other Vodafone companies for sharing of best practices.

Our partnership with academia will continue to support the development of telecommunication talent for the country.

Permanent Staff by Gender and Grade as at 31st March 2012

Job grade	Total Permanent Staff	No. of Women	No. of Men	Gender Ratio
1	1	0	1	N/A
2	10	3	7	1:2.3
3	34	14	20	1:1.4
4	126	33	93	1:2.8
5	220	66	154	1:2.3
6	516	181	335	1:1.9
7	545	238	307	1:1.3
8	1247	623	624	1:1
9	2	0	2	N/A
Totals	2,701	1,158	1,543	1:1.3

Flexible Working

As we continue to ensure that we deliver exceptional service to all our customers, we acknowledge the importance of balancing the 3 pillars of our employees lives - work, family and health. To this end, management introduced Flexible Working Arrangements in January 2012 to help staff achieve this balance. One of the options is Flexi-time, which will provide employees with the option of starting or ending their working day either earlier or later allowing them the much needed flexibility to meet their personal needs.

In addition, Telecommuting has been introduced and it will provide employees with the option of performing full-time job responsibilities at sites other than their primary location, usually their home or a remote office using appropriate technology. For us flexibility is not just a staff benefit, but a business strategy geared towards positioning Safaricom as the employer of choice.

Employee Environment

The employee environment is a key issue for Safaricom. Several programs have been undertaken to enhance Safaricom's Occupational Safety and Health (OSH) performance, namely:

- The development and implementation of an OSH management system framework and policy;
- The introduction of an OSH induction program for new staff;
- Establishment of the joint management-worker safety and health committees;
- Companywide OSH awareness training, including the production of an OSH awareness video;
- Undertaking of baseline risk assessments for all company facilities;
- Development and implementation of safety standards and work control procedures ;
- Creation of safety posters to increase safety visibility;
- Facilitating safety and health audits of facilities and several BTS; and
- Undertaking statutorily mandated inspections including the inspection of lifting equipment and pressurized vessels, and Inspection of fire fighting equipment, inspection of mail scanners amongst others.



An E-learning platform with over 3,000 courses in ICT, management and soft skills was implemented to enhance self learning. Our staff also benefitted from health and safety awareness training to ensure safe working practices, operations and environment



✓ LARGEST & FASTEST NETWORK IN KENYA

Our customer demand superior and uninterrupted network connection. As part of our commitment to offer a best in class service we spent Kshs. 25.74 billion in capital investment. Our focus was on upgrade of our 3G network to the latest available technology that will enable speeds of 21 and 42 Mbps. We continued to invest in the capacity and reach of our 3G network with 1,439 3G enabled sites and 187 Wimax sites.

We also invested to improve the quality and expand the coverage of our voice network. We now have 2,690 sites located all over the country and boast of the widest coverage.

The main factors that affect network availability are transmission and electricity supply. Currently 155 of our base stations run on diesel generators on a 24/7 basis.

This year we invested in modernization of the network to Internet Protocol (IP) and upgrading to the latest technologies. This will improve our network quality and increase network data speeds. It will also bring down costs and reduce our environmental impact. Unfortunately, during the replacement of old equipment, network quality sometimes takes a short-term dip while re-optimisation is in progress.

We also rolled out a single real time billing engine that combines prepaid and postpaid billing seamless under one system. This has greatly improved accuracy in customer billing and thereby promotes customer experience

✓ BUILDING CUSTOMER TRUST

Our customers are by far, our most valued assets. Besides constant engagement, growing our Brand, improving on the network and having the right people in place; we strongly believe that protecting our customers we enable us to build an even stronger relationship with them.

Customer information is confidential and it's our responsibility to protect it. Our responsibility extends to protecting our customers and preventing fraudsters from preying on our customers. This is especially so in M-PESA where there has been a rise in fraudulent activity. Through continued customer sensitization and education we are able to help minimise the cases of fraud that affect our M-PESA customers. We have well developed systems and procedures in place to protect our customers on all these fronts. To discourage the theft of mobile phones, we blacklist all Safaricom handsets reported as stolen so they can't be used on other mobile networks.





Sustained Revenue Generation

What we want to Achieve

- ✓ **Reduced reliance on voice through diversification into non-voice channels**
- ✓ **Product innovation and value addition**
- ✓ **Drive growth in Enterprise business**

Despite macro-economic challenges the mobile service market in Kenya continues to grow with 28.1 million Kenyans now accessing mobile services. Mobile penetration is now just over 70% ; we still have significant room for further growth.

Our core business remains voice and voice revenues continue to show good growth. We are executing well against our strategy of growing revenues beyond voice - M-PESA & broadband being the main drivers of non-voice revenue growth.

✓ VOICE

In the financial year ended 31st March 2012, we grew our active customer base by 10% to 19.1 million. We have achieved this despite a heightened competitive environment that saw voice tariffs drop to Kshs 1, increased inflationary pressure, depreciation of the Kenya Shilling and increase in energy costs that negatively impacted both the company and our customer.

*"Safaricom has embarked on a campaign to register the subscribers who have not yet registered. A short code (*232#) has been developed for users to confirm their registration details."*

Our voice business has continued to perform beyond expectations with increased traffic and an impressive growth in voice revenue of 9%. Our drive to maintain voice revenues through consumer promotions (such as "Nguruma Ibambe", "Bamba na Bob" and "Furahi Na Safaricom") and Retailer promotions (like the "Mauzo Kabambe") aimed at boosting airtime distribution and availability has enabled us maintain our revenue market share above 80%.

In the second half of the year, Safaricom increased the headline voice tariff by Kshs 1. Following the price change, usage declined by 18.7% from an average of 70m minutes per day to 57m. PrePay revenue increased by 17.9% post rate change implementation from an average of Kshs.145m daily revenue to Kshs.171m.

Further international tariffs to Zone 1 (USA, India, China, Canada) were increased from Kshs 3 to Kshs 10 in October 2011. This impacted traffic and a promotion was launched in December with a reduced rate of Kshs 3 from Kshs 10. The promotion has been successful as the traffic in the promotional period grew by over 100% compared to pre-promo levels.

Our strategy to diversify into non-voice services has continued to deliver strong growth with these revenue streams gaining traction and now contributing 29% of total revenues.

Our Ringback Tone service, "SKIZA" has experienced strong growth in subscribers. This was mainly due to the development of an easy USSD search mechanism that made it easy for subscribers to search for tunes hence increased uptake of the product.

Premium rate services continued to grow in subscription among our customers. These services include purchase of ring tones, wall papers, music as well as gaming activities all run by our premium rate service partners.

We continue to be the leaders in innovation as witnessed by the enhancement of our Bonga Loyalty Program which introduced sharing of Bonga points ("Changa Na Bonga") and purchase of merchandise using part cash and part bonga points (Bonga Part Payment), all aimed at rewarding and retaining our loyal subscribers.

We introduced the tiered "Okoa Jahazi" (emergency top up) product which allows subscribers to select a value they prefer rather than a fixed flat amount that led to an increase in subscriber uptake at the beginning of the year. Previously customers could only "Okoa" Kshs 50. Currently customers can get emergency top ups at a range of Kshs 10, Kshs 20, Kshs 50 and Kshs 100.

We increased our focus on the retention of High Value Customers – HVCs (both PrePay and PostPay) – witnessed with the launch of the Safaricom Platinum Club with exclusive value propositions and the introduction of the Karibu PostPay Bundles aimed at increasing the number of PostPay customers.

✓ INTERNET AND CONTENT

Our broadband revenues continued to witness double digit growth to 23% despite the overall tariff reduction of about 70%. Internet users have increased from 3.5 million to 4.6 million at the end of the year supported by an increase in data enabled phones on the network. Internet usage grew tremendously from the previous year, largely driven by our aggressive device sales, availing of local content to our consumers and targeted tariffs geared to various consumer segments.

Handsets



Safaricom's most affordable handset is the Vodafone VF150 retailing at Kshs. 999. Increasingly our priority is to reduce the cost of internet access via mobile. Our most affordable-internet enabled handsets are the Samsung Maple and Alcatel OT 306 both retailing at Kshs. 1,999. The phones use the Opera Mini browser which works effectively on 2G networks. The Kabambe 3G is our most affordable 3G internet enabled handset yet retailing at Kshs. 2,999.

Laptops



In an effort to make computers affordable, we continuously work with suppliers to provide good deals on various notebooks and netbooks. The most affordable laptop ever sold at Safaricom is the LG X120/X130 which retailed for Kshs. 16,999. The netbooks are best suited for learning purposes as well as web browsing.

Webbox



In September 2011, Safaricom rolled out a plug and play keyboard dubbed 'Safaricom Webbox' which is revolutionizing mobile internet access by using televisions to provide a big screen internet experience at home without a computer. The Webbox, adopted from Vodafone UK, offers an opportunity to significantly increase the number of homes with internet access by using their televisions to display the internet on a big screen for as little as Kshs. 4,999. Since its launch, the Webbox has sold 4100 pcs and there is a strong demand across the market.



In addition to the tariff review, we introduced time based billing for data with the launch of "Browse @ Kshs 2." The product has been well received by our customers. With internet penetration at 44% in Kenya as at December 2011, there is great potential for data to grow further.

To create awareness of the content available on the internet, several campaigns have been run to popularize the data short code *544# among our customers to increase daily usage. By dialing this code on their phones, subscribers are able to select content relating to soccer updates, music downloads as well as social networks. We also launched a YouTube campaign targeted at customers with 3G enabled devices.

The campaign was aimed at creating awareness on the diversity on the videos available on YouTube and also spur a daily habit of accessing and using YouTube. The local content service dubbed 'Kula Happy' is local comedy in different local dialects which had a huge impact in acquisition of new data subscribers.

As part of our commitment to offer a best in class service, Safaricom upgraded the 3G network speeds to 21 and 42 Mbps in the high traffic data belt areas. As a result, Safaricom maintained market share leadership of 77% in Kenya.

Our focus for the next year will be

- Adding value to our customers through provision of unmatched service.
- To enhance data revenue, we shall focus on profiling the data users and deliver targeted unrivalled data propositions across the country.
- By partnering with strategic partners both locally and internationally, we shall grow the content market and develop local capacity for application development. We shall aim to deliver smarter data enabled handsets to our customers that are affordable and offer a good customer experience.

✓ M-PESA

Changing Kenya forever

It began with a simple yet revolutionary idea – What if people could use an SMS to transfer money between themselves? In answering this question, the global phenomenon that is known as M-PESA was born.

5 years ago in March, M-PESA was launched as a fast, safe and affordable way to send and receive money via a mobile phone. Its growth since then has been nothing short of phenomenal. As of March 2012 there were 14.91 million customers actively using the M-PESA service, supported by a nationwide agent network of over 39,000 outlets.

M-PESA's convenience and low cost has provided financial inclusion to many Kenyans who do not have bank accounts and provides them with an avenue to conveniently transfer money, pay for bill or even buy goods. M-PESA has now evolved into a payments platform with over 900 paybill partners and over 300 bulk payments partners.

M-PESA Driving Innovation

Person to Person Transfers: This was the very first service available on M-PESA that allows customers to send and receive money from both Registered and unregistered M-PESA customers.

"These days, I'm very excited because my customers pay me via M-PESA. A while back, a customer could give me a note of Kshs 1,000 while making a payment for only Kshs 300 and I would spend a lot of time looking for loose change to give him back. Nowadays, I ask my customers to pay through M-PESA and they are very happy to do so". Mama Shiru from Gikomba.

Banking pillar: Over 25 banks have partnered with M-PESA to allow their customers transfer money between their bank account and their M-PESA account. With this service customers are able to move money from their bank account into their M-PESA account and vice versa. Once the money is moved into M-PESA customers can access the money from any of our over 39,000 agent outlets countrywide or withdraw at over 700 ATM's in Kenya. From their M-PESA account customers can directly pay bills or buy goods at any of our partner outlets.

Pay Bill: Over one million people now use M-PESA conveniently to pay their monthly bills through the Pay Bill function – electricity and water bills being prime examples – saving time and money for the individuals, and increasing efficiency for the companies receiving the payments.

Bulk Payments: A growing number of corporations that employ large numbers of people who do not have bank accounts have moved almost their entire payroll function over to M-PESA on the Bulk Payment Service. M-PESA is also used by corporate organizations to disburse payments for promotions payments.

Buy Goods: Customers can buy goods using M-PESA at any of our partner retail outlets such as Naivas, Uchumi, Bata, Deacons among others. M-PESA provides the security of handling e-cash.

Lipa Karo: All learning institutions can now have an M-PESA paybill number where parents & students can pay fees from their phones using the Pay bill function on their M-PESA Menu.

M-PESA Prepay Safari Card: This is a visa card launched in partnership with I&M Bank Ltd. It's a first of its kind service worldwide that allows users to load money into the card exclusively via M-PESA and make local, online and international transactions.

M-Ticketing: M-PESA Ticketing is a mobile ticketing service that enables Safaricom Subscribers to search, book, pay and get a ticket on their mobile phones for various services spanning from entertainment, travel, sport and others anytime, anywhere.

ATM withdrawal: You can access your M-PESA account conveniently from over 700 Pesapoint, Equity and Diamond Trust Bank (DTB) ATM's country wide. This channel offers an alternative access to your M-PESA funds.

Empowering Communities

Kenyans for Kenya

This was an initiative conceived by Safaricom Limited through M-PESA. We designed an initiative to provide a simple mechanism for Kenyans to donate; to engage and galvanize Kenyans' spirit of giving; and to transform responses and perceptions towards famine and public giving. As of 6th September 2011, Ksh. 671 million had been raised. M-PESA facilitated 25% of total contributions in terms of sums of money; and 99.5% of all contributions made via mobile money transfer within the initiative period.



Kilimo Salama initiative is a pay-as-you-plant insurance program for Kenyan farmers that protects them against adverse weather conditions like drought and excess rain. Over 12,000 farmers in Kenya have benefitted from this venture that is a partnership between Safaricom's MPESA service, Syngenta Foundation for Sustainable Agriculture and UAP Insurance. In the partnership, the insurer uses low cost mobile phone payment and data system (enabled by MPESA) to issue insurance policies and compensation to farmers in form of seeds, fertilizers and other farm inputs in cases of loss.

Changamka is an Integrated Health Financing Company that uses technology to improve access to affordable quality healthcare. Through a partnership with M-PESA, over 3080 mothers in Kenya acquired a Changamka Maternity's Savings Card that allows them to save for safe delivery. M-PESA provides the simplest saving platform for transfer of money to Changamka Maternity Account through M-PESA's paybill function.



Safaricom's immense contribution in transforming people's lives through M-PESA, and the readiness of Kenyans to adapt this innovation, MPESA has so far bagged 18 local and international accolades within the five years of its existence.



Multiple Awards

Safaricom's immense contribution in transforming people's lives through M-PESA, and the readiness of Kenyans to adapt this innovation, MPESA has so far bagged 18 local and international accolades within the five years of its existence. M-PESA won an international award at the just concluded GSMA in Barcelona, Spain "for Best Product, Service or Initiative for the Underserved Segment".

The future for M-PESA is bright.

We have just launched an M-PESA Mini-Statement service where customers can access their last 5 M-PESA transactions by dialing *234# from their mobile phones. Upon requesting for the mini-statement is displayed as an SMS

The vision for M-PESA is:

- To grow more partners in Customer to Business (C2B) and Business to Customer (B2C)
- Drive Micro Payments as we continue with our efforts at driving financial inclusion for all Kenyans
- Improving our distribution network within nontraditional channels
- Improving sim card distribution in the rural areas through improving on distribution and RTM (Route to Market) strategies.
- Growth of low entry data devices
- Growth of Mpesa both in terms of agent numbers and quality of agents
- Improvement of float levels in M-PESA outlets.

✓ ENTERPRISE BUSINESS

In the period under review Safaricom Business has evolved into an integrated service provider through delivery of a host of advanced IP, data, voice, video collaboration tools, and security solutions to meet the needs of business and government customers. This has been driven by Safaricom desire to become the most admired business partner by developing cost effective solutions that will enable business succeed. With this came, major milestones that have strengthened our credentials in the Enterprise Market including

- Cisco MSCP Certification that recognizes Safaricom as a Managed Solutions service provider. This puts Safaricom in the global stage as one of the select service providers to achieve this certification
- Award of being "The Best ICT Solution Provider for Enterprise Market in Africa" at the AfricaCom Awards Held in Cape Town in November 2011
- Infrastructure award at the East Africa CIO 100 Awards held in November 2011 for "The Deployment of the Largest Indigenous Cloud in Africa"

Think Virtual Meetings Think Safaricom Business

Increase productivity, save time and travel costs with Safaricom Virtual Meeting Solutions.



Smart Devices.



Desktop Video Conferencing.



Board Room Video Conferencing.

Impressive revenue growth driven by innovation

Leveraging on our extensive network and innovation Safaricom Business recorded impressive growth.

We have given the SME Segment, which is estimated at 120,000 formal businesses, special focus in the course of the year as part of our growth pillars. To cater for this segment we launched 'Zidisha Biashara', an integrated bundled offering of voice, data, and communication devices. Further the bundle has a website offer to get the SMEs online, emails as well as capacity building programs to enhance the productivity of SMEs.

We are currently executing this in an ecosystem of partners that include leading banks in the country, software providers such as Google as well as capacity building partners.

In the 2nd Half of the year we took leadership in the provision of cloud services in the region through the launch of the largest indigenous cloud dubbed 'Safaricom Cloud' on October 26, 2011.

This will enable us to offer comprehensive and secure managed services for any size of enterprise and government customers, on scale and on demand. We now cover the entire ICT ecosystem from data centre services, software and applications, business continuity and private clouds.

Our nationwide reach in both subscriber numbers and network, coupled with our extensive M-PESA ecosystem has made us the innovation and technology partner of choice for the government, NGO and other public sector players. We are expanding innovations to diverse areas such as:

- Working with USAID, Clinton Health Initiatives and Ministry of Health (TB Division, HSSF) on replicable technology solutions for capacity building, surveillance, training, monitoring & evaluation and governance/funds management for the TB/Infectious Diseases and Health Sector Sustenance Funds.
- To address the specific and very real challenges and opportunities presented by Health Access and Service Delivery in Kenya, we are engaged in rolling out an ambitious eHealth plan in partnership with the Ministry of Health.
- On the education front, we are building partnerships with local and global eLearning content and technology innovators to deliver the largest and most comprehensive eLearning ecosystem.

- We are moving into the Machine to Machine (M2M) and mobile applications space where we are now able to offer corporate and government customers value added services around areas such as workforce management, transportation, retail distribution, security and building management as well as smart utilities.
- Other areas of focus include the retail and distribution sectors where M-PESA is already an established medium for payments and transactions. Our M2M and cloud solution has provided the launch pad for next generation M2M-based platforms bringing together retail, banking, security, manufacturing and transportation sectors into a seamless managed transactions broker and interchange.

Unique infrastructure strength

Safaricom ownership of The East African Marine System (TEAMS) capacity, IRU purchase of Optical Power Ground Wire (OPGW) fiber with Kenya Power and Lighting Company and purchase of Government owned National Fibre Optic Backbone Infrastructure (NOFBI) has positioned Safaricom as a provider of Wholesale Capacity and Services to clients in the region who require international connectivity and Internet Capacity services.



Safaricom owns 22.5% of TEAMS Capacity which means that there is 22.95 Gigabits per second (Gbps) of Submarine Capacity available out of which about 11 Gbps is available for resell to clients. The TEAMS system is designed to a capacity of 1.24 Terabits per second and therefore huge potential to manage Wholesale Business in the entire East Africa region.





What we want to Achieve

- ✓ Drive efficiency and reduce costs
- ✓ Minimise our environmental impact
- ✓ Work closely with our stakeholders

Operational excellence is about innovating, finding new ways to do things better and faster to benefit our customers. Importantly, it's also about balancing this with responsible behaviour, especially in protecting the environment and the health and safety of our employees and contractors. Operational excellence also means getting good returns on the capital we use to deliver our products and services.

The effects of foreign exchange fluctuation and inflation were widespread across the economy especially so in the 1st half of the year when the shilling weakened to Kshs. 107 and inflation peaked at 19.7%. This led to increased operating and forex losses for industry players.

With the recovery of the Kenya Shilling in the second half of the financial year, the operating market has become more conducive however interest rates have remained high impacting negatively on profit.

We are on track to deliver our cost initiatives aimed at protecting our bottom line and improving our margins. Early results of these efforts are evidenced in this financial year's performance especially in the second half - and we will continue to drive these initiatives forward to combat inflationary pressures and improve our working capital optimisation initiatives.

We benefit from our association with the Vodafone Group giving us access to their global procurement muscle. Vodafone has strategic agreements with some of the world's leading companies to deliver innovative products and services, including Samsung, Google® and Microsoft®. Handsets, network and IT equipment are for the most part negotiated and bought centrally through the Vodafone Procurement Company ('VPC'). We make use of these centralized benefits wherever we can but with due consideration of local procurement requirements and targets.



We are on track to deliver our cost initiatives aimed at protecting our bottom line and improving our margins.



✓ TOWER SHARING

Safaricom strongly believes in owning its own infrastructure, as that puts us in control of our capital investment and therefore destiny. We do believe that operators can co-locate on each other's infrastructure, at a fair cost and in a fair balance. In fact we currently tower share with Telkom Orange and Essar, and are finalising agreements with Airtel.

We plan to build our own fibre network, and would welcome swapping fibre with other operators on a meter for meter basis.



✓ ENERGY SECURITY

Safaricom has been expanding its infrastructure with large energy requirements, and as such energy security is a key concern, particularly as Kenya's available national energy supply is insufficient for both electricity and diesel.



The primary energy source used by Safaricom is electricity from the national grid. Grid electricity is supplemented by back-up energy from diesel generators; with a growing percentage of our energy supply sourced from renewable sources.

Safaricom is developing an energy policy statement; and we also realize the cost saving opportunities which can be achieved through energy efficiency. This is core to the Safaricom technical division, particularly for equipment specifications, site design, power optimizations and power strategy.

We are also aware of the carbon emissions associated with our energy consumption, and have calculated our carbon footprint for the first time this year; to help us understand where our biggest emission sources are and how we can start to reduce our impact.

✓ ENVIRONMENTAL PERFORMANCE

Living in an era where environmental issues are rising up the corporate agenda, it is clear that we have to embrace green practices, which will push us to become more productive, more innovative, more efficient and more competitive. Safaricom has embraced environmental performance on its own initiative to satisfy customers, comply with regulations and promote positive community relations.

Our environmental awareness has been demonstrated by our commitment to minimization of the negative effects to the environment through sustainable practices and continuous improvements. We are also developing cost-effective internal processes that encourage environmental stewardship, and tap revenue-generating market opportunities for products and services where our customers are keen for green products and services.

Safaricom has developed an integrated green agenda, that aims to transform our company into an environmentally aware and sustainable organization. A greener workplace can mean a lighter ecological footprint, a healthier and more productive place to work, and good news for the triple bottom line (people, planet & profits). Our integrated green agenda focuses on the following aspects:

- Climate change and carbon foot print;
- Green Base transceiver stations;
- Energy consumption;
- Paper usage;
- Water usage;
- Green products and packaging;
- Resource sharing/reuse and recycling; and
- Green offices.

We have developed and adopted an environmental management framework. This framework offers a wide range of benefits including financial savings from reduced waste generation, efficient energy consumption, easier compliance with environmental legislation, increased staff morale and pride; as well as improved customer relations.

✓ INNOVATION FRONTIER

Innovation is at the core of Safaricom. The mobile phone market in Kenya is becoming increasingly saturated by a number of network operators; and our ability to innovate remains a core differentiator in the market we operate in.

Health projects

- Daktari-1525 is a medical tele-triage dial-a-doc service launched November 2011. Customers dial 1525 and receive medical advice from doctors. Currently the service is receiving about 2000 calls a day. Safaricom rolled out the service in partnership with Call-a-doc
- Healthcare payments & Insurance
- Emergency Medical Response;



Agriculture projects

- iCow is an application with several services in it. It has a cow gestation calendar which sends a farmer timely important messages about his cow upon registering it.
- Training and Support of Extension Workers through e-learning



ICT and Education

• Safaricom Learning Management System (LMS)

This is a multi-institutional online platform that manages learning content. The LMS manages creation and uploading of courses, content download and streaming, lecture student interaction and self-assessment quizzes.

• Fun Safe Online Education

Safaricom in partnership with Intel, launched the Fun Safe Online Education program. The package includes 8 fun and exciting but educational computer applications that aid self-learning including: Encyclopedia Britannica, British Council (Learning English), Intel® Easy Steps Activity Book, Intel® Education Help Guide, PC Basics, Skool.com.

• Ministry of Education (MOE) ICT For Schools project

Safaricom in conjunction with Microsoft, Intel and KIE is running an initiative to support secondary schools countrywide with an attractive package consisting of both hardware and connectivity.

• Free capacity building.

The project saw us reach 113 schools country wide. This is a continuing project and with phase 2 on the way, Safaricom is planning to pitch and provide devices and connectivity to schools at a reasonable cost.

• KSSHA – JIFUNZE

Safaricom has partnered with the Kenya Secondary School Heads Association (KSSHA) to offer principals an unbeatable laptop package, dubbed 'JIFUNZE' which enables them to enjoy genuine software to them accomplish tasks more efficiently.

• Deal ya Nguvu

Safaricom has partnered with Equity Bank to support Kenyatta University students and staffs acquire pay in easy installments.

• Mwalimu dot com

Safaricom has partnered with Equity Bank, Teachers Service Commission (TSC), Microsoft, Kenya Institute of Education (KIE) and Intel to support teachers who are members of TSC to acquire laptops at an affordable price and pay in easy installments.

• Laptop ni Lazima

'Laptop ni Lazima' is a Swahili phrase for 'a laptop is a must'. This is a partnership between Safaricom and Equity Bank that gives Kenyan's an opportunity to purchase their laptop of choice from Safaricom Retail Centres through financing from Equity Bank.

The Safaricom Foundation is the institution that Safaricom Ltd uses to exercise its Corporate Social Investment (CSI) mandate. The Foundation is about giving back to the community part of what the Company has gained as a result of investing in and existing within the same community. Safaricom seeks to make positive contributions to communities through financial support and through staff involvement. During the year the Foundation committed KShs 238.7 million to 83 projects countrywide.

Economic Empowerment: The Foundation partners with organizations and communities to support initiatives in income generation, food security, and employment creation in order to improve their livelihoods. Projects range from small scale community based initiatives to larger country wide initiatives. In the year 2011/12, The Foundation funded 19 Economic Empowerment projects for a total KShs. 15.6 million.



Health: The Foundation's health initiatives are focused on improving access to quality and affordable health care for Kenyans through partnerships to construct and equip health facilities, provide mobile medical services and provide specialized medical services. During the year, the Foundation provided grant funding of KShs 44 million to 16 health projects across the country.



New Maternity Clinic For Turkana Residents: Safaricom Foundation has partnered with Turkana Basin Institute, a research based institution, to construct a maternity clinic in the remote village of Loreng'elup in Turkana Central Constituency.

Education: The Foundation has supported the construction and equipping of classrooms, libraries and laboratories in order to provide a satisfactory learning environment for children. Support from the Foundation to institutions providing learning opportunities for children with special needs have enabled them to acquire specialized learning equipment, and establish income -generating projects. Some funding has also gone to providing sanitary facilities to help retain girls in schools. 25 % of total project funding was channeled to 41 education projects during the year.



Ebukoko Primary School: An enthusiastic welcome for the Safaricom Foundation Team

Water: The Foundation in partnership with the Kenya Red Cross and Action Aid Kenya implements large scale, community based water projects under a partnership called "Maji na Uhai". These projects provide clean and safe water for domestic use, livestock and agriculture; with a view to improving food production and food security in arid and semi arid areas. During the year, the Foundation together commenced the implementation of two large water projects in Taita Taveta and Kitui districts.



Abass Farm Maji Na Uhai Project: During the Year, Safaricom Foundation launched a water project in Wajir East District that will cushion over 5,000 pastoralists from water scarcity and food insecurity

Arts Music and Culture: The Foundation's commitment to preserving and promoting Kenya's national heritage in terms of art, music, theatre and culture is enconced in its investment in Arts and Culture activities.

Environmental Conservation

The Safaricom Foundation continues to provide sustainable support for the preservation of the Kenyan environment and the management of her natural resources by providing sustainable support for the preservation of Kenya's environment and natural resources through partnerships to grow forests, conserve biodiversity, mitigate against human-wildlife conflict and promote the use of renewal energy sources. During the year entered into a partnership with Rhino Ark Charitable Trust to conserve the Mau Eburu Forest. In addition, Safaricom staff planted trees at the Nairobi Green Line of the Nairobi National Park, and at Ngare Ndare Forest Trust.

SPORTS

The Foundation continues to provide opportunities for the integration of education and life skills into sport; as a means of promoting cohesion amongst groups and communities and also building our national pride.



Moving the Goal Post: Participants celebrating after a football match

Employee Engagement:

Staff participation has been key to the ability of the Foundation to connect with communities and to participate in the implementation and monitoring of their activities. This year, 967 members of staff participated in various Foundation initiatives including the Junior Achievement Job Shadow programme, medical camps, and trees planting activities in Ngare Ndare and at Nairobi National Park under the Greenline Initiative.

World of Difference: The World of Difference WOD is a Safaricom Foundation programme that provides opportunity to staff to take part in a life changing experience and to strengthen the foundation's partnerships with both its project partners and with local communities served by our partners. This programme gives staff the unique opportunity to be paid to work for their charity of choice for a period of 3 months where they use their diverse skills to build capacity and setup systems that eventually strengthen the beneficiary organizations capacity the ability to deliver quality services to their clients. By providing support to skilled people with a passion to work for charity, it provides new talent to the charities and taps into their energy and ambition to deliver more to the charity than money alone can give.



“

In future... The Foundation will continue to work closely with Kenyans to be a respected and empowering contributor in the society, participating as an integral part in the uplift of society with relationships that are built on the principles of partnership, humility, openness and professionalism.

”

Notice of the Annual General Meeting

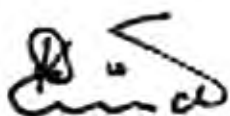
SAFARICOM LIMITED

NOTICE in accordance with provisions of Article 149 is hereby given that the Annual General Meeting for the year 2012 of the Company will be held at The Bomas of Kenya on Thursday, 13th September 2012 at 11.00 a.m to conduct the following business:-

ORDINARY BUSINESS

1. To receive, consider and adopt the Financial Statements for the year ended 31st March 2012 together with the Chairman's, Directors' and Auditors' reports thereon.
2. To approve a first and final dividend of 440% of the issued and paid up share capital of the Company for the Financial Year ended 31st March 2012 i.e Kshs 0.22 per share of Kshs 0.05 each to the Shareholders on the Register of Members as at the close of business on 13th September 2012 as recommended by the Directors, payable on or about 11th December 2012.
3. To note that in accordance with the provisions of Articles 90 and 91 of the Company's Articles of Association, Mrs Susan Mudhune retires at this meeting and, being eligible, offers herself for re-election.
4. To note that PricewaterhouseCoopers continue in office as Auditors by virtue of Section 159 (2) of the Companies Act (Cap 486) and to authorise the Directors to fix their remuneration for the ensuing financial year.
5. Any other business of which due notice has been given.

BY ORDER OF THE BOARD



ENID MURIUKI (MRS)
SECRETARY

Date: 14th of August, 2012

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company. A form of proxy may be obtained from the Company's website www.safaricom.co.ke, or at Safaricom House, Waiyaki Way, Westlands, Nairobi or from any of the Safaricom Shops countrywide.

In the case of a member being a limited Company, this form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.

All proxies should be sent by Post to Image Registrars of P O Box 9287, 00100 Nairobi. Alternatively, duly signed proxies can be scanned and emailed to info@image.co.ke in PDF format. Proxies must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting.

2. In accordance with Article 145 of the Companies Articles of Association, a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company's website (www.safaricom.co.ke) or from the Registered Office of the Company i.e. Safaricom House, Waiyaki Way, Westlands, Nairobi. An abridged set of the Statement of Financial Position, Comprehensive Income Statement, Statement of Changes in Equity and Cashflow Statement for year ended 31st March 2012 has been published in two daily newspapers with nationwide circulation.
3. Registration of members and proxies attending the Annual General Meeting will commence at 7.00 a.m. and will close at 11.00 a.m. Production of a National Identification Card, a passport or other acceptable means of identification and the Member's share certificate or current Central Depository Corporation Statement of Account for their shares in the Company will be required.
4. The preferred method of paying dividends of less than Kshs 70,000/= will be via the M-PESA mobile money transfer system. Members who are M-PESA Account Holders and who will attend the Annual General Meeting are requested to provide details of their M-PESA registered mobile telephone number to which their dividend payment may be sent. Shareholders who are M-PESA Account Holders and who will not be attending the AGM may submit details of their M-PESA registered mobile telephone number together with their share account number and Identification details to Image Registrars of P O Box 9287, 00100 Nairobi or through whichever mode that Safaricom Limited may advise.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012



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Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 March 2012, which disclose the state of affairs of Safaricom Limited (the Company) and its subsidiaries (together, the Group).

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of mobile phone services, fixed line wireless telecommunication, internet and data services.

RESULTS AND DIVIDEND

The net profit for the year of Shs 12,627,607,000 (2011: Shs 13,158,973,000) has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 8,800,000,000 (2011: Shs 8,000,000,000).

DIRECTORS

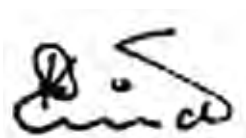
The directors who held office during the year and to the date of this report were:

N Nganga	Chairman
R Collymore	Cheif Executive Officer
T Harrabin	
J Kinyua	
N Macharia	
S Mudhune	
K Witts	
N Read	
E Koimett	(Alternate to J Kinyua)
M Joseph	
J Tombleson	(Appointed on 1 December 2011 as an alternate to R Collymore)
C Tiffin	(Resigned on 1 December 2011)

AUDITOR

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

By order of the Board



Ms Enid Muriuki
SECRETARY

9th May 2012




Statement of Directors' Responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company and of the Group's profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the Company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement.


 Director


 Director

9th May 2012



Report of the Independent Auditor to the Members of Safaricom Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Safaricom Limited (the Company) and its subsidiaries (together, the Group) set out on pages 45 to 93. These financial statements comprise the consolidated statement of financial position at 31 March 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended together with the statement of financial position of the Company standing alone as at 31 March 2012 and the statement of changes in equity of the Company for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company as at 31 March 2012 and of its profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

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

Certified Public Accountants

9th May 2012



Consolidated statement of comprehensive income


	Notes	Year ended 31 March	
		2012 Shs'000	2011 Shs'000
Revenue	5	106,995,529	94,832,227
Cost of sales		(54,139,219)	(45,794,536)
Gross profit		52,856,310	49,037,691
Other income		487,881	36,368
Distribution costs		(3,544,561)	(3,896,176)
Administrative expenses		(7,652,870)	(6,850,839)
Other expenses		(21,995,403)	(18,936,895)
Finance income	6	873,518	871,249
Finance costs	7	(3,656,280)	(1,907,783)
Share of profit of associate	19 (b)	805	7,748
Profit before income tax	8	17,369,400	18,361,363
Income tax expense	11	(4,741,793)	(5,202,390)
Profit for the year (of which Shs 12,873,482,000 (2011: Shs 13,546,966,000) has been dealt with in the accounts of the Company)		12,627,607	13,158,973
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		12,627,607	13,158,973
Attributable to:			
Owners of the Company		12,737,837	13,311,587
Non controlling interest		(110,230)	(152,614)
		12,627,607	13,158,973
Earnings per share for profit attributable to the equity holders of the Company			
- basic (Shs per share)	12	0.32	0.33
- diluted (Shs per share)	12	0.32	0.33



Consolidated statement of financial position

	Notes	At 31 March	
		2012 Shs'000	2011 Shs'000
Capital and reserves attributable to the Company's equity holders			
Share capital	13	2,000,000	2,000,000
Share premium	13	1,850,000	1,850,000
Retained earnings		59,940,584	56,002,747
Proposed dividend	14	8,800,000	8,000,000
Attributable to owners of the Company		72,590,584	67,852,747
Non controlling interest		(508,886)	(398,656)
Total equity		72,081,698	67,454,091
Non-current liabilities			
Borrowings	15	12,104,554	12,104,932
Payables and accrued expenses	25	97,525	178,013
Total non-current liabilities		12,202,079	12,282,945
Total equity and non-current liabilities		84,283,777	79,737,036
Non-current assets			
Property, plant and equipment	17 (a)	91,659,218	83,022,590
Intangible assets – Licences	18 (a)	2,094,951	2,722,706
Intangible assets – Goodwill	18 (a)	219,151	219,151
Investment in associate	19 (b)	9,678	8,873
Indefeasible rights of use	20	4,240,400	3,756,343
Deferred income tax asset	16 (a)	2,480,063	2,421,142
Prepaid operating lease rentals	30	2,021	2,661
		100,705,482	92,153,466
Current assets			
Inventories	21	2,653,125	5,880,837
Receivables and prepayments	22	8,190,298	9,440,461
Derivative financial instruments	23	-	111,382
Current income tax		1,542,714	1,009,581
Cash and cash equivalents	24	8,808,058	5,259,035
		21,194,195	21,701,296
Current liabilities			
Payables and accrued expenses	25	30,463,358	31,101,667
Derivative financial instruments	23	147,000	-
Borrowings	15	7,005,542	3,016,059
		37,615,900	34,117,726
Net current liabilities		(16,421,705)	(12,416,430)
		84,283,777	79,737,036


Director


Director


The financial statements on pages 45 to 93 were approved for issue by the Board of Directors on 9 May 2012 and signed on its behalf by:



Company statement of financial position

	Notes	At 31 March	
		2012 Shs'000	2011 Shs'000
Equity			
Share capital	13	2,000,000	2,000,000
Share premium	13	1,850,000	1,850,000
Retained earnings		60,533,565	56,460,083
Proposed dividend	14	8,800,000	8,000,000
Total equity		73,183,565	68,310,083
Non-current liabilities			
Borrowings	15	12,000,000	12,000,000
Payables and accrued expenses	25	97,525	178,013
Total non-current liabilities		12,097,525	12,178,013
Total equity and non-current liabilities		85,281,090	80,488,096
Non-current assets			
Property, plant and equipment	17(b)	91,534,227	82,875,969
Intangible assets – Licences	18(b)	2,081,078	1,878,297
Investment in subsidiaries	19(a)	189,511	1,017,070
Investment in associate	19(b)	9,678	8,873
Indefeasible rights of use	20	4,240,400	3,756,343
Receivables and prepayments	22	898,482	850,000
Deferred income tax	16(b)	2,467,023	2,408,102
Prepaid operating lease rentals	30	2,021	2,661
		101,422,420	92,797,315
Current assets			
Inventories	21	2,653,125	5,880,837
Receivables and prepayments	22	8,167,706	8,614,079
Derivative financial instruments	23	-	111,382
Current income tax		1,542,150	1,008,841
Cash and cash equivalents	24	8,790,444	5,222,344
		21,153,425	20,837,483
Current liabilities			
Payables and accrued expenses	25	30,142,213	30,130,643
Derivative financial instruments	23	147,000	-
Borrowings	15	7,005,542	3,016,059
		37,294,755	33,146,702
Net current liabilities		(16,141,330)	(12,309,219)
		85,281,090	80,488,096


Director


Director

The financial statements on pages 45 to 93 were approved for issue by the Board of Directors on 9 May 2012 and signed on its behalf by:





Consolidated statement of changes in equity

	Notes	Attributable to owners of the Company					Total equity Shs'000
		Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Non controlling interest Shs'000	
Year ended 31 March 2011							
At start of year		2,000,000	1,850,000	50,691,160	8,000,000	(246,042)	62,295,118
Total comprehensive income for the year		-	-	13,311,587	-	(152,614)	13,158,973
Transactions with owners							
Dividends:							
- Final for 2010		-	-	-	(8,000,000)	-	(8,000,000)
- Proposed final for 2011	14	-	-	(8,000,000)	8,000,000	-	-
Total transactions with owners		-	-	(8,000,000)	-	-	(8,000,000)
At end of year		2,000,000	1,850,000	56,002,747	8,000,000	(398,656)	67,454,091



Consolidated statement of changes in equity (continued)

	Notes	Attributable to owners of the Company					Total equity Shs'000
		Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Non controlling interest Shs'000	
Year ended 31 March 2012							
At start of year		2,000,000	1,850,000	56,002,747	8,000,000	(398,656)	67,454,091
Total comprehensive income for the year		-	-	12,737,837	-	(110,230)	12,627,607
Transactions with owners							
Dividends:							
- Final for 2011	14	-	-	-	(8,000,000)	-	(8,000,000)
- Proposed final for 2012	14	-	-	(8,800,000)	8,800,000	-	-
Total transactions with owners		-	-	(8,800,000)	800,000	-	(8,000,000)
At end of year		2,000,000	1,850,000	59,940,584	8,800,000	(508,886)	72,081,698

Company statement of changes in equity

	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 March 2011					
At start of year	2,000,000	1,850,000	50,913,117	8,000,000	62,763,117
Total comprehensive income for the year	-	-	13,546,966	-	13,546,966
Transactions with owners					
Dividends:					
- Final for 2010	-	-	-	(8,000,000)	(8,000,000)
- Proposed final for 2011	-	-	(8,000,000)	8,000,000	-
Total transactions with owners	-	-	(8,000,000)	-	(8,000,000)
At end of year	2,000,000	1,850,000	56,460,083	8,000,000	68,310,083





Company statement of changes in equity (continued)

	Notes	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 March 2012						
At start of year		2,000,000	1,850,000	56,460,083	8,000,000	68,310,083
Total comprehensive income for the year		-	-	12,873,482	-	12,873,482
Transactions with owners						
Dividends:						
- Final for 2011	14	-	-	-	(8,000,000)	(8,000,000)
- Proposed final for 2012	14	-	-	(8,800,000)	8,800,000	-
Total transactions with owners		-	-	(8,800,000)	800,000	(8,000,000)
At end of year		2,000,000	1,850,000	60,533,565	8,800,000	73,183,565

Consolidated statement of cash flows

	Notes	Year ended 31 March	
		2012 Shs'000	2011 Shs'000
Operating activities			
Cash generated from operations	26	40,038,720	38,268,803
Interest received		427,402	293,519
Interest paid		(1,896,201)	(1,363,200)
Income tax paid		(5,333,847)	(6,197,250)
Net cash from operating activities		33,236,074	31,001,872
Investing activities			
Acquisition of IGO Wireless Limited, net of cash acquired		-	(454,094)
Acquisition of Instaconnect Limited, net of cash acquired		-	(2,095)
Purchase of property, plant and equipment	17 (a)	(25,278,428)	(25,482,597)
Additions of property, plant and equipment – IGO Wireless Limited	17 (a)	-	(11,608)
Purchase of intangible assets		-	(1,600)
Investment in Indefeasible rights of use	20	(419,158)	(913,214)
Proceeds from disposal of property, plant and equipment		16,048	17,590
Net cash used in investing activities		(25,681,538)	(26,847,618)
Financing activities			
Proceeds from long-term borrowings		6,392,231	7,496,030
Repayments on long-term borrowings		(2,399,755)	(9,112,653)
Dividends paid	14	(8,000,000)	(8,000,000)
Net cash used in financing activities		(4,007,524)	(9,616,623)
Net increase/(decrease) in cash and cash equivalents		3,547,012	(5,462,369)
Movement in cash and cash equivalents			
At start of year		5,261,046	10,723,415
Increase/(decrease)		3,547,012	(5,462,369)
At end of year	24	8,808,058	5,261,046



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 (Shs), rounded to the nearest thousands, except where otherwise stated.

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

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 January 2011.

Standard	Title
IAS 1	Presentation of financial statements
IAS 24	Related party disclosures
IFRS 7	Financial instruments: Disclosures

- The amendment to IAS 1, 'Presentation of financial statements' is part of the 2010 Annual Improvements and clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of this amendment has no significant impact on these financial statements.
- The amendment to IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The amended definition means that some entities will be required to make additional disclosures, e.g., an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity. Related party disclosures in these financial statements have increased following adoption of this amendment.
- The amendments to IFRS 7, 'Financial Instruments – Disclosures' are part of the 2010 Annual Improvements and emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment has also removed the requirement to disclose the following;
 - Maximum exposure to credit risk if the carrying amount best represents the maximum exposure to credit risk;
 - Fair value of collaterals; and
 - Renegotiated assets that would otherwise be past due but not impaired.

The application of the above amendment has simplified financial risk disclosures made by the Group and Company.

There are other amendments and interpretations to standards which became mandatory for years beginning on or after 1 January 2011 but had no significant effect on the Group's financial statements.

Notes (continued)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(iii) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

Numerous new standards, amendments and interpretations to existing standards have been issued but are not yet effective. Below is the list of new standards that are likely to be relevant to the Group and Company.

Standard	Title	Applicable for financial years beginning on/after
IFRS 9	Financial instruments	1 January 2013
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013

- **IFRS 9, 'Financial instruments'**

IFRS 9, was issued in November 2009 and October 2010 and replaces those parts of IAS 39 relating 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 in profit or loss, unless this creates an accounting mismatch. The Group and Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

- **IFRS 10, 'Consolidated financial statements'**

This is a new standard that replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 Consolidated and Separate Financial Statements. Standard 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 Company and provides additional guidance to assist in the determination of control where this is difficult to assess.

The revised definition of control focuses on the need to have both power and variable returns before control is present. The Group will need to consider the new guidance.

- **IFRS 12, 'Disclosure of interests in other entities'**

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including interests in subsidiaries, associates, joint arrangements, special purpose entities and other off balance sheet vehicles. The Group is yet to assess IFRS 12s full impact.

- **IFRS 13, 'Fair value measurement'**

IFRS 13 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 all IFRSs. The requirements, which are largely aligned between IFRS 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 IFRS. The Group is yet to assess IFRS 13s full impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group or Company.

(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.

Notes (continued)

2. Summary of significant accounting policies (continued)

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.

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.

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.

(ii) Associates

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

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.

(iii) 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.

Notes (continued)

2. Summary of significant accounting policies (continued)

(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 (Shs), which is the Group's functional 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 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

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 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 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.

There was only one PrePay tariff, Uwezo tariff (which is a flat rate tariff) in force during the year. PostPay tariffs are available for subscribers who opt to pay their bills at the end of the month. Several propositions dubbed "Advantage" are available to suit both individuals and corporate customers. 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.

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.

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.

Interest income is recognised using the effective interest method.

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 Shs 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.

Notes (continued)

2. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

Management defers revenue for every point accumulated and recognises the revenue relating to the point earned only on redemption. The current trend is that customers are holding onto their points so that they can redeem through merchandise. The position in March 2012 was that 76% of the points were redeemed for non merchandise items (airtime, voice minutes, data bytes and SMS) while 24% was redeemed for merchandise items.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost and subsequently depreciated.

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

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

Network infrastructure	3 - 10 years
Equipment and motor vehicles	3 - 5 years
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.

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 investments 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) Network Licences

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.

Notes (continued)

2. Summary of significant accounting policies (continued)

(g) Intangible assets (continued)**(ii) Network Licences (continued)**

Currently, the Group has the following licences:

- Unified Licence Tier 1 issued in May 2010 consolidating the following three licences:
 - The initial operating licence issued in July 1999 to Safaricom Limited (for operation of mobile systems and the provision of mobile services (ML-99-0001));
 - The international gateway licence issued in June 2006 to Safaricom Limited; and
 - The 3G licence issued in October 2007 to Safaricom Limited.
- Local Loop Operator Licence (LLO) issued to Comtec Training and Management Services Limited in March 2006;
- 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);
- 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.

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 international gateway and 3G licences operate under the same umbrella as the original licence, ML-99-0001. The useful life of these licences is fifteen years as long as the original licence is in force. As such they are amortised within the remaining useful life of the original licence. The start-up date for the initial operating licence was 1 July 1999 as indicated in the contractual agreement with the regulator. 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.

All the licences have a useful life of 15 years and are amortised over this period. There are annual network licences fees associated to these licences which are expensed each year.

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.

Notes (continued)

2. Summary of significant accounting policies (continued)

(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 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) Receivables

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) Payables

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

(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.

(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.

Notes (continued)

2. Summary of significant accounting policies (continued)

(q) Employee benefits (continued)**(i) Retirement benefit obligations (continued)**

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 shares that will be issued to the trust upon the expiry of the vesting period will be allocated from existing authorised but unissued shares of the Company. On vesting, eligible employees will purchase the units in the trust at the grant price.

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

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).

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 tax rate applicable in the period was 27%. This rate has been enjoyed since June 2009 when the Company was listed on the Nairobi Securities Exchange and will revert back to the standard rate of 30% in the coming year.

Notes (continued)

2. Summary of significant accounting policies (continued)

(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.

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.

Notes (continued)

3. Critical accounting estimates and judgements (continued)

(i) Critical accounting estimates and assumptions (continued)**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 Shs 16,421,705,000 (2011: Shs 12,416,430,000) 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.

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 finance department under policies approved by the Board of Directors. The finance department 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.

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.

At 31 March 2012, if the Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, consolidated post tax profit for the year would have been Shs 386 million (2011: Shs 221 million) higher/lower, mainly as a result of US dollar trade payables and bank balances.

At 31 March 2012, if the Shilling had weakened/strengthened by 10% against the Euro with all other variables held constant, consolidated post tax profit for the year would have been Shs 13 million (2011: Shs 12million) lower/higher, mainly as a result of Euro denominated receivables.

(ii) Price risk

The Group does not hold investments that would be subject to price risk.

(iii) Interest rate risk

The Group holds interest bearing assets in form of call and fixed deposits. The Group has borrowings with local banks. The terms of these borrowings are disclosed under note 15.

Notes (continued)

4. Financial risk management (continued)

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from derivative financial instruments, corporate bonds and deposits with banks, as well as trade and other receivables. The Group has no significant concentrations of credit risk. The Group credit controller assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. 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 and/or residual and commissions. 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. 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 440 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 such as Bharti Airtel Kenya Limited, Telkom Orange Kenya Limited and Belgacom ICS 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.

Derivative financial instruments represent the movement in the forward foreign exchange contract following revaluation at each period end. The credit risk is dependent on movement in exchange rate and ability of the counterparty to pay on maturity.

The Group's maximum exposure to credit risk is approximated by the carrying amounts.

Collateral is held for bulk of the trade receivables in the form of bank guarantees. None of the above assets are either past due or impaired except for the following amounts in trade receivables (which are due within and average of 30 days of the end of the month in which they are invoiced):

	Group		Company	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Past due but not impaired:				
- by up to 30 days	1,245,704	1,378,817	1,245,704	1,378,816
- by more than 30 days	946,188	539,859	946,188	583,806
Total past due but not impaired	2,191,892	1,918,676	2,191,892	1,962,622
Receivables individually determined to be impaired	1,523,769	700,113	1,511,984	691,544



Notes (continued)

4. Financial risk management (continued)

Credit risk (continued)

Receivables

	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
31 March 2012 – Group				
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
31 March 2011 – Group				
Dealers	1,965,729	267,991	211,314	2,445,034
Post-pay	475,424	346,083	423,863	1,245,370
Roaming and interconnect	113,121	1,348,548	56,366	1,518,035
Amounts due from related parties	1,308,602	-	-	1,308,602
Other receivables	2,250,465	-	8,570	2,259,035
Total	6,113,341	1,962,622	700,113	8,776,076
31 March 2012 – Company				
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
Total	5,244,016	2,191,892	1,511,984	8,947,892



Notes (continued)

4. Financial risk management (continued)

Credit risk (continued)

31 March 2011 – Company	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
Dealers	1,965,729	267,991	211,314	2,445,034
Post-pay	475,423	346,083	423,864	1,245,370
Roaming and interconnect	113,121	1,348,548	56,366	1,518,035
Amounts due from related parties	2,249,504	-	-	2,249,504
Other receivables	483,182	-	-	483,182
Total	5,286,959	1,962,622	691,544	7,941,125

The customers under the 'neither past due nor impaired' category are paying their debts as they continue trading. The default rate is low. Debts that are overdue are not impaired and continue to be paid. The credit control department is actively following these debts. In addition, the Group has bank guarantees of Shs 1,439 million and Shs 1,350 million as at March 2012 and March 2011 respectively, which can be enforced in the event of customer default. Further, for dealers, amounts due are partially covered by future residual and commission payments.

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.

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.

Liquidity risk

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 maintains flexibility in funding by maintaining availability under committed credit lines. Management also monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

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



Notes (continued)

4. Financial risk management (continued)

Liquidity risk (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000
(a) Group				
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
At 31 March 2011:				
Liabilities				
- borrowings	3,030,920	-	104,932	3,135,852
- corporate bonds	465,659	1,246,608	15,739,824	17,452,091
- trade and other payables	30,802,435	299,232	178,013	31,279,680
Total financial liabilities	34,299,014	1,545,840	16,022,769	51,867,623
(b) Company				
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
At 31 March 2011:				
Liabilities				
- borrowings	3,030,920	-	-	3,030,920
- corporate bonds	465,659	1,246,608	15,739,824	17,452,091
- trade and other payables	29,831,411	299,232	178,013	30,308,656
Total financial liabilities	33,327,990	1,545,840	15,917,837	50,791,667



Notes (continued)

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. A significant portion of creditors relate to network infrastructure investments rather than ongoing trading; hence the net current liability position.

The gearing ratios at 31 March 2012 and 2011 were as follows:

	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Total borrowings	19,110,096	15,120,991	19,005,542	15,016,059
Less: cash and cash equivalents	(8,808,058)	(5,259,035)	(8,790,444)	(5,222,344)
Net debt	10,302,038	9,861,956	10,215,098	9,793,715
Total equity	72,081,698	67,454,091	73,183,565	68,310,083
Total capital	82,383,736	77,316,047	83,398,663	78,103,798
Gearing ratio	13%	13%	12%	13%



Notes (continued)

4. Financial risk management (continued)

Fair value estimation

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

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

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

	Level 1	Level 2	Level 3	Total balance
	Shs'000	Shs'000	Shs'000	Shs'000
31 March 2012				
Liabilities				
Derivative financial instruments	-	147,000	-	147,000
31 March 2011				
Assets				
Derivative financial instruments	-	111,382	-	111,382

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.



Notes (continued)

5. Segment information

(a) Basis of preparation

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).

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 or the Head of Finance Operations 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.

The segment information provided to the EXCOM for the reportable segment for the years ended 31 March 2012 and 2011 is as follows:

	31 March 2012 Shs'000	31 March 2011 Shs'000
Total equity and non-current liabilities	84,283,777	79,737,036
Non-current assets	100,705,482	92,153,466
Current assets	21,194,195	21,701,296
Current liabilities	37,615,900	34,117,726
Net current liabilities	(16,421,705)	(12,416,430)
	84,283,777	79,737,036



Notes (continued)

5. Segment information (continued)

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 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:

Analysis of revenue by category

	2012 Shs' 000	2011 Shs' 000
Voice	68,957,386	63,501,392
SMS and other data	14,361,765	12,911,497
M-PESA commission	16,873,775	11,784,238
Terminal sales and other acquisition revenues	6,802,603	6,635,100
Total	106,995,529	94,832,227

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

Voice revenue, which includes revenue from some of the redemption of customer loyalty points, continues to contribute a high percentage of total revenue at 64.4% (2011: 67.0%) with SMS and other data at 13.4% (2011: 13.6%), M-PESA at 15.8% (2011: 12.4%) and terminal sales and other acquisition revenues 6.4% (2011: 7.0%).

In the year, voice revenue increased by 8.6%, SMS and other data by 11.2%, M-PESA by 43.2% and equipment sales by 2.5%.

No significant revenue is generated from any single customer.



Notes (continued)

6. Finance income

	Group	
	2012 Shs'000	2011 Shs'000
Interest income	436,081	293,519
Foreign exchange gain on cash and borrowings	437,437	577,730
	873,518	871,249

7. Finance costs

Interest expense	(2,138,250)	(1,363,200)
Foreign exchange losses on cash and borrowings	(1,518,030)	(538,950)
Other financing costs	-	(5,633)
	(3,656,280)	(1,907,783)

8. Expenses by nature

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

	Group	
	2012 Shs'000	2011 Shs'000
Depreciation on property, plant and equipment (Note 17)	17,078,877	15,545,247
Amortisation of intangible assets (Note 18)	627,755	579,714
Amortisation of intangible IRUs (Note 20)	237,621	208,394
Repairs and maintenance expenditure on property, plant and equipment	138,825	171,759
Operating lease rentals		
- buildings	307,111	487,979
- sites	580,200	493,375
Receivables – provision for impairment losses (Note 22)	848,864	84,128
Employee benefits expense (Note 9)	5,103,487	4,463,404
Auditor's remuneration	31,590	26,220
Sales and advertising	3,013,935	3,632,873
Consultancy	157,864	101,392
Site/facilities costs	398,180	258,897
Travel and accommodation	371,191	369,905
Computer maintenance	621,178	563,230
Office upkeep	350,582	365,307
Other operating expenses	3,593,884	2,405,153
Net foreign exchange gains, other than on borrowings and cash and cash equivalents	(268,310)	(73,067)
	33,192,834	29,683,910



Notes (continued)

9. Employee benefits expense

	Group	
	2012	2011
	Shs'000	Shs'000
The following items are included within employee benefits expense:		
Salaries and wages	4,763,430	4,193,837
Employee Share Grant Option Plan (Note 10b)	25,600	-
Retirement benefits costs:		
- Defined contribution scheme	306,509	261,072
- National Social Security Funds	7,948	8,495
	5,103,487	4,463,404

10. Employee share option

(a) Employee Share Ownership Plan

The Group has an Employee Share Ownership Plan where 101 million shares have been allotted 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. The units represent shares of the Company that are listed on the Nairobi Securities Exchange.

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 in 2013. The staff will then be issued with an option certificate giving details of their option and the relevant terms.

The vesting period is 3 years and the grant price was determined on the grant date, 26 February 2010 as Shs 5.40. Whilst the allotment has been done, the issue will be done in 2013. There is no significant impact on the financial statements in the current year because the grant price has remained higher than the current market price, making the fair value of the options approximate to zero, due to the unlikely exercise of the grants at current rates. In 2013, should the grants be exercised, there will be dilution of earnings per share and dividends per share of 0.25% if the current share holding structure remains.

(b) 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. 7.8million shares have since been purchased at a cost of Shs 25.6 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 (3 years time).



Notes (continued)

11. Income tax expense

	Group	
	2012 Shs'000	2011 Shs'000
Current income tax	4,800,714	5,281,478
Deferred income tax (Note 16)	(58,921)	(79,088)
Income tax expense	4,741,793	5,202,390

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:

	2012 Shs'000	2011 Shs'000
Profit before income tax	17,369,400	18,361,363
Tax calculated at the applicable income tax rate of 27% (2011: 27%)	4,689,738	4,957,568
Tax effect of:		
Income not subject to tax	(299,623)	(42,065)
Expenses not deductible for tax purposes	257,983	341,992
Under/(over) provision of deferred income tax in prior year	93,695	(55,105)
Income tax expense	4,741,793	5,202,390

As indicated in Note 2(r) the tax rate applicable in the coming year will be the statutory rate of 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.

	2012	2011
Profit attributable to equity holders of the Company (Shs thousands)	12,737,837	13,311,587
Weighted average number of ordinary shares in issue (thousands)	40,000,000	40,000,000
Basic earnings per share (Shs)	0.32	0.33
Diluted earnings per share (Shs)	0.32	0.33

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 March 2013.



Notes (continued)

13. Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000	Total Shs'000
Balance at 1 April 2011	40,000,000	2,000,000	1,850,000	3,850,000
Balance at 31 March 2012	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 Shs 0.05 per share.

The total number of non-voting non-participating redeemable preference shares is 5 with a par value of Shs 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 Shs 0.05 each and 5 non-voting non-participating redeemable preference shares of Shs 4 each. All issued shares are fully paid.

14. Dividends

No interim dividend was paid during the year (2011: Nil). At the annual general meeting to be held on 13 September 2012, a final dividend in respect of the year ended 31 March 2012 of Shs 0.22 (2011: Shs 0.20) per share amounting to a total of Shs 8,800,000,000 (2011: Shs 8,000,000,000) is to be proposed.

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



Notes (continued)

15. Borrowings

The borrowings are made up as follows:

	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Non-current				
Shareholder loans	104,554	104,932	-	-
Corporate bond	12,000,000	12,000,000	12,000,000	12,000,000
	12,104,554	12,104,932	12,000,000	12,000,000
Current				
Bank borrowings	7,005,542	3,016,059	7,005,542	3,016,059
	7,005,542	3,016,059	7,005,542	3,016,059
	19,110,096	15,120,991	19,005,542	15,016,059

A shareholder loan, of Shs 104,554,000 (2011: Shs 104,932,000) has been provided to One Communications Limited by the minority shareholders. The loan is denominated in US Dollar, unsecured and interest free and is not payable within the next 12 months. The fair value of the loan approximates its carrying amount.

The Group has a five-year corporate bond of Shs 12,000,000,000 issued as a medium term note in two tranches and in fixed and floating rate portions. The fixed rate portion of Tranche 1, amounting to Shs 7,049,600,000, is at a fixed rate of 12.25% while Shs 463,400,000 is at a floating rate of 182-day treasury bill rate plus 1.85% margin. The fixed rate portion of Tranche 2, amounting to Shs 4,287,000,000, is at a fixed rate of 7.75% while Shs 200,000,000 is at a floating rate of 182-day treasury bill rate plus 1.85% margin. The first tranche matures in November 2014 while the second tranche matures in December 2015.

The Group has a 1 year renewable facility from Barclays Bank Kenya Limited (BBK) of up to Shs 2,400,000,000 denominated in Kenya Shilling and an additional Shs 613,312,000 denominated in US Dollar. As at 31st March 2012, the Group had utilised a total of Shs 3,005,542,000 from these facilities. Interest on the Kenya Shilling denominated facility is payable monthly in arrears at a rate of 1% above the reference 91 day treasury bill rate whereas interest on the US Dollar denominated facility is payable at a rate of 1.75% above the reference LIBOR. The loans are unsecured.

The Group has a 3 year Revolving Credit Facility with various local banks of up to Shs 8,000,000,000. As at 31st March 2012, the Group had utilised Shs 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 1.5% above the 182 day Treasury bill rate.

The carrying amounts of 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.



Notes (continued)

16. Deferred income tax

(a) Group

Deferred income tax is calculated using the enacted income tax rate of 30% (2011: 27%). The change in rate applied is due to the Company reverting back to the standard tax rate from the lower rate of 27% enjoyed since June 2009 when the Company was listed on the Nairobi Stock Exchange. The movement on the deferred income tax account is as follows:

	Group	
	2012 Shs'000	2011 Shs'000
At start of year	(2,421,142)	(2,342,054)
Credit to statement of comprehensive income (Note 11)	(58,921)	(79,088)
At end of year	(2,480,063)	(2,421,142)

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

Year ended 31 March 2012	1.4.2011 Shs'000	Charged/ (credited) to SOCl Shs'000	31.03.2012 Shs'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)



Notes (continued)

16. Deferred income tax (continued)

Year ended 31 March 2011	1.4.2010 Shs'000	Charged/ (credited) to SOCI Shs'000	31.03.2011 Shs'000
Deferred income tax liabilities			
Unrealised exchange gains	3,769	75,944	79,713
	3,769	75,944	79,713
Deferred income tax assets			
Property, plant and equipment	(2,275,403)	(41,543)	(2,316,946)
Unrealised exchange loss	5,620	2,976	8,596
Provisions	(63,000)	(116,465)	(179,465)
Arising from fair value adjustment on acquisition of subsidiary	(13,040)	-	(13,040)
	(2,345,823)	(155,032)	(2,500,855)
Net deferred income tax asset	(2,342,054)	(79,088)	(2,421,142)

(b) Company

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

	2012 Shs'000	2011 Shs'000
Deferred income tax liabilities		
Unrealised exchange gains	326,692	79,713
Total deferred income tax liabilities	326,692	79,713
Deferred income tax assets		
Property, plant and equipment:	(2,048,580)	(2,316,946)
Unrealised exchange loss	(93,856)	8,596
Provisions	(651,279)	(179,465)
Total deferred income tax assets	(2,793,715)	(2,487,815)
Net deferred income tax asset	(2,467,023)	(2,408,102)

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



Notes (continued)

17. Property, plant and equipment

(a) Group

	Network infrastructure Shs'000	Capital work in progress Shs'000	Leasehold improvements Shs'000	Vehicles & equipment Shs'000	Total Shs'000
Year ended 31 March 2011					
Opening net book amount	56,664,174	11,625,841	1,414,503	3,385,654	73,090,172
Additions	20,338,997	2,214,142	479,958	2,449,500	25,482,597
Fair value of swapped assets	5,854,360	-	-	-	5,854,360
Acquisition of IGO Wireless Limited	-	-	-	11,608	11,608
Disposal	(12,871,137)	-	(2,833)	(180,900)	(13,054,870)
Depreciation charge	(13,198,674)	-	(420,167)	(1,926,406)	(15,545,247)
Depreciation on disposal	7,030,646	-	1,317	152,007	7,183,970
Closing net book amount	63,818,366	13,839,983	1,472,778	3,891,463	83,022,590
At 31 March 2011					
Cost	119,711,439	13,839,983	3,105,754	11,687,751	148,344,927
Accumulated depreciation	(55,893,073)	-	(1,632,976)	(7,796,288)	(65,322,337)
Net book amount	63,818,366	13,839,983	1,472,778	3,891,463	83,022,590
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



Notes (continued)

17. Property, plant and equipment (continued)

(b) Company

	Network infrastructure Shs'000	Capital work in progress Shs'000	Leasehold improvements Shs'000	Vehicles & equipment Shs'000	Total Shs'000
Year ended 31 March 2011					
Opening net book amount	56,535,060	11,598,343	1,414,503	3,350,580	72,898,486
Additions	20,339,081	2,214,081	479,958	2,441,987	25,475,107
Fair value of swapped assets	5,854,360	-	-	-	5,854,360
Disposal	(12,871,137)	-	(2,833)	(180,152)	(13,054,122)
Depreciation charge	(13,144,555)	-	(423,902)	(1,913,100)	(15,481,557)
Depreciation on disposals	7,030,646	-	1,317	151,732	7,183,695
Closing net book amount	63,743,455	13,812,424	1,469,043	3,851,047	82,875,969
At 31 March 2011					
Cost	119,451,261	13,812,424	3,105,754	11,493,135	147,862,574
Accumulated depreciation	(55,707,806)	-	(1,636,711)	(7,642,088)	(64,986,605)
Net book amount	63,743,455	13,812,424	1,469,043	3,851,047	82,875,969
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	21,026,083	844,955	435,766	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	71,204,612	14,657,379	1,440,655	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



Notes (continued)

18. Intangible assets

(a) Group

	Goodwill	Licence Fees	Total
	Shs'000	Shs'000	Shs'000
Year ended 31 March 2011			
Opening net book amount	219,151	2,842,620	3,061,771
Acquisition of IGO Wireless Limited and Instaconnect Limited	-	459,800	459,800
Amortisation	-	(579,714)	(579,714)
Closing net book amount	219,151	2,722,706	2,941,857
At 31 March 2011			
Cost	219,151	6,772,768	6,991,919
Accumulated amortisation	-	(4,050,062)	(4,050,062)
Net book amount	219,151	2,722,706	2,941,857
Year ended 31 March 2012			
Opening net book amount	219,151	2,722,706	2,941,857
Amortisation	-	(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



Notes (continued)

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 by reviewing the five year business plans of One Communications Limited. Further the cash flow for the same period is discounted to determine if the net present value exceeds the goodwill held in the books at year end. From the assessment carried out at the end of the year, the goodwill was not impaired.

(b) Company

	Licence Fees
At 31 March 2011	
Opening net book amount	2,455,991
Amortisation	(577,694)
Closing Net book amount	1,878,297
At 31 March 2011	
Cost	5,923,750
Accumulated amortisation and impairment	(4,045,453)
Net book amount	1,878,297
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	(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



Notes (continued)

19. Investments

(a) Investment in subsidiaries at cost

	Company	
	2012 Shs'000	2011 Shs'000
At start of year	1,017,070	558,870
Additional investment:		
- IGO Wireless Limited	-	454,250
- Instaconnect Limited	-	3,950
Transfer to intangible assets during the year:		
- Packet Stream Data Networks Limited	(373,309)	-
- IGO Wireless Limited	(454,250)	-
At end of year	189,511	1,017,070

As per gazette notice dated 29 September 2011, the Public Data Network Operator licences granted to both Packet Stream Data Networks Limited and IGO Wireless Limited were revoked by Communication Commissions of Kenya upon expiry of seven (7) days from the date of the notice. The reason for the revocation of licences was that these companies had been fully acquired by Safaricom Limited. The related spectrum was subsequently transferred to Safaricom Limited. The investments in these subsidiaries reflect the fair value of the licences held by them. Consequently, the investments in these subsidiaries have been transferred to intangible assets (Note 18b).

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

			Company	
	Year end	% interest Held	2012 Shs'000	2011 Shs'000
One Communications Limited and its subsidiaries (Comtec Training Management Service Limited; Comtec Integrations System Limited; and Flexible Bandwidth Service Limited)	31 March	51	185,561	185,561
Packet Stream Data Networks Limited	31 March	100	-	373,309
IGO Wireless Limited	31 March	100	-	454,250
Instaconnect Limited	31 March	100	3,950	3,950
			189,511	1,017,070



Notes (continued)

19. Investments (continued)

(b) Investment in associate - Group and Company

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 Shs 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:

	2012 Shs'000	2011 Shs'000
At start of year	8,873	1,125
Share of profit (before tax)	805	7,748
	9,678	8,873
At end of year		

The summary statement of financial position of the associate as at 31 March was as follows:

	2012 Shs'000	2011 Shs'000
Equity	(21,082)	(39,683)
Current liabilities	(512,331)	(642,090)
Non-current liabilities	(16,510)	(8,524,076)
Current assets	525,450	1,687,698
Non-current assets	24,473	7,518,151

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

	TEAMS Shs'000	SEACOM Shs'000	KPLC Shs'000	ETISALAT Shs'000	TATA Shs'000	Total Shs'000
Year ended 31 March 2011						
Opening net book amount	1,951,043	856,624	288,436	-	-	3,096,103
Additions	-	387,600	525,614	-	-	913,214
Amortisation	(146,328)	(45,128)	(16,938)	-	-	(208,394)
Closing net book amount	1,804,715	1,199,096	797,112	-	-	3,800,923
At 31 March 2011						
Cost	1,951,043	1,277,663	816,494	-	-	4,045,200
Accumulated amortisation	(146,328)	(78,567)	(19,382)	-	-	(244,277)
	1,804,715	1,199,096	797,112	-	-	3,800,923



Notes (continued)

20. Indefeasible rights of use (IRUs) – Group and Company (continued)

	TEAMS* Shs'000	SEACOM Shs'000	KPLC Shs'000	ETISALAT Shs'000	TATA Shs'000	Total Shs'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	(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

*The capitalization of the TEAMS IRU was aligned to the Transfer Of a Going Concern (TOGC) adopted by TEAMS Limited on 1 May 2011. This resulted in a foreign currency revaluation gain of Shs 111,612,000. Consequently, the accumulated amortisation of Shs 146,328,000 as at 30 April 2011 was reversed.

For purposes of presentation in the statement of financial position, the IRUs have been classified into current and non-current portions as shown below:

	2012 Shs'000	2011 Shs'000
Current portion included in current assets (Note 22)	-	44,580
Non-current portion	4,240,400	3,756,343
	4,240,400	3,800,923



Notes (continued)

21. Inventories – Group and Company

	2012 Shs'000	2011 Shs'000
Network spare parts	2,236,007	2,167,206
Less: Provision for impairment losses	(1,342,293)	(120,351)
	893,714	2,046,855
Handsets and accessories	1,919,089	3,303,880
Scratch cards	108,648	72,388
Starter packs	244,691	698,072
Stationery and other stocks	22,949	32,513
Less: Provision for impairment losses	(535,966)	(272,871)
	2,653,125	5,880,837

The cost of inventories recognised as an expense and included in the consolidated 'cost of sales' amounted to Shs 9,346,109,000 (2011: Shs 10,641,574,000).

22. Receivables and prepayments

	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Trade receivables	5,599,280	5,688,878	5,438,774	4,765,743
Less: Provision for impairment losses	(1,523,769)	(700,113)	(1,511,984)	(691,544)
	4,075,511	4,988,765	3,926,790	4,074,199
Prepayments	803,931	1,364,498	731,797	1,364,498
Receivable from related parties (Note 27)	1,731,533	1,308,602	2,064,958	2,249,504
Other receivables	1,579,323	1,734,016	1,444,161	881,298
IRUs (Note 20)	-	44,580	-	44,580
	8,190,298	9,440,461	8,167,706	8,614,079
Loans to related parties – non-current (Note 27)	-	-	898,482	850,000

The loan to related party is a loan made by the Company to One Communication Limited at an interest rate based on the base lending rate of Barclays Bank of Kenya plus 250 basis points. The fair value of the loan approximates its carrying amount.



Notes (continued)

22. Receivables and prepayments (continued)

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

	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
At start of year	700,113	642,491	691,544	636,225
Provision in the year	848,864	84,128	845,648	81,825
Receivables written off during the year as uncollectible	(25,208)	(26,506)	(25,208)	(26,506)
	1,523,769	700,113	1,511,984	691,544

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

23. Derivative financial instruments

	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Forward foreign exchange contracts- (liabilities)/assets - Current	(147,000)	111,382	(147,000)	111,382
	(147,000)	111,382	(147,000)	111,382

24. Cash and cash equivalents

Cash at bank and in hand	4,952,984	3,844,364	4,942,506	3,807,673
Short term bank deposits	3,855,074	1,414,671	3,847,938	1,414,671
	8,808,058	5,259,035	8,790,444	5,222,344

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	Group	
	2012 Shs'000	2011 Shs'000
Cash and bank balances as above	8,808,058	5,259,035
Cash on acquisition – IGO Wireless Limited	-	156
Cash on acquisition – Instaconnect Limited	-	1,855
	8,808,058	5,261,046



Notes (continued)

25. Payables and accrued expenses

	Group		Company	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	7,766,433	9,070,639	7,472,452	7,473,209
Amounts due to related companies (Note 27)	2,499,575	1,166,212	2,624,340	1,944,897
Accrued liabilities				
- Network infrastructure	7,348,906	6,319,143	7,329,358	6,301,949
- Customer loyalty	2,449,751	2,573,831	2,449,751	2,573,831
- Inventory	483,348	844,920	483,348	844,920
- Other expenses	5,360,178	7,242,052	5,265,114	7,136,128
Other payables	4,652,692	4,062,883	4,615,375	4,033,722
	30,560,883	31,279,680	30,239,738	30,308,656
Non-current portion	(97,525)	(178,013)	(97,525)	(178,013)
Current portion	30,463,358	31,101,667	30,142,213	30,130,643

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 deferred revenue relating to customer loyalty credits of Shs 2,450 million (2011: Shs 2,574 million) is expected to be recognised into revenue as customers redeem their points.

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



Notes (continued)

26. Cash generated from operations

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

	Group	
	2012	2011
	Shs'000	Shs'000
Profit before income tax	17,369,400	18,361,363
Adjustments for:		
Interest income (Note 6)	(436,081)	(293,519)
Interest expense (Note 7)	2,138,250	1,363,200
Unrealised exchange loss on loans	(3,371)	47,872
Changes in fair value of derivative financial instruments	258,382	(107,973)
Depreciation on property, plant and equipment (Note 17)	17,078,877	15,545,247
Amortisation of prepaid operating lease rentals	640	899
Amortisation of intangible assets (Note 18)	627,755	579,714
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)	237,621	208,394
Profit on sale of property, plant and equipment	(453,125)	(1,050)
Share of profit from associate (Note 19b)	(805)	(7,748)
Changes in working capital		
– receivables and prepayments	1,205,583	(576,462)
– inventories	3,227,712	(2,993,808)
– payables and accrued expenses	(954,178)	6,142,674
Cash generated from operations	40,038,720	38,268,803



Notes (continued)

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.

- (a) The Company has roaming agreements with Vodafone affiliated companies in many countries around the world including UK. The Company also has a Kama Kawaidea contract, which allows our 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.

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 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). The fee is payable quarterly and is capped at 25% of the revenue for that quarter with a floor of 10% of revenue per quarter.

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 31st March 2014, renewable every year. Under the agreement, Safaricom 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 for the year ended March 2012 is four million Euros (EUR 4,000,000). The fee is there after 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.



Notes (continued)

27. Related party transactions (continued)

The following transactions were carried out with related parties:

i) Sale of goods and services

	2012 Shs'000	Group 2011 Shs'000
Vodafone (UK) Limited	422,393	412,983
Vodacom Tanzania Limited	211,558	243,224
Other Vodafone affiliates	529,978	457,431
M-PESA Holding Company Limited	16,873,775	11,784,238
	18,037,704	12, 897,876

ii) Purchase of goods and services

Vodafone Sales and Services Limited	2,801,965	1,555,314
Vodafone Group Services Limited	239,593	197,500
Other Vodafone affiliates	244,748	76,901
Vodacom Tanzania Limited	565,290	78,578
M-PESA Holding Company Limited	6,702,399	4,755,242
	10,553,995	6,663,535

iii) Key management compensation

Salaries and other short-term employment benefits	421,586	590,492
Pension contribution	11,024	20,631
Termination benefits	6,752	56,806
	439,362	667,929

iv) Directors' remuneration

Fees for services as director	10,500	11,751
Other emoluments	193,712	408,877
Total remuneration of directors of the Company	204,212	420,628



Notes (continued)

27. Related party transactions (continued)

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

	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Amounts due from:				
Vodafone (UK) Limited	286,038	74,563	286,038	74,563
Vodafone Group Services Limited	150,189	-	150,189	-
M-PESA Holding Company Limited	1,068,517	1,181,786	1,068,517	1,181,787
Other Vodafone affiliates	196,369	37,857	196,370	37,857
Vodacom Tanzania	30,215	14,191	30,215	14,191
Vodafone Kenya Limited	205	205	205	205
One Communications Limited	-	-	246,510	628,401
Packet Stream Data Networks Limited	-	-	76,689	300,645
IGO Wireless Limited	-	-	10,225	11,855
	1,731,533	1,308,602	2,064,958	2,249,504
Loan to One Communications Limited (Non-current)	-	-	898,482	850,000
	1,731,533	1,308,602	2,963,440	3,099,504

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

	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Amounts due to:				
Vodafone Sales and Services Limited	994,130	386,124	994,130	386,124
Vodafone Group Services Limited	297,021	150,265	297,021	150,265
M-PESA Holding Company Limited	582,668	566,981	582,668	566,981
Other Vodafone affiliates	512,052	7,415	512,052	7,415
Vodacom Tanzania	113,704	55,427	113,704	55,427
One Communications Limited	-	-	122,293	510,654
Packet Stream Data Networks	-	-	-	268,031
IGO Wireless Limited	-	-	2,472	-
	2,499,575	1,166,212	2,624,340	1,944,897

The receivables are unsecured and bear no interest. No provisions are held against receivables from related parties (2011: Nil).

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

vii) Loans to directors of the Company

There are no loans to directors of the Company at 31 March 2012 and 31 March 2011.



Notes (continued)

27. Related party transactions (continued)

viii) Donations to Safaricom Foundation

Donations made during the year amounted to Shs 210 million (at the rate of 17.5 million per month). The balance payable as at 31 March 2012 was Shs 52 million.

28. Contingent liabilities

At 31 March 2012, a guarantee of Shs 15,000,000 (2011: Shs 12,000,000) had been given to Barclays Bank of Kenya against credit cards for the use of senior staff during travel, a guarantee of Shs 33,606,282 (2011: Shs 52,564,000) to various customers for services regularly provided by the Company and a further guarantee of Shs 18,227,000 (2011: Shs 38,600,000) to CFC Stanbic Bank Kenya Limited for a credit facility given to some of the Company's dealers.

The Kenya Revenue Authority has assessed the Company for various tax matters. The directors are of the opinion that the outcome of these tax matters will not have a material 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	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Property, plant and equipment	3,159,989	6,389,920	3,159,989	6,389,920
Operating lease commitments				
	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Not later than 1 year	628,111	596,708	607,457	568,824
Later than 1 year and not later than 5 years	1,344,588	1,870,877	1,338,320	1,845,781
Later than 5 years	778,372	1,362,437	778,372	1,362,437
	2,751,071	3,830,022	2,724,149	3,777,042



Notes (continued)

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:

	2012 Shs'000	2011 Shs'000
At start of year	304,502	426,028
Additions	501,064	485,329
Amortisation charge for the year	(508,488)	(606,855)
At end of year	297,078	304,502
Current portion reflected in prepayments	(295,057)	(301,841)
Non-current portion	2,021	2,661



Principal shareholders

The ten largest shareholdings in the Company (ordinary shares only) and the respective number of shares held as at 31 March 2012 are as follows:

Name of shareholder	Number of shares
1 VODAFONE KENYA LIMITED	16,000,000,000
2 PERMANENT SECRETARY-THE TREASURY	14,022,572,580
3 STANDARD CHARTERED NOMINEES NON-RESIDENT AC 9069	246,298,258
4 STANDARD CHARTERED NOMINEES NON-RESIDENT AC 9054	221,256,100
5 STANDARD CHARTERED NOMINEES NON-RESIDENT A/C 9057	206,879,078
6 STANDARD CHARTERED NOMINEES NON-RES. A/C 9427	189,999,300
7 STANDARD CHARTERED NOMINEES NON-RES. A/C 9867	169,374,100
8 NATIONAL SOCIAL SECURITY FUND - UGANDA	160,278,800
9 STANDARD CHARTERED NOMINEES NON-RES. A/C 9866	150,879,000
10 CFC STANBIC NOMINEES LTD. A/C NR70001	147,931,400
11 Others	8,484,531,384
Total	40,000,000,000

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
1 to 1000	434,816	266,108,210	0.67%
1001– 10,000	246,335	733,504,587	1.83%
10,001 – 100,000	35,526	915,875,133	2.29%
100,001 – 1,000,000	3,369	846,301,530	2.11%
1,000,001 – 10,000,000	398	1,170,802,821	2.93%
10,000,001 – 100,000,000	132	3,551,002,394	8.88%
100,000,001 - 1,000,000,000	16	2,493,832,745	6.23%
1,000,000,001- 100,000,000,000	2	30,022,572,580	75.06%
Total	720,594	40,000,000,000	100.00%



Safaricom Limited Proxy Form

I/WE _____

OF _____

Being a member of the above Company, hereby appoint:

OF _____

failing whom, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday, 13 September 2012 and at any adjournment thereof.

As witness my/our hand this

day of 2012.

Signed _____

Signed _____

NOTE:

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



Mr. Nicholas Nganga

CHAIRMAN AND NON EXECUTIVE DIRECTOR - 72 YEARS

Mr. Nganga joined the Board of Safaricom Ltd on 6 May, 2004 and was elected Chairman on 16 January, 2007. He is a holder of a BA degree from Makerere University, and served as Permanent Secretary in the Ministries of Finance, Foreign Affairs and Health.

Mr. Nganga has been extensively involved in the tea industry and was Chairman of the Tea Board of Kenya. He is also a past Chairman of the National Bank of Kenya.

Currently, he holds Chairman Position for G4S Security, Car & General Kenya and a member of the Board for Kakuzi Limited.

Michael is also a World Bank Fellow appointed in March 2011 to advise Governments, Regulators and other institutions on Mobile Money and other ICT initiatives.

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

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

Mr. Robert Collymore

CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR - 54 YEARS.

Mr. Collymore is the current CEO of Safaricom Limited, effective November 1st 2010. Prior to joining Safaricom, Bob was the Chief Officer for Corporate Affairs in Vodacom Group responsible for the Group's Corporate Communication, Ethics and Compliance, Legal, External Relationships and Corporate Social Responsibility.

He also held the position of Vodafone's Governance Director for Africa, was responsible for developing and driving Vodafone's strategy for its investments in Africa as well as representing Vodafone as a key direct foreign investor in a number of African countries. Bob has more than 25 years of commercial experience working in the telecommunications sector.

He is also a trustee of Holding companies in Kenya and Tanzania for M-PESA, Vodafone's pioneering money transfer service and was recently appointed a member of the UN Global Compact Board.

Mr. Joseph Kinyua

NON EXECUTIVE DIRECTOR - 59 YEARS

Joseph Kinyua joined the board of Safaricom on 28 February 2007. He was appointed the permanent Secretary, Treasury on 1 July 2004, he is a career economist having held various senior positions in the Central Bank of Kenya, International Monetary Fund, Ministry of planning and National Development, Ministry of Agriculture and Ministry of Finance.

Mr. Kinyua is also a Director on several Boards of State Corporations, including (East African Development Bank (EADB) Board. He served for six years as a member of the Programme Committee of the African Economic Research Consortium (AERC), and is currently a Director at large of the Consortium's Board; and he is also Alternate Governor, World Bank Board of Governors.

He holds BA (Econ.) and MA (Econ.) degrees from Nairobi University.

Mr. Michael Joseph

NON EXECUTIVE DIRECTOR - 66 YEARS

Michael Joseph joined the board on 8 September 2008. Michael is employed by Vodafone Group Services Limited as the Director of Mobile Money. He is also Vodafone's Strategic Advisor appointed to the Boards of Vodacom Group South Africa, Vodacom Tanzania, Vodacom Mozambique and Safaricom Limited in Kenya.

Previously, Michael was the CEO of Safaricom Limited from July 2000 when the company was re-launched as a joint-venture between Vodafone UK and Telkom Kenya until his retirement in November 2010. During his tenure, he steered the company from a subscriber base of less than 20,000 to over 16.71 million subscribers. This phenomenal growth straddling nearly a decade was motored by the launch of many innovative products and services such as M-PESA. Today, Safaricom is one of the leading companies in East Africa and one of the most profitable companies in the region.

Mr. Timothy Harrabin

NON EXECUTIVE DIRECTOR - 50 YEARS

Tim Harrabin joined the Board of Safaricom on 1st December 2008. He has over 20 years experience in Mobile Communications in a broad range of strategic and operational roles. He has extensive international experience having been a Regional Director, Regional Strategy Director, and Regional Commercial and Strategy Director. Previously he was Marketing Director at Talkland and Strategy Director for Vodafone UK.

He is currently Regional Development Director for Vodafone and has previously served as Director in the UK, Greece, Malta, Ghana, Portugal, Czech Republic, Hungary, South Africa, Spain, India, Poland, Turkey and Romania; as well as a non-Executive Director for listed companies in Egypt and Sweden. Tim Holds Bsc, M.Eng & MBA.

Ms. Nancy Macharia**NON EXECUTIVE DIRECTOR - 46 YEARS**

Ms Nancy Wambaire Macharia joined the Board of Safaricom on 16 January, 2007. She is a member of Audit committee of the Board. Ms Macharia is the Deputy Director, JKUAT Institute of Computer Science and Information Technology, a researcher, Trainer and a consultant in ICT. She is a member of the Computer Society of Kenya, Public Relations Society of Kenya, The Institute of Directors, The Research and Training Committee of JKUAT and the ICT committee – JKUAT. Nancy is currently pursuing her PhD studies and holds a Master's degree in Computer Based Information Systems from Sunderland University in the UK

Ms. Esther Koimett**ALTERNATE DIRECTOR TO MR. JOSEPH KINYUA - 54 YEARS**

Ms. Koimett joined the Board of Safaricom on 24 May 2005. She previously served on the Board between 11 April, 2001 and 5 September, 2002. She holds Bachelor of Commerce and MBA degrees from the University of Nairobi and is currently the Investment Secretary in the Treasury. She has also served as Permanent Secretary in the Ministry of Tourism and Information and Managing Director, Kenya Post Office Savings Bank.

Mrs. Enid Muriuki**COMPANY SECRETARY - 38 YEARS**

Enid was appointed Company Secretary with effect from 9th September 2011, Mrs. Enid Muriuki has a Bachelor of Science Degree from Jomo Kenyatta University of Science & Technology. She is a Certified Public Secretary and a member of the Institute of Certified Public Secretaries of Kenya (ICPSK). She has over 11 years' experience in the provision of Company Secretarial Services.

Ms. Susan Mudhune**NON EXECUTIVE DIRECTOR - 62 YEARS**

Ms. Susan Mudhune joined the Board of Safaricom on 20 May 2009. She holds a Bachelor of Arts degree in education and an MBA. A fellow of Kenya Institute of Bankers (KIB), a director of Eveready East Africa board and also of Pan Africa Insurance Holding; sits in the board of Center of Corporate Governance, a member of Institute of Directors (K) a Trustee of Management University of Africa (MUA) and the national chairlady of Kenya Girl Guides Association.

Ms. Karen Witts**NON EXECUTIVE DIRECTOR - 48 YEARS**

Ms Karen Witts joined the Board of Safaricom on 9 July 2010. Currently she is Vodafone's Regional Chief Financial Officer for Africa, Middle East & Asia Pacific. She joined Vodafone in June 2010 as the Regional CFO for Central Europe and Africa. Prior to joining Vodafone, Karen spent more than 10 years in BT Group in various CFO and General Management roles. Outside of telecoms, she has worked in banking, FMCG, manufacturing and media in global organizations.

Karen also serves as a non executive director of South Africa based Vodacom, and a non executive director of Wolseley Plc in the UK. She holds an MA in French with Business Studies.

Mr. Nicholas Read**Non Executive Director - 47 years**

Nick Read joined the board on 17 January 2010. He is the CEO Africa, Middle East & Asia Pacific at Vodafone, covering all operations in the region. Nick joined Vodafone in 2001. He spent six years at Vodafone UK for a short period as CFO, before becoming CCO and then CEO in 2006. He has been in his current role since November 2008.

Prior to joining Vodafone, Nick spent 10 years at Federal Express Worldwide where he was Vice President and CFO for Europe, Middle East and Africa, based in Brussels, and Vice President Global Corporate Finance and planning, based in the USA. He was also the former CFO of Miller Freeman Worldwide plc, the largest division of the media group, United News and Media Plc. He is a Chartered Management Accountant, and has a BA (Hons) Accounting and Finance from Manchester.

Mr. John Tombleson**CFO & ALTERNATE TO CEO ON BOD - 49 YEARS**

John joined Safaricom as the Finance Director in November 2011 from Vodafone Qatar, where he held the roles of Chief Financial Officer and Acting Chief Executive Officer. He was previously a Board member of Vodafone Qatar and Vodafone Fiji. He is an original member of the Qatar start-up team which was founded in 2008 and has built a population market share of 48% within 2 years.

John first joined Vodafone in New Zealand in 2003, and has since held senior financial roles in both mobile and fixed telecommunications operations.

Prior to joining Vodafone, John was a management consultant with clients across a variety of industries.

John has a Bachelor of Management Studies, with majors in marketing and accounting.

Mr. Thibaud Rerolle**DIRECTOR, TECHNICAL & IT**

Thibaud Rerolle is the Director - Technical & IT, he joined Safaricom in January 2012. Previously he was the Chief Technology Officer at Orange Dominicana in the Dominican Republic. He has a wealth of experience having worked in senior management positions in France Telecom Group for 17 years in roles that covered Networks, Management, International assignments and Customer services spanning 4 countries in Europe and South America.

Thibaud has a Masters Degree in Telecommunications with a Specialization in Networks from the prestigious Télécom ParisTech (ENST) and has also attended Prytanée National Militaire Preparatory School in France.

Thibaud is married with children. He is fluent in 6 languages.

Mr. Nicholas Mulila

EXECUTIVE BUSINESS ANALYST AND PMO

Nicholas Mulila is the Company's executive Business Analyst and also in charge of the Project Management Office. He oversees the Company's Strategy formulation and execution and, Organization-wide projects and governance.

He joined Safaricom in 2001 as a Senior Management Accountant in the finance division from Eastern Produce (K) Ltd. He has held several senior management roles in the Company including business planning and forecasting in Finance division, heading the Strategy Department and most recently as head of Commercial Planning/Pricing Department and eventually appointed Executive Business Analyst and PMO. He is also an alternate director of OneCom Limited.

Nicholas has over 12 years experience in Finance, Strategy formulation and Strategy Execution. Nicholas graduated from the University of Nairobi with a Bcomm degree (Accounting option) and a Master of Business Administration degree in Strategy from the University of Nairobi.

He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Certified Public Secretaries of Kenya (ICPSK). He is Kenyan citizen and is married with two children.

Mr. Joseph Ogutu

DIRECTOR, RESOURCES

Joseph Ogutu joined Safaricom as Chief Corporate Affairs Officer in May 2005 from Telkom Kenya where he was the principal assistant to the Managing Director and Chief Strategy and Regulatory Officer. He then served as Chief Human Resource Officer from 2008 before taking on the role of Director Resources in the March 2011 company reorganization.

As Director Resources, Mr. Ogutu is responsible for Human Resources and the management of company facilities.

Mr. Ogutu has over 20 years' experience in the communications industry. During this period, he was actively involved in the reform of the sector including the drafting of the Postal and Telecommunication Policy Paper that led to the restructuring of the defunct Kenya Posts and Telecommunications Corporation and subsequent establishment of CCK, Telkom Kenya and Postal Corporation of Kenya. He has also been involved in the establishment of the institutional framework for the Eastern Africa Submarine Cable System (Eassy).

Mr. Ogutu is a Kenyan citizen and a graduate of Economics from the University of Nairobi.

Mr. Ivor Wekesa

DIRECTOR, RISK MANAGEMENT

Mr. Ivor Wekesa was appointed the Director, Risk management in March 2011 after company reorganization; he was previously the Chief Risk Officer responsible for risk management. Mr. Wekesa joined Safaricom in January 2007 as Senior Manager in Charge of Audit from East African Portland Cement where he held the position of Internal Audit Manager.

Prior to taking up his current position he held the position of Head of Business Improvement and Controls. Mr. Wekesa has over 15 years' experience in audit having worked at Nation Media Group, Lonrho Africa and Coopers & Lybrand (now PriceWaterhouseCoopers).

Mr. Wekesa is a Kenyan citizen and has a B. Comm degree (Accounting option) from the University of Nairobi. He is a member of the Institute of Internal Auditors (IIA).

Ms. Sylvia Mulinge

GENERAL MANAGER, ENTERPRISE BUSINESS UNIT

Sylvia Mulinge is the General Manager of the Enterprise Business Unit.

Prior to this role, Sylvia was the Head of Safaricom Business responsible for delivery of corporate propositions to Safaricom's enterprise customers. Within 3 years, she was able to grow the newly launched fixed data business from a start up to the leading ISP in Kenya. Prior to that, she was the Head of Retail in charge of Safaricom's extensive network of retail shops. Sylvia managed to oversee the transformation of the shops notably through improvement in customer service, reduction in customer waiting times, exceptional revenue growth as well as high staff morale. Previously Sylvia spent 5 years working with Unilever in different marketing roles that spanned Kenya and South Africa before joining Safaricom as a Senior Manager, Prepay Products in 2006. A first class honours graduate in Food Science and Technology from the University of Nairobi, Sylvia is a member of the Marketing Society of Kenya and she has distinguished herself by winning various marketing awards in the industry. Sylvia also serves as a Director in OneCom Limited.

Sylvia is a mentor and leader in both her private and public life. She was recently voted as one of the top 40 most influential women under the age of 40 in Kenya by the Business Daily, East Africa's premier business newspaper.

Ms. Betty Mwangi

GENERAL MANAGER, FINANCIAL SERVICES

In March 2011, Betty Mwangi-Thuo was appointed General Manager of Financial Services business unit which includes M-PESA, the globally acclaimed money transfer service.

Betty joined Safaricom in December 2007 as Head of Division charged with managing the New Products Division comprising M-PESA business and GSMA projects. She was promoted to Chief Officer New Products Division in October 2008 with the additional responsibility for Safaricom's Value Added Service which championed product innovation and new product roadmap.

In June 2010, Betty was featured by MCI (Mobile Communications International) as one of the top 10 women in mobile globally and in August 2011, she was recognized as one of the top 10 African Women in ICT by the ITNewsAfrica. In the same year she was also recognized for her contribution to Kenya's Information Communications Technology (ICT) sector by His Excellency the President of Kenya, Hon. Mwai Kibaki who awarded her the prestigious state honours of the Moran Order of the Burning Spear (MBS).

Ms Mwangi has over 13 years experience in the telecommunications industry. Prior to joining Safaricom she was Chief Marketing Officer at Afsat Communications Ltd, responsible for developing and managing the distributor network for the iWay business in 26 African countries. She also worked with GlaxoSmithKline for 5 years in various management positions that culminated in Demand and Special Projects Management for the East African business and Interoperability for Africa and Middle East.

Ms Mwangi is a Kenyan citizen and has a B. Eng (Hons) in Electrical and Electronic Engineering from the Victoria University of Manchester and also has an MBA from the University of Leicester - both in the UK. She is also a Chartered Marketer and a member of the Chartered Institute of Marketing.

Mr. Peter Arina

GENERAL MANAGER, CONSUMER BUSINESS UNIT

Peter Arina is the General Manager – Consumer Business Unit. He is responsible for consumer sales business which includes the dealer and M-PESA agents management and retail sales with its current footprint of 35 Safaricom retail shops across the country. He is also charged with consumer propositions and for growing internet and data content.

Peter joined Safaricom in November 2004 as Chief Commercial Officer and took up his current appointment following the business' structural re-organization. He is a seasoned professional, having joined Safaricom from Unilever Kenya where he had worked for 15 years. Peter left Unilever Kenya in October 2004 as Customer Development Director (Sales Director) reporting to the Chief Executive Officer (East Africa). Mr. Peter Arina is a Kenyan citizen and holder of a Bachelor of Commerce (Marketing) degree from the University of Nairobi.

Mr. Nzioka Waita

DIRECTOR, CORPORATE AFFAIRS

Nzioka joined Safaricom in 2001 as a Legal Officer responsible for Site Acquisition and thereafter rose steadily through the ranks to serve the company in various capacities ranging from his role as Legal Services Manager between 2002 and 2007 and thereafter as Head of Legal & Regulatory Affairs between the years of 2007 and 2010 followed by a brief stint as Head of Strategy & New Business responsible for driving the company's mergers and acquisitions agenda, a position he held until April 2011 when he took up his present role as Corporate Affairs Director.

Nzioka is an advocate of the High Court of Kenya and is a member of the Law Society of Kenya's ICT Committee. He is a graduate of Law (LLB) from the University of Sheffield in the UK and is currently undertaking masters in law degree course in Computer and Communications Law at Queen Mary, University of London.

Nzioka has a keen interest in the country's telecommunications regulatory environment having been in the sector for over a decade. He holds various other positions within the ICT environment and is currently the company secretary of the international fibre optic company TEAMS Limited. He is also one of the legal advisors to the Kenya Telecommunication Network Operators Association, which is the representative body of the Kenyan telecommunications sector.

In both his private and public engagements, Nzioka is very passionate about community service and aside from being a Trustee of the Safaricom Foundation, he sits on the Board of two other non-profit organizations, namely the African Braille Centre www.africanbraille.org which provides specialized Braille reading material for the visually impaired and Alive and Kicking Kenya www.aliveandkicking.org.uk a social charitable trust registered in the UK and having a local office in Kenya.

Ms. Pauline Warui

DIRECTOR CUSTOMER MANAGEMENT

Ms. Pauline Warui joined the Company in January 2008 as the Head of Call Centre Department responsible for the Call Centre in the Commercial Division. However following the opening of the new 1000 capacity Contact Centre in November 2008 and with Management focus on significant improvement in customer service, the department was reorganized and elevated to a fully fledged division. Pauline was subsequently promoted to her current position of Director Customer Management Division.

She previously worked at Chevron Corporation for 2 years as the Area Customer Service Coordinator for East Africa and Egypt. Prior to that she worked for Celtel (K) Ltd now Airtel (K) Ltd for 6 years as Customer Service Manager where she gained experience and training in Customer Service and Call Centre Operations through holding various positions in those functions. Ms. Warui is holder of a Bachelor of Arts (Hons) from the University of Nairobi.

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