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)

(ii) 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 counter-party 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

31 March 2012 – Group	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
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	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	475,424	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	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
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
(a) Group	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
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	**2011**	**2012**	**2011**
	Shs'000	**Shs'000**	**Shs'000**	**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
31 March 2012	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
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

	Group	
	2012 Shs'000	2011 Shs'000
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 Shs'000	Group 2011 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	2011	2012	2011
	Shs'000	Shs'000	Shs'000	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 (SOCI) are attributable to the following items:

Year ended 31 March 2012	1.4.2011 Shs'000	Charged/ (credited) to SOCI 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
Year ended 31 March 2011	**Shs'000**	**Shs'000**	**Shs'000**
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
At end of year	9,678	8,873

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 Shs'000	2011 Shs'000	2012 Shs'000	2011 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 Shs'000	2011 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 Kawaida 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

	Group	
	2012 Shs'000	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

	Group	
	2012 Shs'000	2011 Shs'000
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

	Group	
	2012 Shs'000	2011 Shs'000
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

	Group	
	2012 Shs'000	2011 Shs'000
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