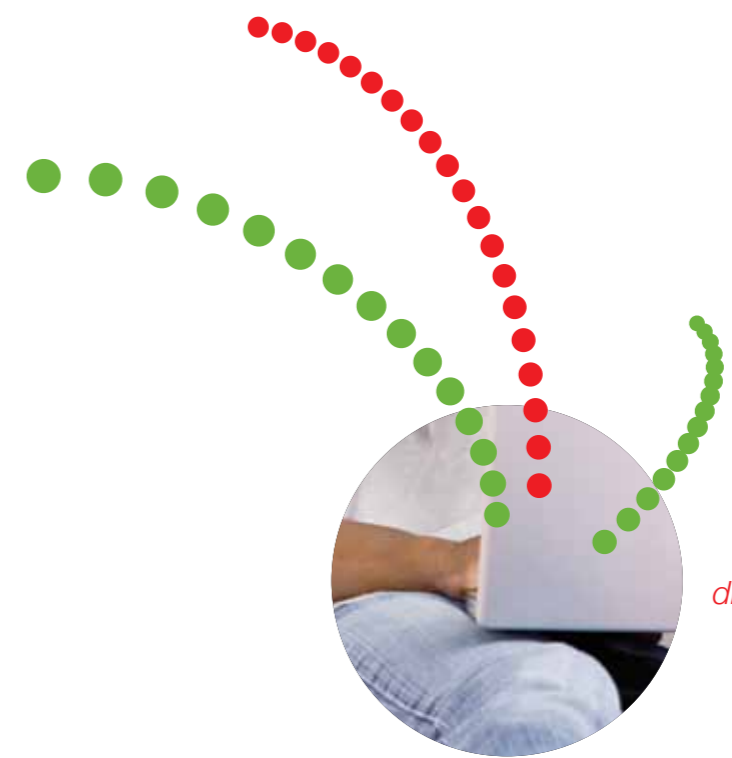


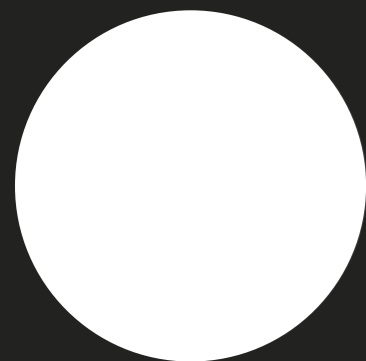


Safaricom

Annual Report & Group Accounts 2010

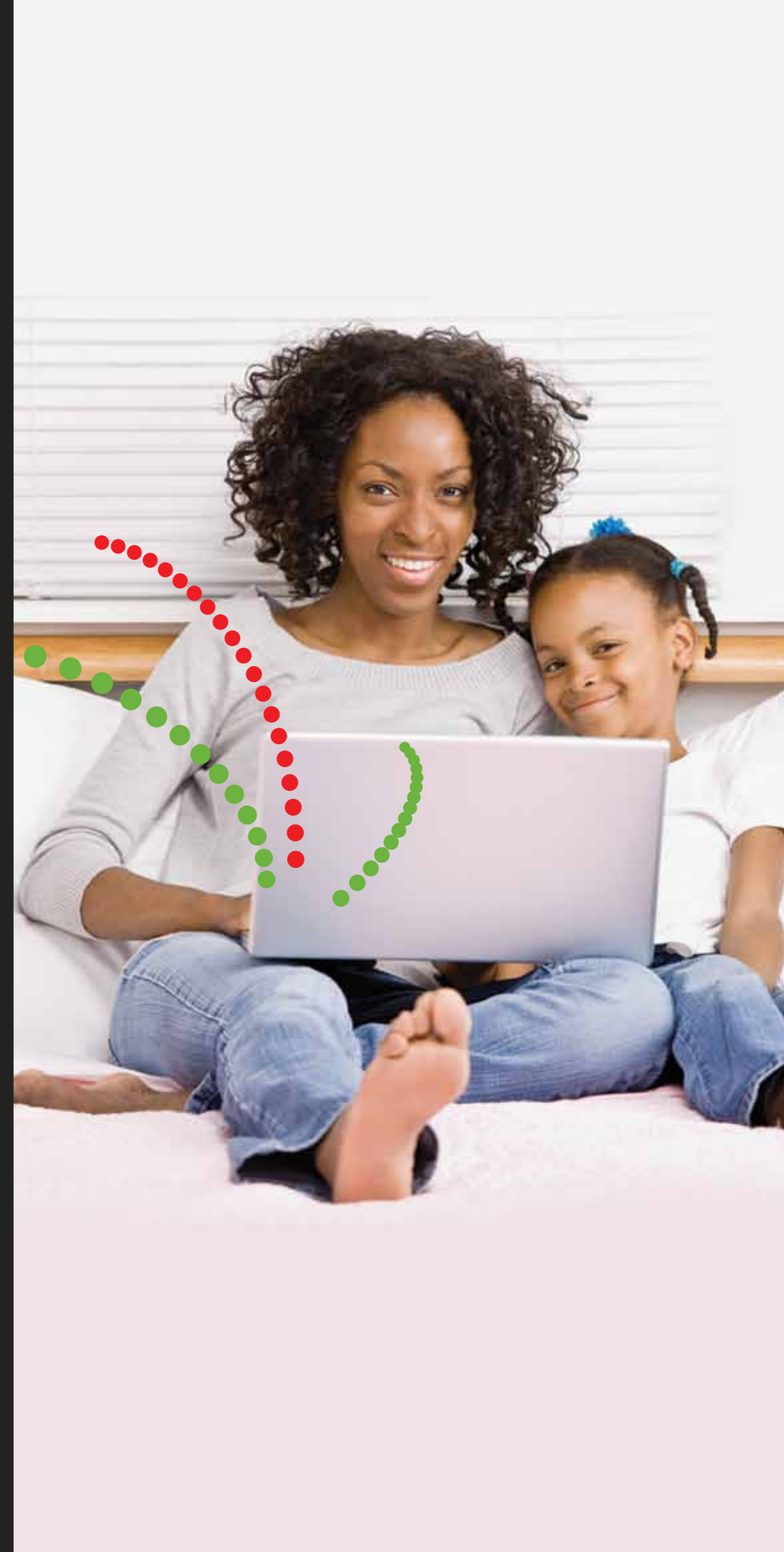


diversify our network capability

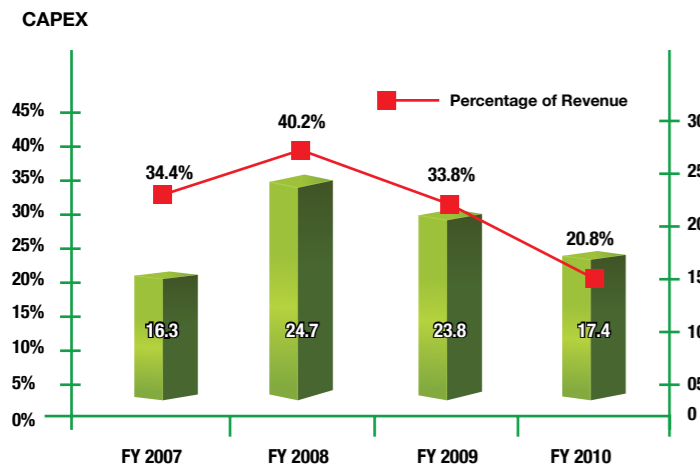
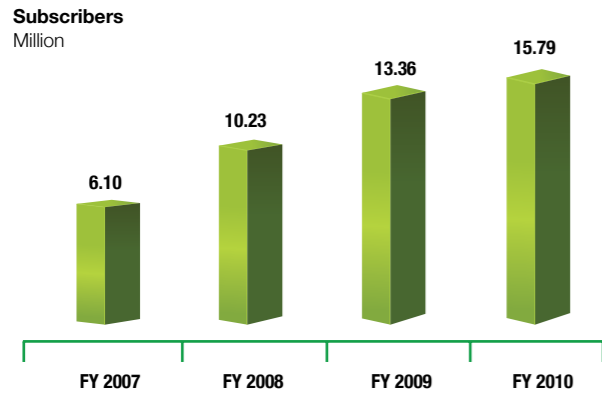
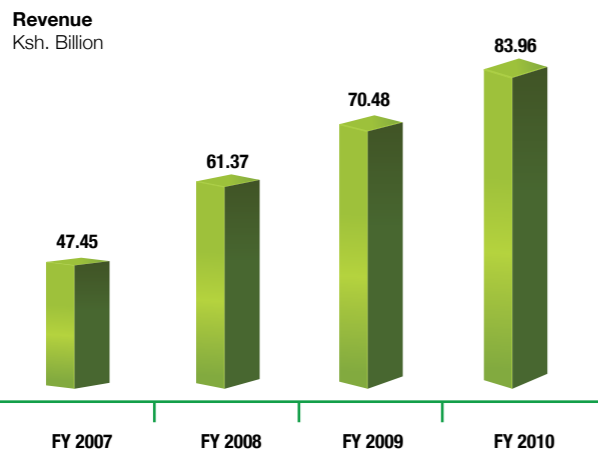
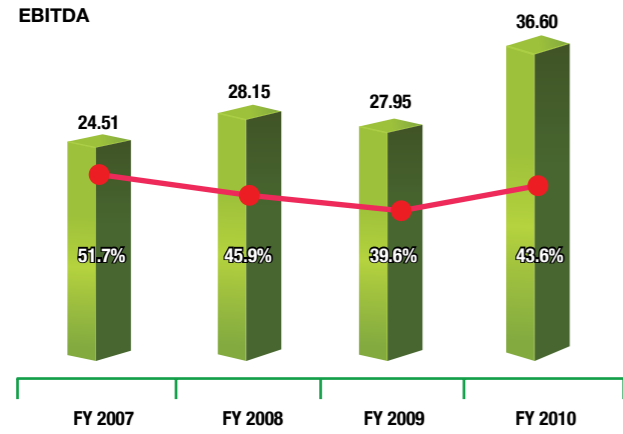


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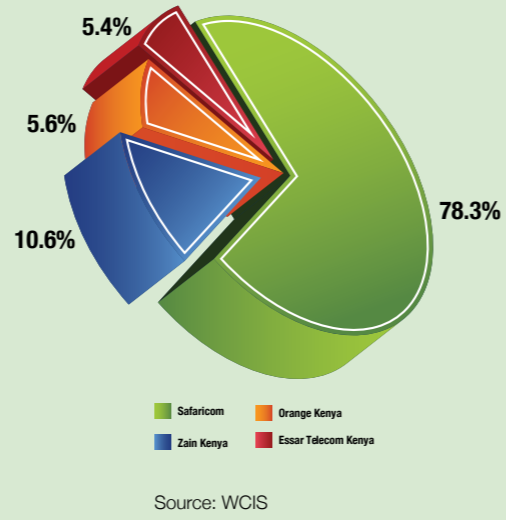
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Changes in Financial Highlights

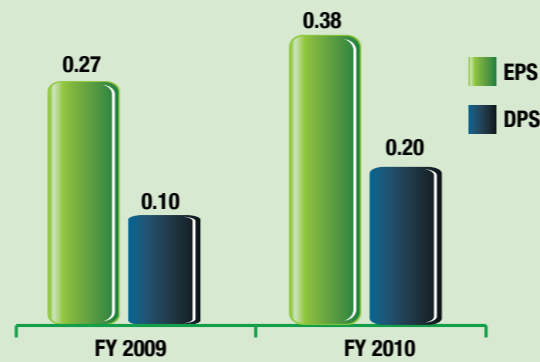


Market Share: Subscribers



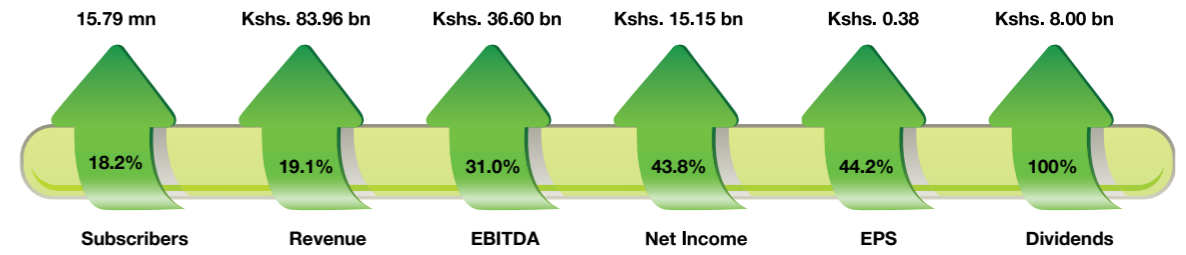
18.2%
growth in subscribers

Earnings & Dividends per Share

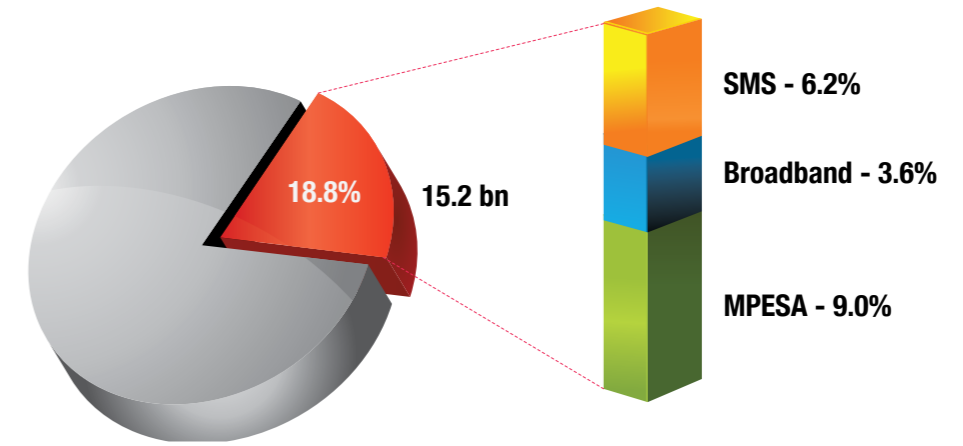


100%
growth in DPS

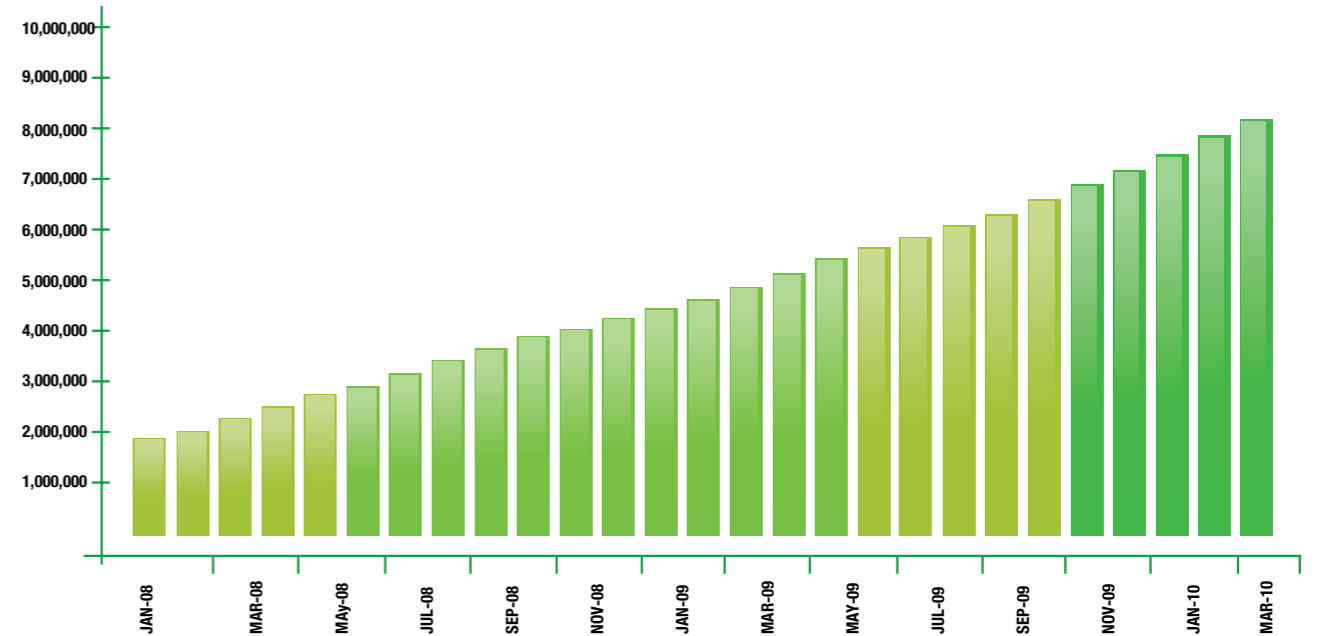
Operational Highlights



Data Revenue Breakdown



Number of MPESA Users



Chairman's Commentary

Safaricom Ltd posted a set of strong results with key highlights on:

- Doubling of dividend to Ksh. 0.20 representing a payout of Ksh. 8 billion
- Subscriber growth of 18.2% to 15.79 million
- Our products portfolio increased significantly in line with our growth strategy with revenue growth surpassing subscriber growth mainly due to significant growth in data revenue.
- The largest countrywide 2G, 3G and Wimax networks. Safaricom is connected to two undersea fibre optic cables, TEAMS and Seacom as well as leasing of fiber optic capacity from the national power utility provider Kenya Power & Lighting Co.
- The share price rose from Ksh 2.95 surpassing the IPO price to close the year at Ksh. 5.55
- Investor Road-shows carried out by top management in South Africa, USA and Europe and covering 75 international institutional investors.

Our products portfolio increased significantly in line with our growth strategy with revenue growth surpassing subscriber growth mainly due to significant growth in data revenue.

Safaricom distribution footprint now consists of 2,000 exclusive dealer branches countrywide with over 200,000 retailers



Chief Executive's Commentary

Safaricom is transforming into a total communication solutions provider aiming for robust growth in both our voice business and our data segment

- Investment in a 22.5% stake in TEAMS undersea cable that provides our customers with unprecedented bandwidth capacity and acquisition of 100% stake in Packet Stream Data Network Limited adding significant capacity to the existing wimax business. Over 140 wimax sites in place catering for corporate, medium sized enterprises and individual customers
- Total revenue increased by 19.1% with the proportion of non-voice revenue increasing to 24.5% of total revenue with M-PESA and broadband data revenues doubling their share of total revenue from 6.3% to 12.5%
- A strict focus on cost management resulting in a lower increase in costs, which pushed up the EBITDA margin to 43.6%.
- Efficiencies were achieved in delivering airtime to subscribers through more cost effective channels including M-PESA and pinless top ups
- Capital expenditure of Ksh. 17.44bn focussed in key areas of fixed data infrastructure, 3G network equipment, switching capacity, fibre, and upgrade of existing 2G equipment for increased capacity and quality to support the growth in subscribers.
- Expansion of our retail shops which increased from 21 to 30 outlets countrywide.

Acquisition of 100% stake in Packet Stream Data Network Limited has increased significant capacity to the existing wimax business.

Over 140 wimax sites in place catering for corporate, medium sized enterprises and individual customers

Key initiatives : New products launched this year included

The **Emergency Credit Advance** product dubbed "**Okoa Jahazi**", **Skiza**", a caller ringback tone service, **Supa Ongea** which is Safaricom's new revolutionary tariff that gives subscribers discounted tariffs based on their location and the time of making a call

There was the launch of **Bamba 5 and Bamba 10**; two ultra low denomination vouchers of Ksh. 5 and Ksh. 10 in response to making airtime more affordable to the low income market segment

We also launched various initiatives to increase accessibility and awareness of data services through investment in infrastructure, product and pricing innovation as well as educational campaigns to drive understanding of data products

Launch of Safaricom Business - a one stop shop for end-to-end business communication solutions on voice and data, both fixed and mobile, for all our business customers

Launch of the Safaricom Live! Web Portal for provision of rich internet content including music, videos, educational material, mobile transactions etc



M-PESA

For the second year running, M-PESA was awarded the prestigious "Best Mobile Money Service" award in the best mobile services category at the 2010 Global Mobile Awards in Barcelona.

With a 53% growth rate, adding on close to 3.3 Million new subscribers in the period, M-PESA continues to witness phenomenal growth

The number of partners receiving payments via M-PESA has grown to over 200 while more than 50 organizations have partnered with M-PESA to disburse payments

Safaricom and M-PESA added another first to its long list of initiatives with the first ever dividend disbursement through the service. Safaricom Ltd. successfully disbursed dividends through M-PESA to over 180,000 of its shareholders. In the same spirit, M-PESA launched the international money transfer services for the United Kingdom as the first international mobile money transfer service

22.5%
stake

in TEAMS and capacity on Seacom, has provided unprecedented bandwidth capacity

People

As Safaricom staff continues to be the backbone of its success, we strive to optimize the return on this human capital. The permanent staff headcount numbers saw a 3.5 % increase from the previous year's headcount of 2,387 with a ratio of women to men at 1:1 indicating that Safaricom strives to employ without discrimination of gender. Safaricom's competitive value proposition is to be the employer of choice where we attract creative, innovative and committed individuals. Safaricom undertook an ISO audit to determine if the existing processes continue to ensure service quality, this resulted to Safaricom being upgraded and awarded the coveted ISO 9001:2008 certification in August 2009.

As part of our staff motivation initiatives, Safaricom introduced the Safaricom Employee Share Option Plan (ESOP). The scheme provides staff with an opportunity to participate in the growth of the company, own a stake in the company and participate in shaping Safaricom's future.



Corporate Social Investment

The Safaricom Foundation is in its sixth year of working with partners to improve the lives of our communities. It has supported the implementation of projects in a broad range of areas - Economic Empowerment, Education, Environmental Conservation, Health, Water, Arts, Music and Culture, Sports and Disaster Relief. In the year 2009/10, the Foundation committed Ksh. 275,073,045 to 165 projects throughout Kenya.

Through corporate sponsorship initiatives, Safaricom continues to make a positive impact on its customers and the general public at large. Some of the initiatives include the Mater Heart Run, SOYA Awards, Total Eco challenge amongst others.

REGULATORY HIGHLIGHTS

Within the past financial year, there were key regulations that were introduced or announced by the CCK.

1. The Unified Licence Framework which is made up of three major licence categories; Content Service Provider Licence, Application Services Provider Licence and Network Facilities Provider Licence. Safaricom received its unified license during the year. In addition, we also obtained International systems and service Provider Licence which allows Safaricom to offer international calling services directly.
2. Mobile Number Portability (MNP) which allows a customer using a service from a particular service provider to retain their mobile telephone number when they change to a different mobile operator or service provider.
3. Subscriber Identity Registration under a Government issued directive that the identity of all mobile subscribers should be captured by each operator and made available in a central database.
4. Universal Service Fund was created and will be managed and administered by CCK. Its function is to collect levies from licensed operators based on their annual revenues. The regulation is yet to be implemented.

NOTICE in accordance with provisions of Article 149 is hereby given that the Annual General Meeting for the year 2010 of the Company will be held at the Bomas of Kenya, Nairobi on Thursday, 2nd September 2010 at 11.00 a.m to conduct the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the Financial Statements for the year ended 31st March 2010 together with the Chairman's, Directors' and Auditors' reports thereon.
2. To approve a first and final dividend of 400% of the issued and paid up share capital of the Company i.e Kshs. 0.20 per share of Kshs. 0.05 each to the Shareholders on the Register of Members as at the closure of business on 2nd September 2010 for the Financial Year ended 31st March 2010 as recommended by the Directors payable on or about 1st December 2010
3. To note that in accordance with the provisions of articles 90 and 91 of the Company's Articles of Association, Mrs Susan Mudhune retires at this meeting and, being eligible, offers herself for re-election.
4. To note that PricewaterhouseCoopers continue in office as Auditors by virtue of section 159 (2) of the Companies Act (Cap) 486 and to authorise the Directors to fix their remuneration for the ensuing financial year.
5. Any other business of which due notice has been given.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass the following as an ordinary resolution; "That the acquisition by the company of 100% shareholding in Packet Stream Data Networks Limited thus making it be a wholly owned subsidiary and is hereby ratified"

BY ORDER OF THE BOARD



J L G MAONGA
SECRETARY

1st July 2010

Notes:

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

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

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

2. In accordance with Article 145 of the Companies Articles of Association a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company's website www.safaricom.co.ke or from the Registered Office of the Company Safaricom House, Waiyaki Way, Westlands, Nairobi. An abridged set of the Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statement for year ended 31st March 2010 have been published in two daily newspapers with nationwide circulation.

3. Registration of Members and proxies attending the Annual General Meeting will commence at 7.00 a.m and will close at 11.00 a.m. Production of a national identification card, a passport or other acceptable means of identification and the Member's share certificate or current central Depository Corporation statement of account for their shares in the Company will be required.

4. The preferred method of paying dividends of less than Kshs. 35,000/= will be via the M-PESA mobile money transfer system. Members who are M-PESA Account Holders and will attend the Annual General Meeting are requested to provide details of their M-PESA registered mobile telephone number to which their dividend payment may be sent.

Shareholders who are M-PESA Account Holders but will not be attending the AGM may submit details of their M-PESA registered mobile telephone number together with their share account number and Identification details to Image Registrars of P O Box 9287, 00100 Nairobi.



BOARD OF DIRECTORS

The Company's Board currently consists of nine members, eight of whom are non – executive directors and one executive. Under the terms of the Articles of Association, the shareholding held by the Government of Kenya, through the Permanent Secretary at the Ministry of Finance, and Vodafone Kenya Limited provide that they can nominate three and four Directors respectively, there is one independent Director and the Managing Director complete the Board

Mr. Nicholas Nganga
Chairman



Mr. Nicholas Nganga joined the Board of Safaricom Ltd. on 6 May, 2004 and was elected Chairman on 16 January, 2007. The holder of a BA degree from Makerere University, he served as Permanent Secretary in the Ministries of Finance, Foreign Affairs and Health and has been extensively involved in the tea industry. Currently, Mr. Nganga is also Chairman of G4S Security and Vice chair of the Council of the University of Nairobi.

Mr. Michael Joseph
Executive Director



Mr. Michael Joseph joined the board on 8 September 2008. He has extensive international experience in the implementation and operation of large wireless and wireline networks, including operations in Hungary, Spain, Brazil, Peru, Argentina, Korea, United States, Australia and the Middle East. Mr. Joseph has specialized in licence acquisition, construction of new networks, turnaround management and start-up of new operations during his career that spans over 40 years. He has guided the Company from a subscriber base of fewer than 20,000 to over 15.7 million as at the end of March 2010. Mr. Joseph has obtained a B. Sc.(cum laude) in Electrical Engineering from the University of Cape Town and is a member of the Institute of Electrical and Electronic Engineers (I.E.E.E) and the Institute of Electronic Engineers (I.E.E), UK.

Mr. Timothy Harrabin
Non Executive Director



Mr. Tim Harrabin joined the Board of Safaricom on 1st December 2008. In November 2008, Mr. Harrabin moved into his current role as Regional Director in the Central Europe and Africa team with responsibility for Vodafone's investments in Poland, Kenya and Ghana; and for the M-PESA product and its business development worldwide. He has over 20 years experience in Mobile Communication in a broad range of strategic and operational roles. He has extensive international experience having been a Regional Strategy Director, Regional Business Development Director and Regional Commercial and Strategy Director. Previously he was Marketing Director at Talkland and Strategy Director for Vodafone UK.

Ms. Esther Koimett
Alternate Director to Mr. Joseph Kinyua



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

Mr. Robert Collymore
Non Executive Director



Mr. Robert Collymore joined the Board of Safaricom on 5 September, 2006. He is Vodafone Governance Director for Africa. Mr. Collymore has spent most of his career in the telecommunications industry, starting with 15 years at British Telecommunications. In 2000, he was appointed Global Handset Purchasing Director responsible for Vodafone's handset business across 26 countries. Then in 2003, he moved to Japan as Consumer Marketing Director (Asia). In his current position, he sits on the board of Safaricom in Kenya as well as the Board of Vodacom.

Mrs. Susan Mudhune
Non Executive Director



Ms. Susan Mudhune joined the Board of Safaricom on 20 May 2009. She holds a Bachelor of Arts degree in education and an MBA. She is a former chairman of Kenya Commercial Bank. A fellow of Kenya Institute of Bankers (KIB), a director of Eveready East Africa, a director of Kenya Commercial Bank, a member of Institute of Directors (K) and the national chairman of Kenya Girl Guides Association.

Mr. Morton Lunda
Non Executive Director



Mr. Morten Lunda is the Vodafone Regional CEO for Central Europe and Africa. He joined Vodafone from Digi Telecommunications based in Kuala Lumpur, where he was CEO from 2004 to 2008. Mr. Lunda has over 20 years in Telecommunications and IT industries, gained at Telenor and Digi Telecommunications as well as holding consultancy positions within Gemini Consulting and A.T. Kearney, based in the US, UK and Norway. He holds a Master of Business and Economics (Oslo) and an MBA (IMD, Lausanne).

Mrs. Nancy Macharia
Non Executive Director



Ms. Nancy Wambaire Macharia joined the Board of Safaricom on 16 January, 2007. A researcher and trainer in ICT, Ms. Macharia is the Deputy Director, JKUAT Information Technology Centre. She holds a Master's degree in Computer Based Information Systems from Sunderland University in the UK. She is a member of the Computer Society of Kenya, the Research and Training committee of JKUAT and the ICT committee – JKUAT.

Mr. Christopher Tiffin
Alternate to Michael Joseph



Mr. Christopher Tiffin joined the board on 5 December 2008. He was appointed as Chief Financial Officer from 25th August 2008. Mr. Tiffin joins Safaricom from Celtel Nigeria where he held the position of Chief Financial Officer, having served in that position since 2004. Prior to taking up his current position he held the position of Financial Analyst and Financial Manager with Tracker Network (PTY) Ltd South Africa and prior to that he held various financial positions with Vodacom (PTY) Ltd in South Africa. Mr. Tiffin is a South African citizen and a Chartered Accountant.

Mr. Les Baillie
Alternate to Morten Lundal



Mr. Les Baillie joined the board on 5 December 2009. He was appointed to his current position of Chief Investor Relations Officer soon after the Company was listed on the Nairobi Stock Exchange in June 2008. Prior to this he served as the Chief Financial Officer, of Safaricom, a position held since Vodafone's original investment in mid-2000. He has extensive experience in the mobile telecommunications industry having joined Vodafone Group in the UK in 1986. During his time before joining Safaricom, he held several senior financial positions at director level in Vodafone companies covering networks, service provider, value added services, data and radio paging. Mr. Baillie is a U.K. citizen a Fellow of the Chartered Institute of Management Accountants and holds a B.A. (Honours) degree from Reading University in the UK.

Mr. John L G Maonga
Company Secretary



Appointed Company Secretary on 18 October, 2002, Mr. John Maonga has a BA degree from the University of Nairobi. He is a Certified Public Secretary and a member of the Institute of Certified Public Secretaries of Kenya (ICPSK). He has over 20 years' experience in company secretarial and registration services.

01 Michael Joseph
Chief Executive Officer



02 Peter Arina
Chief Commercial Officer



03 Les Baillie
Chief Investor Relations Officer



04 John Barorot
Chief Technical Officer



05 Robert Mugo
Chief Information Officer



06 Francis Murabula
Chief Supply Chain &
Administration Office



07 Wangari Murugu
Head of Marketing &
Communications



08 Joseph Ogutu
Chief Human Resources Officer



09 Claire Ruto
Chief Corporate Affairs &
Regulatory Officer



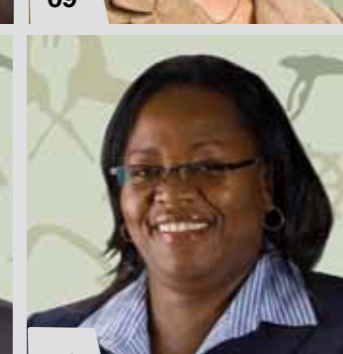
10 Betty Mwangi Thuo
Chief Officer New Products &
Services



11 Christopher D. Tiffin
Chief Finance Officer



12 Paulne Warui
Chief Customer Care Officer



13 Ivor Wekesa
Chief Risk & Strategy Officer





Mr. Nicholas Nganga
Chairman

I am pleased to present to you our Annual Report and Accounts for the Year Ended 31st March 2010. This Report marks the completion of our second full year as a publicly quoted company. It gives me great pleasure to report that we have continued to deliver shareholder value as shown by the improved results and the increased proposed dividend.

Through challenging trading conditions, Safaricom again displayed why it is one of Africa's leading companies.

OVERVIEW

Safaricom Ltd. has once again delivered strong results for the year ended 31 March 2010 which has enabled the Board to propose a doubling of the dividend to Ksh 0.20 per share, representing a total dividend payout of Ksh. 8 billion. During the year we have seen a change in shareholding of the 25% free float, with overseas investors increasing their holding from 14.29% to 21.97% at the same time as our local retail shareholders declined from 41.04% to 35.49%

In the first half of the year, the company operated in an economic environment that was characterised by high inflation levels, high energy prices and the underlying effects of failed rains that resulted in a 2.5% GDP growth for 2009. However, the second half witnessed an improved economic and operating environment, with increased competitor activity in the market and further tariff reductions during the period, albeit less erosive than the prior year.

The number of subscribers and our products portfolio increased significantly in line with our growth strategy. The revenue growth surpassed subscriber increase mainly due to significant growth in data revenue. Our ongoing cost management initiatives contributed to strong margin growth in the year.

One of the most significant developments in the period was the landing of the two undersea fibre optic cables, TEAMS and Seacom. These cables provide significant increased capacity, greater speeds and lower cost than the previous satellite connectivity. With a 22.5% stake in TEAMS and capacity on Seacom, Safaricom will greatly enhance its ability to deliver significant new products to our customers and thereby enabling the company to benefit from the anticipated growth in data services.

Safaricom has rolled out the largest countrywide 3G and Wimax networks to provide 'last mile' connectivity to our customers. We have created strategic partnerships to provide inter-city as well as metropolitan fiber connectivity; including leasing of fiber optic capacity from our national power utility provider KPLC giving us secure back haul capacity and making us a true national data carrier.

On the 19th of August 2009, the company held its first AGM following the IPO. The event was held at the Moi International Sports Centre, Kasarani and was attended by 2,182 of our shareholders. Following approval, the final dividend was paid on 10th November to 810,000 shareholders. For the first time ever, local retail shareholders were given the option to receive their dividend via M-PESA and 180,041 shareholders duly received their dividends in this manner. We are grateful to the Capital Markets Authority for allowing us to implement this method. We intend to continue to provide this service to local retail shareholders in the future

SHARE PRICE

During the period the share price steadily rose from Kshs.. 2.95 surpassing the IPO price to close the year at Kshs.. 5.55 as at 31st March 2010 – an 88% increase. Safaricom is valued at Kshs..222 bn. We remain the largest company by capitalization on the NSE and continues to trade well above the offer price. This appreciating trend is attributable to two catalysts, namely, the release of impressive half year results announced in December and International Investor Road-shows carried out by top management in South Africa, USA and Europe and covering 75 international institutional investors. The share price has also outperformed the NASI by 46% as the latter

registered a 42% increase within the same period. During the year the share generated turnover of over Kshs.. 11.3bn accounting for 22% of the Kshs.. 50.6 billion generated in total market turnover for the same period. As such it continues to be the most actively traded counter in the stock market. As a Board we are committed to increasing shareholder value and will continue to manage the company in the interests of our Shareholders.

At last year's AGM shareholders raised the issue of a share consolidation. The Board has given this considerable thought and, whilst still committed to explore this further, there are certain regulatory issues which must be resolved before such a plan can be initiated. As soon as these issues have been resolved, and the Board considers such action to be in the shareholders interest, the Board will look towards implementing the appropriate measures.

REGULATORY HIGHLIGHTS

During the year the Communications Commission of Kenya (CCK) proposed or introduced several new regulations, including the Unified Licensing Framework, Mobile Number Portability, Subscriber Identity Registration and Universal Service Fund.

Unified Licensing Framework

At the beginning of the Financial Year the Communications Commission of Kenya (CCK) was in the last stages of implementing an industry wide migration to a technology neutral licensing framework. Under this new regime licenses will not be pegged to the specific technology that an operator uses to deliver services but rather on the nature of services to provide. The Unified Licence Framework is broadly made up of three major licence categories, The Network Facilities Provider Licence, which allows an operator to own and operate telecommunications infrastructure; The Application Services Provider Licence, which allows an operator to offer a broad range of services directly to consumers including voice, value added services and data services; and The Content Service Provider Licence, which allows operators to generate and own content delivered over its network.

I am pleased to report that during the financial

Safaricom is well positioned to continue to increase shareholder value now and into the future through organic growth and further acquisitions where it makes economic sense

year Safaricom received its unified licences from the CCK.

Mobile Number Portability (MNP)

The CCK has proposed that MNP be introduced into the Kenya market. This is a facility allowing a customer using a service from a particular mobile operator or service provider to retain their mobile telephone number when they change (port) to a different mobile operator or service provider.

Subscriber Identity Registration

In June 2009 the Government issued a directive that the identity of all mobile subscribers should be captured by each operator and made available in a central database. Safaricom, together with the other operators, have engaged with the CCK on a clear set of guidelines to be followed by all operators in capturing and storing identity information. On the basis of these guidelines, Safaricom has commenced the identity registration exercise through its Retail Centres and authorised Dealer outlets.

Universal Service Fund

The Kenya Communications (Amendment) Act 2008, which came into force on 2nd January 2009, created the Universal Service Fund (USF) which will be managed and administered by CCK. Its function is to collect levies, up to 1%, from licensed operators based on their annual revenues as contribution in to the fund and to manage the fund.

At the close of the Financial Year under review this levy has not been implemented and Safaricom and indeed other industry players continue to engage with CCK and the Ministry of Information & Communications to propose alternative measures to meeting Universal Services objectives as opposed to resorting to additional levies on the industry.

BOARD OF DIRECTORS

The Company's Board currently consists of nine members, eight of whom are non – executive directors and one executive. Under the terms of the Articles of Association, the shareholding held by the Government of Kenya, through the Permanent Secretary at the Ministry of Finance, and Vodafone Kenya Limited provide that they can nominate three and four Directors respectively, there is one independent Director and the Managing Director complete the Board.

The role of the Board

- The Board is responsible for the overall conduct of the Group's business and has the powers, authorities and duties vested in it by and pursuant to the relevant laws of Kenya and the company's Articles of Association. The Board has final responsibility for the management, direction and performance of the company and its businesses; is required to exercise objective judgment on all corporate matters independent from executive management; is accountable

to shareholders for the proper conduct of the business; and is responsible for ensuring the effectiveness of and reporting on the company's system of corporate governance.

- The Board has a formal schedule of matters reserved to it for its decision and these include Company strategy; major capital projects, acquisitions or divestments; annual budget and operating plan and Company financial structure, including tax and treasury;

During the year the Board met five times and there were no changes to the composition of the Board. I would like to take this opportunity to thank the Board members who served during the year for both their support to me and to the company.

Corporate Governance

The Board is fully committed to world class corporate governance practices and to this end we have complied fully with the Capital Markets Authority Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya issued under Gazette Notice No. 3362 of 2002. In addition to the existing Audit Committee and Nomination Committee, we have established a toll free Ethics Hotline and an Ethics Committee.

FUTURE OUTLOOK

A stable macro-economic environment will have great significance to our business – indeed to any Kenyan business. Inflationary pressures, stability of the local currency and continued GDP growth will have a direct impact on consumer spending and hence, disposable incomes.

Market expectations are that the Kenyan market mobile penetration will increase to 65% over the next 3 – 4 years. This reflects a significant opportunity for future growth where we expect to remain market leaders.

Safaricom is well positioned to continue to increase shareholder value now and into the future through organic growth and further acquisitions where it makes economic sense. We continue to make a commitment to our subscribers to continue to enhance both our voice and non-voice services.



Mr. Michael Joseph
Chief Executive Officer

I am very pleased to announce a strong set of financial results for the financial year ended 31st March 2010. Despite the economic conditions and the competitive environment, we have continued to be the number one telecommunications player in Kenya, increasing our subscribers base, revenue, profitability, revenue market share and shareholder returns. This exceptional performance has been driven by many factors but more particularly by the contribution from the staff and management of Safaricom.

I would therefore like to take this opportunity to express my personal thank you to all the staff of Safaricom, without whom we would not have achieved these results.

In the past year Safaricom has embarked on its transformation into a total communication solutions provider. In line with our strategy we have demonstrated robust growth in both our voice business and our data segment.

Significant milestones achieved during the year include our Investment in a 22.5% stake in TEAMS undersea cable making us the anchor private investor in this venture. This has provided our customers with unprecedented bandwidth capacity and opened up the market resulting in a considerable growth in usage. Additionally we have bought substantial capacity in Seacom giving us the much needed redundancy on our international links.

Safaricom has continued to invest heavily in its data offerings in order to optimize on the expected significant growth in its data services. Following the launch of the 3G network in the prior period, continued investment in the rollout

has extended the 3G network to all major towns in the country and now comprises 607 3G-enabled base stations. During the period the acquisition of a 100% stake in Packet Stream Data Network Limited, a Wimax service provider, added significant capacity to the existing Wimax business enabling Safaricom to provide fixed data services to corporate, medium sized enterprises and individual customers. The Wimax network now comprises 140 sites offering an extensive nationwide network thereby complementing our 3G mobile Internet access.

The data services have been tailored to meet customer needs as well as lead innovation. Safaricom offers the fastest mobile internet services enabling our subscribers to take full advantage of the various new, exciting and affordable products launched during the period. These include, amongst others, fixed data

services through Wimax technology, Hotspot/Broadband connectivity, PrePay and PostPay data bundles, data modems, Safaricom Mobile Connect and 3G enabled Smartphone's.

Financial Performance

The group has once again delivered strong results for the year ended 31 March 2010. The active number of subscribers grew by 18.2% to 15.79M; a culmination of Safaricom's attractive product offering and the loyalty of our subscribers.

Total revenue increased by 19.1% as the non-voice segment continued to expand in the year in line with our strategy to grow the data business. The proportion of non-voice revenue increased from 16.6% to 24.5% of total revenue with M-PESA and broadband data revenues doubling their share of total revenue from 6.3% to 12.5%; again reflecting the strategy of reducing the dependence on voice revenue.

A strict focus on cost management during the year was reflected by a significantly lower increase in costs. Operating expenses increased at a significantly lower rate than revenue with the major increases being attributable to revenue related expenses, primarily commissions and license fees. Airtime costs (commissions to dealers and M-PESA agents, and top up cards costs) increased in line with the relevant revenue streams. Efficiencies were achieved in delivering airtime to subscribers through more cost effective channels such as M-PESA and pinless top ups, as well as savings from more prudent procurement.

Increase in payroll and personnel costs was mainly due to the annual increase in salaries, pension contribution and allowances in the year, and further growth and restructuring in the commercial, technical and retail divisions.

Marketing and publicity costs increased as the company sought to reach, educate and resonate with our diverse target audience.

General and administrative expenses (rent, cleaning services, rates, property maintenance, and property insurance) increased due to costs of running additional retail shops which increased by 30% to 30 outlets.

The resultant cost structure combined with the increase in revenue enabled the EBITDA margin to increase to 43.6% in line with our own forecasts.

Capital expenditure declined during the year to Kshs. 17.45bn - still in line with our expansion strategy plans. In addition to the actual expenditure, capital commitments of Kshs. 6.1bn were outstanding at the year end. Key capital expenditure areas during the year were in fixed data infrastructure, 3G network equipment, switching capacity, fibre, and upgrade of existing 2G equipment for increased capacity and quality to support the growth in subscribers.

Delivery of Strategy

Our vision to be The Best Company in Africa is based on four interlinked goals

- Consolidation of fixed and mobile data growth
- Sustainable voice revenue
- Expansion of M-PESA services
- Cost efficiencies

We are committed to the delivery our strategy in the years to come and the groundwork for this has been put in place in this financial year. The coming years should reap the benefits of the investments we have done in this financial year.

A strict focus on cost management during the year was reflected by a significantly lower increase in costs



VOICE

This was a year of strong subscriber growth with subscribers increasing by 2.4 million, representing an increase of 18% compared to the prior year. Safaricom took the largest share of new net connections accounting for an average of 65% share of connections in the period under review.

Ongoing customer voice revenue grew by 7.8% year on year with the average monthly minutes of use (MOU) per subscriber growing by 7% from 56 to 61. Monthly average revenue per user (ARPU) declined by 3.4% year on year driven by the overall reduction in tariffs throughout the year. Voice remains the key contributor to overall company revenue, accounting for 75.5% of total revenues.

INITIATIVES

Several innovative products were launched in the year under review.

The Emergency Credit Advance product dubbed "Okoa Jahazi" was launched in April. This service caters for both on-net and off-net calls. Okoa Jahazi usage has grown from 356,000 minutes a month in April 2009 to 76 million minutes by the close of the financial year. Off-net calls account for only 1.6% of total usage.

"Skiza", a caller ringback tone service was launched in May 2009. This product allows subscribers to express themselves by setting tunes for their different callers. The tunes replace the traditional 'ring-ring' tone callers hear while waiting for the call to be picked up. The service has been well received with the number of subscribers steadily growing to 2.5 million with over 11.5 million tunes downloaded from inception of the service.

Supa Ongea is Safaricom's new revolutionary tariff that gives subscribers discounted tariffs based on their location and the time of making a call. The call rates are displayed on the subscriber's phone through cell broadcast. With Supa Ongea customers can enjoy tariffs from as low as 80cents to 8 shillings. Over 10.8 million subscribers are currently on Supa Ongea and the tariff accounts for over 78% of prepay revenues.

November 2009 saw the introduction of Bamba 5 and Bamba 10; two ultra low denomination vouchers of Kshs. 5 and Kshs. 10 in response to making airtime more affordable to the low income market segment, as well as to further lower the barriers to entry for mobile phone usage.

DATA

As the voice market matures, and with the very low penetration of data services, the focus for growth has been in the provision of data services to the market. This focus saw the launch of various initiatives to increase accessibility and awareness of data services through investment in infrastructure, product and pricing innovation as well as educational campaigns to drive understanding of data products across our spectrum of business and individual customers.

The result of these initiatives was shown by strong revenue growth for the year. Distinct data users grew by 79.6% from the previous year to 2.64M against an estimated base of 3.5M internet users across the country. This drove a strong revenue growth of 97.7% over previous year resulting in the realization of Kshs. 2.98Bn of revenue. Coupled with SMS and MPESA, data now contributes 20% to total ongoing revenue, a growth of 45% over the previous year.

Mobile data contributed over 90% of total data revenue driven mainly by handset users. Despite a 50% reduction in bandwidth costs over the year, ARPUs for data held steady compared to the previous year due to incremental usage driven by more affordable internet costs.

Creating the capacity for growth in data

Safaricom is today a truly integrated telecoms operator providing a one stop shop for communication solutions for both voice and data. This has been backed by various initiatives implemented in the past financial year that have positioned Safaricom for growth in the data market.

Some of the significant milestones achieved in 2009 include:

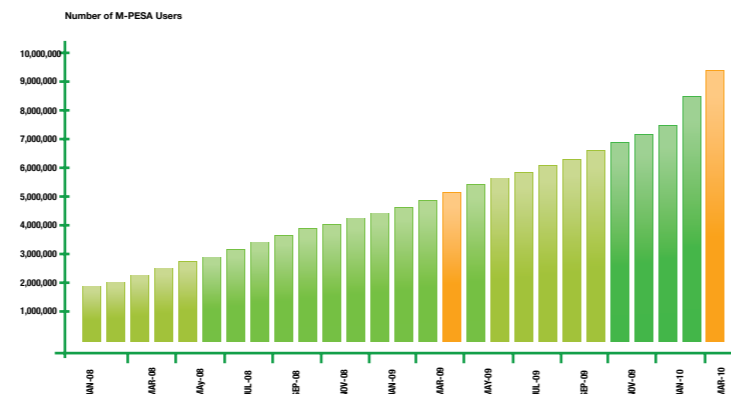
- Investment of 22.5% stake in TEAMS undersea cable making us the anchor private investor in this venture. Additionally we have leased capacity in the Seacom undersea cable giving us the much needed redundancy on our international links.
- Rollout of an extensive 3G and Wimax network to provide 'last mile' connectivity to our customers.
- Strategic partnerships to provide inter-city as well as metro fiber connectivity;
- Leasing of fiber optic capacity from our national power utility provider KPLC giving us secure back haul capacity and making us a true national data carrier.
- Launch of Safaricom Business - a one stop shop for bespoke end-to-end business communication solutions on voice and data, both fixed and mobile, for all our business customers, from large multinationals to small and medium enterprises. We currently have over 2,000 business customers that include banks, media houses, airlines as well as diplomatic missions and NGOs enjoying a wide portfolio of products - mobile and fixed voice solutions, data solutions ranging from basic internet connectivity to wide area networks, mobile data solutions including the BlackBerry service, value added services such as email and domain hosting and conferencing facilities
- Launch of the Safaricom Live! Web Portal in June 2009 for provision of rich internet content including music, videos, educational material and, mobile transactions
- Introduction of innovative pricing plans to increase access of Safaricom data services to the mass market with bundles as low as 40MB. Bundle users today account for more than 45% of total data revenue. To further stimulate usage there were 2 promotions in the financial year for unlimited data usage which resulted in marked growth in usage of up to 300% over the promotion period.

Prices of data devices remain a barrier to entry and we continue to partner with various device manufacturers (handsets, modems, laptops) to lower prices of devices in the market with resultant increase in the number of data subscribers. This includes our initiatives with financial institutions including Equity Bank and Kenya Commercial Bank to provide financing for laptops.

M-PESA

M-PESA continued to experience high growth rates in the year. This growth was realized through expansion of the agent network and increased usage of M-PESA by subscribers. For the second year running, M-PESA was awarded the prestigious "Best Mobile Money Service" award in the best mobile services category at the 2010 Global Mobile Awards in Barcelona.

The M-PESA subscriber base grew from 5.8 Million in the previous financial year to 9.5 Million this financial year – a 53% growth rate, adding 3.3 Million new subscribers in the period.



Sneak Points

Cumulative P2P transactions since launch have grown to over Kshs. 400 Billion.

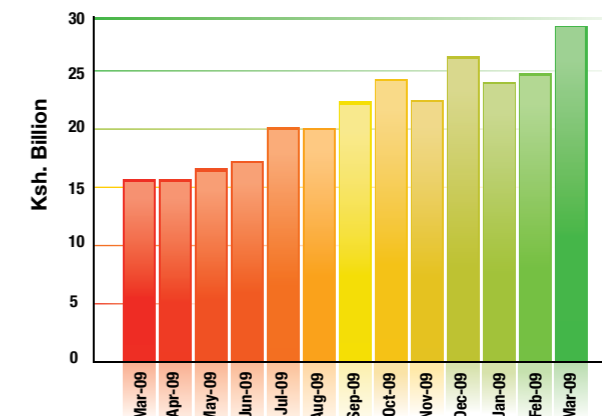
Agent outlets grew significantly over the year from 8,650 to 17,653

Customer voice revenue grew by 7.8% year on year with the average monthly minutes of use (MOU) per subscriber growing by 7% from 56 to 60

Investment of 22.5% stake in TEAMS undersea cable making us the anchor private investor in this venture. Additionally we have leased capacity in the Seacom undersea cable giving us the much needed redundancy on our international links.

In the financial year person to person (P2P) transfers continued to be the main transactions and were valued at Kshs. 28.59 Billion an increase of 66.4% .

Monthly Value of P2P Transactions



M-PESA Agents

The M-PESA agent outlets grew significantly over the year from 8,650 to 17,653 by the end of March 2010. M-PESA continues to partner with a variety of organizations including Banks, microfinance institutions, fuel stations and individual business owners to provide the services across the country.

During the year a number of super-agents were appointed. They provide cash-in/cash-out services to agents to enhance float levels in the market.

During the year we also introduced the Aggregator Model which is designed to enable agents manage their sub-agents more efficiently and effectively.

CORPORATE SERVICES

Customer to Business Services

The number of partners receiving payments via M-PESA has grown to over 200 by March 2010; these include Kenya Power and Lighting Company, Nairobi Water Company and Kenya Airways. More than Kshs. 4.1 Billion was transferred from customers to businesses during the year.

Business to Consumer payments

More than 50 organizations have partnered with M-PESA to disburse payments. These payments include salary disbursements and payments to winners of promotions. Over Kshs. 1.36 Billion was transferred during the financial year through this channel.

Safaricom and M-PESA added another first to its long list of initiatives with the first ever dividend disbursement through the service. Safaricom Ltd. successfully disbursed dividends through M-PESA to over 180,000 of its shareholders in November 2009.

M-PESA introduced a service dubbed 'Easy Travel' that allows subscribers to book, pay and receive tickets via their mobile phone. This service provides a single platform for buses, trains and airline service users to pay for their travel using M-PESA.

International Money Transfer

After a successful pilot, M-PESA launched the international money transfer services in the United Kingdom in partnership with Vodafone and Western Union. This service enables Kenyans in the UK to send money home. The success of this pilot will now enable M-PESA to expand these services regionally to other markets with a high population of Kenyans.

Looking Forward

With the huge success of M-PESA over the last year, whereby nearly 10 million Kenyans now benefit from the service, additional functionality will be added to enhance their experience. This will include micro savings and micro insurance thus enabling many Kenyans the opportunity to improve their lifestyle.



We foster a culture that values and rewards the highest ethical standards and personal and corporate integrity.

At Safaricom, the Board of Directors and senior management are committed to the highest level of corporate governance, which we consider critical to business integrity and to maintaining investors' trust in the Company. We foster a culture that values and rewards the highest ethical standards and personal and corporate integrity. The Company expects all its directors and employees to act with honesty, integrity and fairness. The Company strives to act in accordance with the laws of Kenya and observes and respects the cultures of the Kenyan people.

Board meetings

The Board meets at least four times a year and the meetings are structured to allow open discussion. All directors participate in discussing the strategy, trading and financial performance and risk management of the Company. All substantive agenda items have comprehensive briefing papers, which are circulated two weeks before the meeting.

In addition to regular Board meetings, there are a number of other meetings to deal with specific matters. Directors unable to attend a Board meeting due to another engagement are nevertheless provided with all the papers and information relevant for such meetings and are able to discuss issues arising in the meeting with the Chairman or the Chief Executive. Directors are permitted to appoint alternates when they are unable to attend a meeting either in person or by telephone.

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

Member & Meetings attended

Mr. Joseph Kinyua / Mrs. Esther Koimett 5/5

Ms Nancy W Macharia 5/5

Mrs. Susan Mudhune 4/4

Mr. Nicholas Nganga 5/5

Mr. Michael Joseph 5/5

Mr. Christopher Tiffin 5/5

Mr. Morton Lundal / Mr. Les Baillie 5/5

Mr. Robert Collymore 3/5

Mr. Timothy Harrabin 4/5

Mr. James Maclaurin 2/5

Mr. John Maonga (Company Secretary) 5/5

Division of responsibilities

The roles of the Chairman and Chief Executive are separate and there is a division of responsibilities that is clearly established, set out in writing and agreed by the Board to ensure that no one person has unfettered powers of decision.

The Chairman is responsible for the operation, leadership and governance of the Board, ensuring its effectiveness and setting its agenda. The Chief Executive is responsible for the management of the Company's business and the implementation of Board strategy and policy.

Board effectiveness Appointments to the Board

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

Information and professional development

Financial plans, including budgets and forecasts, are regularly discussed at Board meetings.

The Chairman is responsible for ensuring that induction and training programmes are provided with the Company Secretary organizing the programmes. Individual directors are also expected to take responsibility for identifying their training needs and to take steps to ensure that they are adequately informed about the Company and their responsibilities as a director. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

On appointment, individual directors undergo an induction programme covering, amongst other things:

- the business of the Group;
- their legal and regulatory responsibilities as directors of the Company
- Briefings and presentations from relevant executives.

Independent advice

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

Indemnification of directors

In accordance with the Company's articles of association, directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which the directors may not be indemnified, the Company maintains a directors' and officers' liability insurance policy throughout the financial year. Neither the Company's indemnity nor the insurance provides cover in the event that the director is proven to have acted dishonestly or fraudulently. The Company does not indemnify its external auditors.

Board committees

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

The terms of reference for all Board committees can be obtained by application to the Company Secretary at the Company's registered office.

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

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

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

Audit committee

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

The Audit Committee's responsibilities include:

- overseeing the relationship with the external auditors;
- reviewing the Company's preliminary results announcement, half-year results and annual financial statements;

- monitoring compliance with statutory and listing requirements for any exchange on which the Company's shares and debt instruments are quoted;
- reviewing the scope, extent and effectiveness of the activity of the Risk Management Division;
- engaging independent advisers as it determines is necessary and to perform investigations;
- reporting to the Board on the quality and acceptability of the Company's accounting policies and practices including, without limitation, critical accounting policies and practices; and
- Playing an active role in monitoring the Company's compliance to policies and procedures.

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

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

Member attended	Meetings
Mr. Tim J Harrabin	4/4
Mrs. Esther Koimett	4/4
Ms Nancy W Macharia	4/4

The Chief Executive Officer, Chief Finance Officer and Chief Risk Officer as well as external audit representatives (the Company auditors) attend all committee meetings as permanent attendees.

The Chief Risk officer and the external auditors have unrestricted access to the committee and its chairman. Risk management matters relating to operations are regularly reported to the Board audit committee.

Risk management mechanisms

Internal controls

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

Safaricom's objective with risk management is to embed the process into the day-to-day running of the business in a practical manner. This involves continual pro-active identification and understanding of risk factors and events that may impact business objectives, development of appropriate response strategies, and continual monitoring

and reporting. This is done through the implementation of various risk management and governance mechanisms. These include:

- Measuring the effective implementation by the various chief officers and other management of corporate governance measures.
- Embedding risk management procedures into day-to-day activities such as business planning, operational reviews, projects etc. Risk management functions are to facilitate, co-ordinate and monitor the effective implementation of control mechanisms.
- Assurance from internal audit on the internal control environment.

Ethics committee

Safaricom is committed to the highest standards of conduct and business ethics in supporting the fundamental principles of sound corporate governance. It is the company's fundamental policy that all its employees observe and comply with the laws and regulations applicable to its business and that they act with high standards of business integrity. We strive to prevent any situation that may compromise these principles in our dealings with customers, suppliers, dealers and other business associates. The Safaricom standards of business conduct enumerate the minimum standards required of all employees while engaging in Safaricom business and stern disciplinary and administrative measures are imposed where deliberate breaches and violations are evident. All employees are therefore expected to read, know, understand and comply with the Standards.

In the interest of the company, Safaricom expects employees and business associates to disclose information in respect of workplace related criminal, fraudulent or other irregular behavior. To facilitate this, Safaricom has provided employees with a toll free Ethics Hotline that is independently managed by Deloitte South Africa. It provides employees with an anonymous avenue to report irregularities that they become aware of. All such reports are thoroughly vetted and verified for credibility before investigations are conducted.

In addition, Safaricom has a Duty to Report Policy that is intended to encourage and enable persons to raise serious concerns of wrongdoing in good faith without fear of reprisal. It is the obligation of all employees and business associates of Safaricom to disclose any suspected fraudulent or criminal activity in accordance with the disclosure procedures set out in this policy and associated policies and procedures.

The corporate governance agenda is further enhanced by the presence of an Ethics committee. The committee as constituted

Safaricom's objective with risk management is to embed the process into the day-to-day running of the business in a practical manner

comprises of nominated Executive Committee members and is chaired by the Chief Investor Relations Officer. The primary mandate of the committee is to be the oversight body that drives the ethics and integrity agenda in Safaricom, particularly monitoring ethics related programmes and activities to ensure ethics and integrity become part of day to day business. The ethics committee is also the guardian and custodian of the Standards of Business Conduct which enumerate and enforce acceptable business conduct."

Board of Directors Shareholding

Member	Shareholding
Mrs. Esther Koimett	517,600
Ms Nancy W Macharia	43,000
Mrs. Susan Mudhune	51,200
Mr. Nicholas Nganga	850,100
Mr. Michael Joseph	2,357,200
Mr. Christopher Tiffin	0
Mr. Les Baillie	2,357,200
Mr. Morton Lundal	0
Mr. Robert Collymore	0
Mr. Timothy Harrabin	0
Mr. James Maclaurin	0
Mr. John Maonga	40,000



CUSTOMER DELIGHT

Safaricom is continuously striving to deliver a superior customer experience across all touch points where we come into contact with our customers. It is a reality that in order for the company to be able to achieve sustained growth going forward, emphasis will have to be put on customer development and retention. Accordingly the company embarked on a new initiative that would track customer's overall satisfaction and experience with our products and services.

Customer experience is measured through a Customer Delight systems study that involves continuously interviewing our customers. The resultant score is the Customer Delight Index (CDI) which provides a robust and sensitive measure of a customers' experience and perception of the brand.

Customer delight is our focus and Safaricom drives its market leadership by offering unrivalled customer service across all touch points. The touch points that are assessed are Network Performance, Tariff, Inbound contact/ Getting help, Billing, Contact/Information sent out to customers, VAS, Roaming and Brand Image/Reputation

The CDI provides support to management in diagnosing opportunities to improve customer experience and also the drive to increase brand preference and capitalise on the high levels of awareness we already enjoy in the market. Ideally, Customer Delight is a source of competitive advantage as it points out areas of improvement or areas to exploit further

RETAIL & DISTRIBUTION

Safaricom boasts of a distribution footprint of 2,000 exclusive dealer branches with over 200,000 retailers pushing Safaricom airtime & other products countrywide. Safaricom's extensive distribution network not only ensures that our subscribers can access airtime wherever they are, but it also directly & indirectly employs over 350,000 people in the distribution & retailing business

In the Last financial year, Safaricom saw more than 500 Dealer branches open across the country. Emphasis was in regions where the company previously had limited distribution tools and channels namely Eastern, Western and Nyanza provinces. With the North Eastern region's economy growing by over 200%, owing to improved security & enhanced economic activities, the area is no longer 'served' from Nairobi.

Safaricom also reviewed its dealer commission structure with an aim of rewarding dealers on airtime sales. This has in turn resulted in most of its dealers investing and/or reinvesting in more distribution resources such as Dealer Sales Agents, motor bikes and sales vans

Retail Shops

During the last financial year, Safaricom opened 9 new outlets in Embu, Nanyuki, Naivasha, Kakamega, Nyeri, Diani, Malindi, Garissa and Nairobi- Mombasa Road bringing the total

number of retail shops in operation to 30 and our retail coverage to 18 towns across the country.

Over 95% of all retail shops have now been upgraded to the new attractive shop design which is customer and user friendly. We are now serving an increasing number of customers with a monthly traffic of over 500,000 customers.

We will continue to grow the retail footprint into new markets and enhance presence in growing major markets

Retail Sales Performance

The Safaricom retail shops adopted a strategy of being a one stop shop for all mobile telecommunication equipment. This resulted in Sales Revenue growth of over 140% in the last financial year having generated over Kshs. 3.5 Billion in Sales which was over 10% ahead of target. In support of the overall data strategy, sales and revenue from laptops increased with an average monthly laptop revenue contribution of over 10% in the second half of the financial year.

Throughout the year, there have been consistent promotional campaigns executed which contributed to revenue growth with 81% of total annual revenue delivered through handsets

Retail shops maintained profitability through increased sales and margins delivery on devices. Over 95% of all existing shops achieved positive net margin for the year

Customer Service

Safaricom continuously strives to ensure customer delight and in this light, Retail shops have consistently improved on the Customer Delight Index (CDI) score which was up 11% to 8.8 this financial year.

To guarantee that all customers are efficiently served, a staff out-sourcing program was piloted and adopted within retail shops primarily for pre pay services and sales activities within the shops.

Future

Our focus for the future will be to

- Continue the drive for first to market, variety, innovation and value to our customers on devices
- Grow computer and overall data device sales through price and quality offering
- Grow margins on all device sales to enhance retail profitability
- Enhance customer service quality delivery through capability enhancement and Tracking
- Automation of service quality assessment to support improvement of CDI

CUSTOMER MANAGEMENT

Increased Accessibility and customer experience:

As Safaricom subscribers increased, Customer care call volumes increased by 13% on the prepaid service. This posed a challenge of

accessibility to the customer care service which our subscribers depend on to get assistance on our products and services, give feedback and to report service issues.

The Jambo Contact Centre (JCC) at Mlologo opened up the Platinum line with the aim of serving Platinum (high-end) customers on a prioritized, more efficient basis that guarantees customer satisfaction. Our Platinum customers were over 58,000 in number as at March 2010 and the platinum care line's accessibility increased from 10% to 90% within the same period.

In an effort to offer faster problem resolution to customers, the JCC will change over to an IP based infrastructure. This new infrastructure will improve accessibility to customer care help by providing significantly increased resources. Implementation is in progress and completion of the project is planned for September 2010. This project will go far in boosting accessibility to help for our customers, faster resolution of client issues and thereby improve customer satisfaction.

During the last financial year there was an evaluation of new innovative ways to reduce queries, and increase the value added for outbound queries. In this light the JCC consolidated its services via USSD. The USSD service allows customers to access customer care services via interactive SMS and has resulted in reduced customer recall rates and reduced inbound calls.

As growth in data become the focal point of the company, the JCC has established a dedicated mobile data support channel which is currently involved in supporting 1600 Corporates, SME, SOHO customers, as well as 40 Data Dealers. This data channel also acts as a support centre for BlackBerry, modem, router and Wimax products and services.

The contact centre's staff is also continuously trained on product knowledge as new products and services are launched, as well as best customer handling skills to manage customer expectations effectively. This is coupled with exposure of staff to other sections, improving skills, knowledge and motivation.

Customer Satisfaction:

As we continuously strive to ensure customer delight, JCC introduced the monthly Call Centre Tracker surveys, which are in-depth surveys mapped to the CDI survey that track responses and feedback of customers who have contacted the JCC. Also introduced within the year were after-call SMS surveys used to assess immediate feedback from customers and gauge the kind of experience they had. This process is still undergoing streamlining to achieve accurate and representative results. In the last financial year the contact centre moved the Inbound Contact CDI score from a low of 6.84 to a high of 7.75 in the 3rd quarter and achieved an overall score of 7.38 against a target of 7.76; the highest score achieved since inception of the CDI measure.

The permanent staff headcount numbers as at 31st March 2010 was 2,470; a 3.5 % increase from the previous year's headcount of 2,387

Safaricom continues to optimize the return on investment from the organization's human capital through re-alignment of the business' skilled and qualified individuals, and the capabilities of the current workforce, in line with the ongoing and future business plans and requirements of the organization.

The permanent staff headcount numbers as at 31st March 2010 was 2,470; a 3.5 % increase from the previous year's headcount of 2,387. Of the total current headcount the ratio of women to men stands at 1:1 an indication that Safaricom strives to employ without discrimination of gender. As an organization, we maintain equal employment principles with regards to disability and religion.

Development Initiatives

To achieve our strategies in growing data as a key channel for revenue generation, we have focused our technical and commercial staff capability development on the future business needs. We continue to develop our managers to keep up with the ever changing people and business leadership dynamics and continue to provide differentiated development and exposure opportunities to grow our key talent and successors to face the future with higher degree of certainty and success.

Our workforce development initiatives are aligned to the changing landscape of our industry, in this regard we continue to develop and enhance self learning initiatives for continuous learning.



Safaricom's competitive value proposition is to be the employer of choice where we attract creative, innovative and committed individuals. We do this by implementing a mix of talent acquisition strategies and initiatives which ensure we meet and surpass our business growth targets. Through our talent management framework we continuously identify, develop, retain and deploy employees who through their involvement make a difference to our business.

ISO Certification

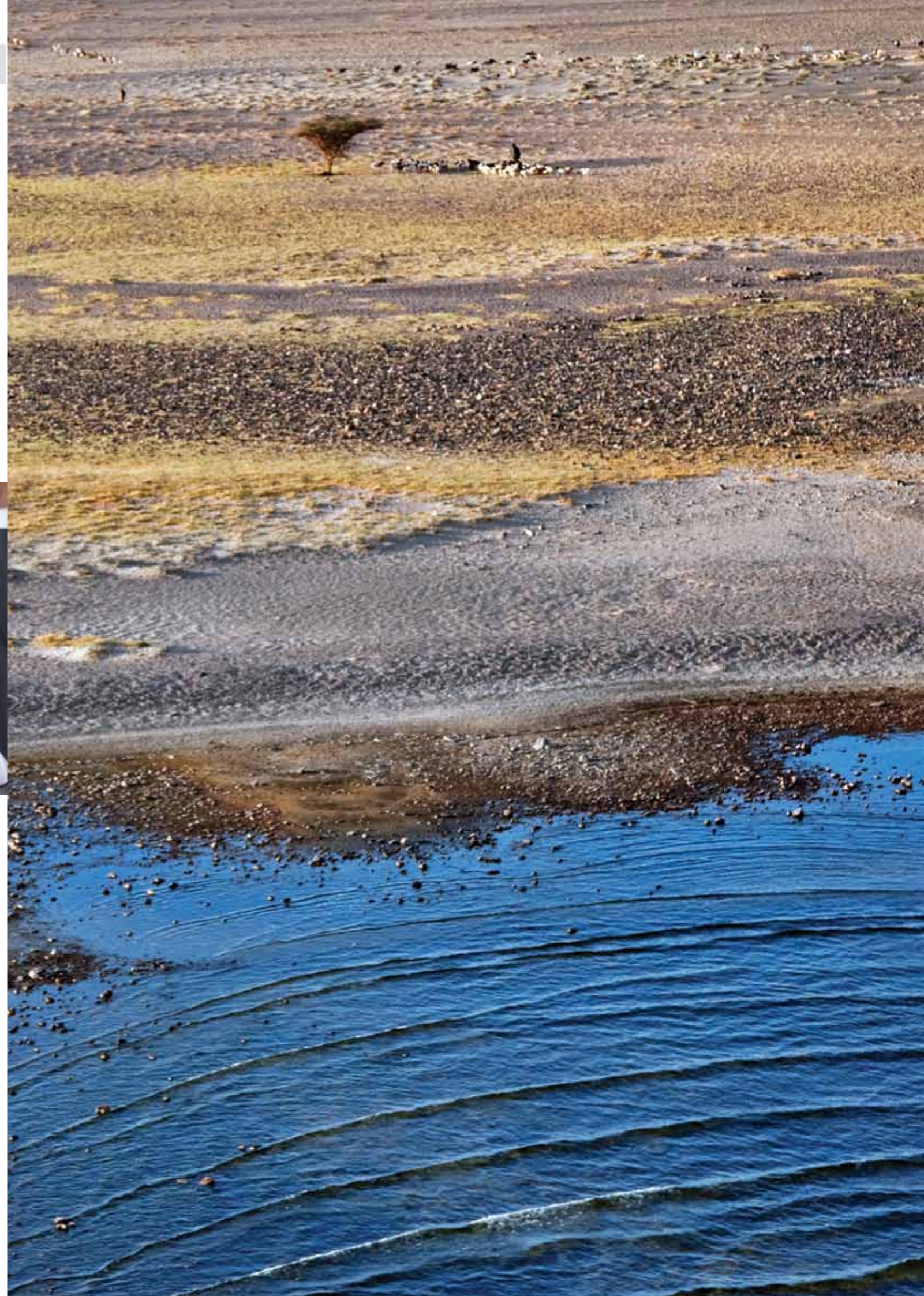
Safaricom undertook an ISO audit to determine if the existing processes continue to ensure service quality, this resulted to Safaricom being upgraded and awarded the coveted ISO 9001:2008 certification in August 2009. Safaricom continues to maintain high quality measurable services and clear process definition in line with company set goals.

Employee Share Option Plan

We have introduced in our staff motivation initiatives the Safaricom Employee Share Option Plan ("ESOP"), established in January 2010, a total of 2,165 members of staff, representing 88% of the total staff, joined the scheme. Through this scheme, we provide staff with an opportunity to participate in the growth of the company, own a stake in the company and participate in shaping Safaricom's future.

Our people continue to play an integral part in our business and we continuously review our organizational structures with a view to optimizing on productivity in each service line and ensure we can meet our deliverables in a cost effective manner.

To our employees, we extend our sincere gratitude for the leading role that they continue to play at Safaricom.



FOUNDATION

The Safaricom Foundation enters its sixth year of working with our partners to improve the lives of Kenyan communities. The Safaricom Foundation has supported the implementation of projects in a broad range of areas - Economic Empowerment, Education, Environmental Conservation, Health, Water, Arts, Music and Culture, Sports and Disaster Relief, and our footprint in the country continues to expand. In the year 2009/10, the Foundation committed Kshs.. 275,073,045 to 165 projects countrywide. This report highlights just a few of these projects that the Foundation funded this year.

Economic Empowerment:

The Foundation supported 59 economic empowerment projects, totaling Kshs.. 67 million. These funds went towards supporting organisations and communities to implement projects in income generation, food security, employment creation and skills transfers through vocational training. The projects ranged from small scale community initiatives, to larger scale nationwide initiatives.

The Foundation in partnership with the Kenya Community Development Foundation, provided drip irrigation and greenhouses to communities in arid and semi arid areas of the country, in order to provide food for domestic consumption, as well as foodstuff for sale to generate income. The initiative covered areas including Yatta, Kwale, Garissa, Turkana, and Marsabit

Education:

With the aim of providing quality education to Kenya's children, the Foundation has constructed and equipped libraries and laboratories in schools. The Foundation invested in infrastructural development and the provision of specialized learning equipment for special schools and schools in extremely marginalized areas. The Foundation supported 60 education projects, totaling Kshs.. 81 million.

Our support to institutions supporting children with special needs included the production of audio-books by the Africa Braille Centre, construction of a vocational training centre at Reverend Muhoro School for the Deaf in Mukurweini and the donation of a school bus to Joytown Secondary School in partnership with Isuzu/General Motors

Environmental Conservation:

The Foundation invested in supporting initiatives in environmental and wildlife conservation through participatory conservation activities, public education and sustainable preservation of natural resources. The Foundation

supported 11 environmental conservation projects totaling Kshs.. 15 million.

With due recognition to the growing challenge of e-waste management, the Foundation funded the purchase of a state of the art e-waste grinder for Computers for Schools Kenya. The grinder complements their already existing e-waste management centre and will increase their grinding and recycling capacity

Health:

The Foundation supported initiatives that increase access to affordable health care, including specialized health care that is often out of the reach of many Kenyans. The Foundation partnered with health care service providers and communities in constructing and equipping health facilities, providing health information and services through medical camps and supporting the provision of specialized health services. The Foundation funded 25 health projects totaling Kshs..38 million.

The Foundation ran a series of medical camps, providing a wide range of preventive and curative services in Turkana South, Mt. Elgon, Runyenjes, Sabatia, Gichugu, Karachuonyo, Kitui West, Mogotio and Mwatate. At these camps, diabetes and hypertension information and management services, eye care, dental care, VCT and family planning, paediatric care and general medical services are provided. An average of 3,000 people were provided with free health services at these camps. In order to assist patients with renal failure a kidney dialysis machine was donated to Kenyatta National Hospital.

Water:

The Foundation partnered with the Kenya Red Cross Society and Action Aid International - Kenya to implement large scale community water projects, under our "Maji na Uhai" initiative. This year the Foundation committed funding for large scale water projects in arid and semi arid areas of the country such as Katalwa, Gachoka, Garbatulla and Makueni. The Foundation funded 8 water projects totaling Kshs. 24 million.

The Mumbuni - Katalwa Water Supply Project is an initiative of the Kenya Red Cross (KRC) in conjunction with the Mumbuni and Katalwa communities, funded by the Safaricom Foundation. The Katalwa community used to walk 15km to draw water from the river or use raw water collected from ground water catchments (pans), whereas the Mumbuni community used raw water direct from the Tana River in their neighbourhood. A total of 8,500 persons comprising 3 primary schools, 1 dispensary and one market centre are currently benefiting from the project.

Arts, Music and Culture:

The Foundation partners with organizations and community groups to preserve and promote Kenya's natural heritage in arts, music and culture. The Foundation donated Kshs..23 million to fund 2 projects in this category.

The Foundation partnered with the National Museums of Kenya and the Kenya Museum Society to renovate the Louis Leakey Auditorium.

The Auditorium is now a state-of-the-art multi-purpose auditorium that is contributing towards revenue generation for the Museum

Sports:

The Foundation supports sports projects that provide opportunities for the integration of health, education and life skills into sport. The Foundation recognizes that sports play a key role in terms of promoting health and well being, as well as supporting cohesion and development initiatives amongst communities. The Foundation funded a total of six projects at Kshs.. 10 million.

The Foundation extended its partnership with Alive and Kicking, an NGO that uses football and netball to create awareness on HIV/AIDS, malaria and other key health issues among young people. They are currently rolling out educational road shows and sports leagues in 30 secondary schools, 116 primary schools and 26 out of school youth clubs in Rarieda District and the wider school community

EMPLOYEE ENGAGEMENT

A key component of Safaricom Foundation's success is the staff members of the company who support its activities. The company has provided four Corporate Social Responsibility leave days per year for each employee to participate in community activities, as a reflection of the company's "Passion for the World around Us".

Safaricom staff participated in tree planting in Ngare Ndare, provided administrative support in medical camps and acted as staff sponsors for projects -supporting the Foundation team to identify, monitor and report on projects, countrywide.

This year, the Foundation launched the World of Difference (WOD) initiative. WOD provides the unique opportunity for Safaricom staff to provide their technical and professional skills to selected Foundation funded project partners through a three month secondment. 12 staff (three teams of four persons each) are working with the Kenya Red Cross Society (countrywide operations), Northern Rangelands Trust (Northern Kenya) and Moving the Goal Posts (Kilifi and Kaloleni Districts) to improve their institutional systems in areas such as human resource management, financial management, marketing, sales, computer skills, resource mobilization, and ISO processes.

The selection of the staff was done through a highly competitive process and staff and partners submitted a joint proposal on how they would work together to address the partners needs. This initiative demonstrates the fact that Safaricom staff represents a pool of talent that can contribute their skills and knowledge to build capacity within other organizations as well as contribute towards positive changes within communities.

CORPORATE SPONSORSHIPS

Through an expansive array of life-changing corporate giving initiatives, Safaricom continues

to make a positive impact on its customers and the general public at large. These initiatives span education, sports, health, art & culture, environment and community empowerment.

Mater Heart Run 2009: Safaricom joined hands with the Mater Hospital for the second year running to support a hugely successful Mater Heart Run 2009. The run which saw an increase from 18,000 participants in 2008 to over 23,000 raised Kshs..19 Million which facilitated 128 operations on children with heart-related complications.

Safaricom Sports Personality of the Year (SOYA) 2009: The Annual Safaricom Sports Personality of the Year Awards held in December 2009, was a colourful affair, befitting its status as the Oscars of Kenyan sport. Collins Injera, the 2009 International Rugby Board (IRB) World Sevens Series circuit top scorer was awarded the Sports Personality of the Year in the men's category while long-distance running sensation Linet Masai scooped the women's title.

The annual gala awards, the brainchild of long-distance running legend Paul Tergat, are aimed at celebrating sports excellence across various sporting disciplines and have become a permanent fixture on the calendar of Kenyan sport.

Safaricom Litter Bins Project: Environmental conservation has gained renewed international attention and Safaricom has been in the forefront in ensuring that we keep our environment clean. We have partnered with various Municipal and Town Councils, such as Kitale, Kiambu and Thika by providing litter bins that are strategically placed around the towns, keeping our towns clean. We have also partnered with institutions like the University of Nairobi (Main Campus) and Nembu School in this quest.

Total Eco Challenge: Safaricom was last year garlanded with the top Gold Award for planting over a million trees by the Total Eco Challenge 2009. Safaricom was also cited for its consistency in following up on its tree-planting projects to ensure success. In addition, Safaricom was recognized for supporting efforts by various Community Based Organizations (CBOs) and schools in environmental conservation. These include:

- Har Har development Group in Dadaab which initiated afforestation projects in the refugee camps and the neighbouring areas.
- Griftu Secondary School in Wajir which is battling desertification in the region and has enrolled the students to champion its projects .



A key component of Safaricom Foundation's success is the staff members of the company who support its activities





The directors submit their report together with the audited financial statements for the year ended 31 March 2010, which disclose the state of affairs of the Group and of the Company.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The net profit for the year of Kshs. 15,148,038,000 has been added to retained earnings. During the year no interim dividend (2009: Kshs.. nil) was paid. The directors recommend the approval of a final dividend of Kshs.. 8,000,000,000 (2009: Kshs.. 4,000,000,000).

DIRECTORS


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

N Nganga	Chairman
M Joseph	Managing Director
T Harrabin	
J Maclaurin	(Resigned 15 December 2009)
M Lundal	
L Baillie	(Alternate to M Lundal)
C Tiffin	(Alternate to M Joseph)
J Kinyua	
E Koimett	(Alternate to J Kinyua)
R Collymore	
N Macharia	
S Mudhune	

AUDITOR

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

By order of the Board



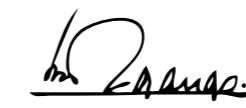
SECRETARY

25 May 2010

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

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

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



Director



Director

25 May 2010

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Safaricom Limited (the Company) and its subsidiaries (together, the Group), as set out on pages 5 to 56. These financial statements comprise the consolidated balance sheet at 31 March 2010 and the consolidated statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, together with the balance sheet of the Company standing alone at 31 March 2010 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company as at 31 March 2010 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

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



Certified Public Accountants
Nairobi

25 May 2010.

	Notes	2010 Kshs..'000	2009 Kshs..'000
Revenue	5	83,960,677	70,479,587
Cost of sales		(36,554,370)	(32,788,307)
Gross profit		47,406,307	37,691,280
Other income		15,342	16,270
Distribution costs		(2,779,913)	(2,424,117)
Administrative expenses		(5,634,221)	(4,303,178)
Other expenses		(16,396,899)	(14,804,976)
Finance income	6	797,308	142,913
Finance costs	7	(2,441,254)	(1,014,165)
Profit before income tax	8	20,966,670	15,304,02
Income tax expense	11	(5,818,632)	(4,767,267)
Profit for the year		15,148,038	10,536,760
(of which Kshs.. 15,432,750,000 has been dealt with in the accounts of the Company)			
Attributable to:			
Equity holders of the Company		15,287,810	10,610,757
Minority interest		(139,772)	(73,997)
		15,148,038	10,536,760
Earnings per share for profit attributable to the equity holders of the Company			
- basic (Kshs.. per share)	12	0.38	0.27
- diluted (Kshs.. per share)	12	0.38	0.27
Profit for the year		15,148,038	10,536,760
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		15,148,038	10,536,760
Attributable to:			
Equity holders of the Company		15,287,810	10,610,757
Minority interest		(139,772)	(73,997)
Total comprehensive income for the year		15,148,038	10,536,760

	Notes	31 March 2010 Kshs..'000	31 March 2009 Kshs..'000
Capital and reserves attributable to the Company's equity holders			
Share capital	14	2,000,000	2,000,000
Share premium	14	1,850,000	1,850,000
Retained earnings		50,691,160	43,403,350
Proposed dividend	13	8,000,000	4,000,000
Attributable to company's equity holders		62,541,160	51,253,350
Minority interest		(246,042)	(106,270)
Total equity		62,295,118	51,147,080
Non-current liabilities			
Borrowings	15	7,610,374	4,774,580
Other liabilities	31	395,388	-
Total non-current liabilities		8,005,762	4,774,580
Total equity and non-current liabilities		70,300,880	55,921,660
Non-current assets			
Property, plant and equipment	17	73,090,172	69,035,111
Intangible assets - Licences	18	2,842,620	3,047,424
Other receivables	21	3,051,523	-
Investment in associate	19 (b)	1,125	-
Deferred income tax asset	16	2,342,054	1,873,652
Prepaid operating lease rentals	33	3,560	4,460
Intangible assets - Goodwill	18	219,151	219,151
		81,550,205	74,179,798
Current assets			
Inventories	22	2,887,029	2,929,683
Receivables and prepayments	23	8,862,983	9,010,114
Derivative financial instruments	24	3,409	100,314
Current income tax		93,809	1,100,786
Cash and cash equivalents	25	10,723,415	4,361,629
		22,570,645	17,502,526
Current liabilities			
Payables and accrued expenses	26	24,739,379	29,223,068
Current income tax		-	1,074
Borrowings	15	9,080,591	6,536,522
		33,819,970	35,760,664
Net current liabilities		(11,249,325)	(18,258,138)
		70,300,880	55,921,660

The financial statements on pages 37 to 86 were approved for issue by the Board of Directors on 25 May 2010 and signed on its behalf by:



Director



Director

	Notes	31 March 2010 Kshs..'000	31 March 2009 Kshs..'000
Equity			
Share capital	14	2,000,000	2,000,000
Share premium	14	1,850,000	1,850,000
Retained earnings		50,913,117	43,480,367
Proposed dividend	13	8,000,000	4,000,000
Total equity		62,763,117	51,330,367
Non-current liabilities			
Borrowings	15	7,513,000	4,680,000
Other liabilities	31	395,388	-
Total non-current liabilities		7,908,388	4,680,000
Total equity and non-current liabilities		70,671,505	56,010,367
Non-current assets			
Property, plant and equipment	17	72,898,486	68,895,250
Intangible assets- Licences	18	2,455,991	3,033,686
Other receivables	21	3,051,523	-
Deferred income tax	16	2,329,014	1,860,612
Prepaid operating lease rentals	33	3,560	4,460
Investment in associate	19(b)	1,125	-
Investment in subsidiaries	19(a)	558,870	185,561
		81,298,569	73,979,569
Current assets			
Inventories	22	2,886,336	2,929,068
Receivables and prepayments	23	9,394,723	8,960,978
Derivative financial instruments	24	3,409	100,314
Current income tax		93,809	1,100,786
Cash and cash equivalents	25	10,699,197	4,261,508
		23,077,474	17,352,654
Current liabilities			
Payables and accrued expenses	26	24,623,949	29,011,135
Borrowings	15	9,080,589	6,310,721
		33,704,538	35,321,856
Net current liabilities		(10,627,064)	(17,969,202)
		70,671,505	56,010,367

The financial statements on pages 37 to 86 were approved for issue by the Board of Directors on 25 May 2010 and signed on its behalf by:



Director



Director

Attributable to equity holders of the Company

Notes	Share capital Kshs.'000	Other reserves Kshs.'000	Retained earnings Kshs.'000	Proposed dividends Kshs.'000	Minority interest Kshs.'000	Total equity Kshs.'000
Year ended 31 March 2009						
At start of year	2,000,000	1,850,000	36,792,593	2,000,000	-	42,642,593
Total comprehensive income for the year						
Profit or loss for the year	-	-	10,610,757	-	(73,997)	10,536,760
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	10,610,757	-	(73,997)	10,536,760
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners:						
Acquisition of One Communication Limited	-	-	-	-	(32,273)	(32,273)
Dividends:						
- Final for 2008	-	-	-	(2,000,000)	-	(2,000,000)
- Proposed final for 2009	-	-	(4,000,000)	4,000,000	-	-
Total contributions by and distributions to owners	-	-	(4,000,000)	2,000,000	(32,273)	(2,032,273)
At end of year	2,000,000	1,850,000	43,403,350	4,000,000	(106,270)	51,147,080

Attributable to equity holders of the Company

Notes	Share capital Kshs.'000	Other reserves Kshs.'000	Retained earnings Kshs.'000	Proposed dividends Kshs.'000	Minority interest Kshs.'000	Total equity Kshs.'000
Year ended 31 March 2010						
At start of year	2,000,000	1,850,000	43,403,350	4,000,000	(106,270)	51,147,080
Total comprehensive income for the year						
Profit or loss for the year	-	-	15,287,810	-	(139,772)	15,148,038
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	15,287,810	-	(139,772)	15,148,038
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners:						
Dividends:						
- Final for 2009	-	-	-	(4,000,000)	-	(4,000,000)
- Proposed final for 2010	-	-	(8,000,000)	8,000,000	-	-
Total contributions by and distributions to owners	-	-	(8,000,000)	4,000,000	-	(4,000,000)
At end of year	2,000,000	1,850,000	50,691,160	8,000,000	(246,042)	62,295,118

Company statement of changes in equity

	Notes	Share capital Kshs..'000	Other reserves Kshs..'000	Retained earnings Kshs..'000	Proposed dividends Kshs..'000	Total equity Kshs..'000
Year ended 31 March 2009						
At start of year		2,000,000	1,850,000	36,792,593	2,000,000	42,642,593
Total comprehensive income for the year						
Profit or loss for the year		-	-	10,687,774	-	10,687,774
Total other comprehensive income		-	-	-	-	-
Total comprehensive income for the year						
		-	-	10,687,774	-	10,687,774
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners:						
Dividends:						
- Final for 2008		-	-	-	(2,000,000)	(2,000,000)
- Proposed final for 2009	13	-	-	(4,000,000)	4,000,000	-
Total contributions by and distributions to owners						
		-	-	(4,000,000)	2,000,000	(2,000,000)
At end of year						
		2,000,000	1,850,000	43,480,367	4,000,000	51,330,367

Company statement of changes in equity

	Notes	Share capital Kshs..'000	Other reserves Kshs..'000	Retained earnings Kshs..'000	Proposed dividends Kshs..'000	Total equity Kshs..'000
Year ended 31 March 2010						
At start of year		2,000,000	1,850,000	43,480,367	4,000,000	51,330,367
Total comprehensive income for the year						
Profit or loss for the year		-	-	15,432,750	-	15,432,750
Total other comprehensive income		-	-	-	-	-
Total comprehensive income for the year						
		-	-	15,432,750	-	15,432,750
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners:						
Dividends:						
- Final for 2009		-	-	-	(4,000,000)	(4,000,000)
- Proposed final for 2010	13	-	-	(8,000,000)	8,000,000	-
Total contributions by and distributions to owners						
		-	-	(8,000,000)	4,000,000	(4,000,000)
At end of year						
		2,000,000	1,850,000	50,913,117	8,000,000	62,763,117

	Notes	Year ended 31 March	
		2010 Kshs..'000	2009 Kshs..'000
Operating activities			
Cash generated from operations	27	30,434,335	30,104,429
Interest received		349,587	142,913
Interest paid		(1,458,218)	(861,010)
Income tax paid		(5,280,085)	(6,455,817)
Net cash generated from operating activities		24,045,619	22,930,515
Investing activities			
Acquisition of subsidiary, net of cash acquired	32	(373,309)	(185,357)
Purchase of property, plant and equipment	17	(17,434,944)	(23,817,063)
Purchase of intangible assets	18	(1,500)	-
Investment in TEAMS	19 (b)	(1,125)	-
Investment in KPLC and SEACOM fibre	21	(1,180,943)	-
Proceeds from disposal of property, plant and equipment		17,323	19,370
Net cash used in investing activities		(18,974,498)	(23,983,050)
Financing activities			
Proceeds from long-term borrowings		15,840,350	2,574,929
Repayments on long-term borrowings		(10,498,886)	(818,623)
Dividends paid to Company's shareholders	13	(4,000,000)	(2,000,000)
Proceeds from shareholder loans		-	72,550
Net cash generated from/ (used in) financing activities		1,341,464	(171,144)
Net increase/ (decrease) in cash and cash equivalents		6,412,585	(1,223,679)
Movement in cash and cash equivalents			
At start of year		4,310,830	5,534,509
Increase/ (decrease)		6,412,585	(1,223,679)
At end of year	25	10,723,415	4,310,830

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 Stock Exchange.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Kshs.), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

IFRS 8, 'Operating segments' – effective 1 January 2009. – This replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

IAS 1 (revised), 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 7 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the measurement basis adopted by the Group.

IFRIC 13 – effective for annual periods beginning on or after 1 July 2008 - Customer loyalty programmes – IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (e.g. loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangements using fair values.

(b) Interpretations effective in 2009 but not relevant

In 2009, the following new interpretations became effective for the first time but have not had an impact on the Group's financial statements:

IAS 23 (amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset.

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

Two new standards (IFRS 3 – Business combinations and IAS 27 – Consolidated and separate financial statements) and numerous amendments to existing standards and new interpretations have been published and will be effective for the Group's accounting periods beginning on or after 1 January 2010, but the Group has not early adopted them.

IFRS 2 (amendment), 'Share-based payment': - It clarifies that vesting conditions are service conditions and performance conditions only. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment

The Directors have assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they will not have a significant impact on the Group's financial statements for 2010.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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 and are initially recognised at cost. 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 income statement, and its share of post-acquisition movements in reserves is recognised in reserves. 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.

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.

(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 consolidated financial statements are presented in Kenya Shillings, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-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 principle business is the sale of airtime for use in voice and data transmission. 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 is the first country in the world to use this service, which is offered in partnership between Safaricom and 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 from transfers and withdrawal transactions performed by customers. A tariff that is graduated depending on the funds being transacted is applied on all transactions which cumulatively are reported as M-PESA transaction commission revenue.

There are various pre pay tariffs with varied off peak time periods and varied on-net and off-net costs which are available to our subscribers to suit their varied requirements. The tariffs are Ongea, Super Ongea, Super Taifa and Safari. Post pay tariffs are also 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.

(e) Revenue recognition (continued)

Revenue arising from the different service plans and tariffs are recognised as and when the airtime 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 on a time proportion basis using the effective interest rate method.

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

Management defers revenue for every point accumulated and recognises the revenue relating to the point earned once it has been redeemed. The current trend is that customers are holding onto their points so that they can redeem through merchandise. The position in December 2009 was that over 60% of the customers redeem points through merchandise while 40% redeem points through airtime and SMS. The cost excludes Value Added Tax (VAT) and Excise Duty.

For wireless 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 the standard monthly charge.

(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 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 balance sheet date.

Property 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.

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 reference to their carrying amounts and are taken into account in determining operating profit.

(g) Intangible assets**(i) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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 for mobile telephone companies. The licence is renewable for an additional period upon its lapse.

Network license fees are capitalised at cost and amortised over the period of the licence on a straight-line basis from commencement of the service of the network.

Currently, the Group has the following licences under long term licences:

- Unified Licence Tier 1 issued in May 2009 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 license issued in October 2007 to Safaricom Limited.
- Local Loop Operator License (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; and
- Public Data Communications Network Operator License (PDCNO) issued to PacketStream Data Networks Limited in July 2005.

The Local Loop Operator Licence (LLO) and Digital Carrier Network Operation (DCNO) Licence were acquired on 31 August 2008 when Safaricom Limited purchased 51% of the issued share capital of One Communications Limited, a WIMAX service provider (Note 19).

The Public Data Communications Network Operator License (PDCNO) was acquired on 15 December 2009 when Safaricom Limited purchased 100% of the issued share capital of PacketStream Data Networks Limited, a WIMAX service provider (Note 32).

The international gateway and 3G licences operate under the same umbrella as the original license, 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 useful life.

The start up date for the LLO and DCNO licences was 9 March 2006 and they are both amortised over 15 years as per the licence agreements.

The PDCNO licence which was issued on 26 July 2005 is being amortised over 15 years as per the licence agreement.

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 balance sheet date. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in statement of comprehensive income.

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(k) Indefeasible rights of use

The Company enters into long-term service contracts under which it purchases lit capacity from fibre networks. The purchase involves making prepayments to acquire indefeasible right of use (IRU) for a fixed period of time. The prepayment is recognised in the income statement on a straight-line basis over the life of the contract.

(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 the supplier 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 equity.

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 shares held by the major shareholders of the Group.

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 Group and may be redeemed at any time by the Board of the Group subject to the provisions of the Companies Act.

(p) Cash and cash equivalents

Cash and cash equivalents includes 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 balance sheet.

(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.

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 profit and loss account in the year to which they relate.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(iii) Employee share options

During the year the Group set up an Employee Share Ownership Plan (ESOP) 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.

(r) 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 year 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 balance sheet 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.

(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 the balance sheet date.

(t) Dividends

Dividends payable to the Group's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

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 balance sheet date.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 (i). 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.

(ii) Critical judgements 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
- whether assets are impaired.

(iii) Critical judgement on going concern

The Group's current liabilities exceed its current assets by Kshs. 11,249,325,000 (2009: Kshs. 18,258,138,000) at the balance sheet date. This position is expected to remain a net liability 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, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

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, recognised assets and liabilities.

The Group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities using forward contracts, but has not designated any derivative instruments as hedging instruments.

At 31 March 2010, if the Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, consolidated post tax profit for the year would have been Kshs. 29 million (2009: Kshs. 110 million) higher/lower, mainly as a result of US dollar receivables and bank balances.

At 31 March 2010, 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 Kshs. 79 million (2009: Kshs. 371 million) lower/higher, mainly as a result of Euro denominated trade payables.

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The Group holds interest bearing assets in form of call and fixed deposits. The Group has borrowings in the form of a syndicated loan at rates determined quarterly in advance as well as a corporate bond with both fixed and floating interest rate paid bi-annually. The fixed interest rate notes are priced at 12.25% while the floating notes are priced at 182-days treasury bill rate plus 1.85%. At 31 March 2010, the floating rate was 11.77%.

At 31 March 2010, an increase/decrease of 1,000 basis points in the floating rate would have resulted in a decrease/increase in consolidated post tax profit of Kshs. 100.7 million (2009: Kshs. 10.2 million), mainly as a result of higher/lower interest charges on variable rate borrowings.

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 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 326 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 MACH, a roaming clearing house.

The Group has also signed interconnect agreements with partners such as Zain Kenya Limited, Telkom 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.

Generally, the credit risk of the roaming and interconnect debtors is low.

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 as at 31 March 2010 is Kshs. 21,275 million (2009: Kshs. 12,057 million).

The amount that best represents the Group's and Company's maximum exposure to credit risk at 31 March 2010 is made up as follows:

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Cash equivalents	10,723,374	4,357,787	10,699,156	4,257,671
Trade receivables	4,825,872	3,809,964	4,571,735	3,791,578
Derivative financial instruments	3,409	100,314	3,409	100,314
Non-current other receivables	3,051,523	-	3,051,523	-
Other receivables	1,103,499	1,282,719	1,026,953	1,244,071
Amounts due from related companies	1,567,261	2,506,184	2,438,476	2,514,082
	21,274,938	12,056,968	21,791,252	11,907,716

None of the above assets are either past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced):

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Past due but not impaired:				
- by up to 30 days	500,695	533,881	500,695	517,156
- by more than 30 days	947,711	1,502,609	945,565	1,519,334
Total past due but not impaired	1,448,406	2,036,490	1,446,260	2,036,490
Receivables individually determined to be impaired	642,491	557,425	636,226	557,425

Receivables

31 March 2010 - Group	Fully performing	Past due but not impaired	Impaired	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Dealers	2,096,299	29,815	188,667	2,314,781
Post-pay	278,272	50,562	397,615	726,449
Roaming and interconnect	897,778	830,655	56,209	1,784,642
Amounts due from related parties	1,567,262	-	-	1,567,262
Non-current other receivables	3,051,523	-	-	3,051,523
Other receivables	1,103,499	-	-	1,103,499
Total	8,994,633	911,032	642,491	10,548,156

31 March 2009 - Group	Fully performing	Past due but not impaired	Impaired	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Dealers	784,317	153,149	167,084	1,104,550
Post-pay	213,100	168,293	339,408	720,801
Roaming and interconnect	784,985	1,148,695	50,933	1,984,613
Amounts due from related parties	2,506,184	-	-	2,506,184
Other receivables	1,273,791	8,928	-	1,282,719
Total	5,562,377	1,479,065	557,425	7,598,867

31 March 2010 - Company	Fully performing	Past due but not impaired	Impaired	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Dealers	1,842,162	29,815	188,667	2,060,644
Post-pay	290,801	44,297	391,350	726,448
Roaming and interconnect	904,044	824,390	56,209	1,784,643
Amounts due from related parties	2,438,476	-	-	2,438,476
Non-current other receivables	3,051,523	-	-	3,051,523
Other receivables	1,026,953	-	-	1,026,953
Total	9,553,959	898,502	636,226	11,088,687

31 March 2009 - Company	Fully performing	Past due but not impaired	Impaired	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Dealers	784,317	153,149	167,084	1,104,550
Post-pay	213,100	168,293	339,408	720,801
Roaming and interconnect	784,985	1,148,695	50,933	1,984,613
Amounts due from related parties	2,506,184	-	-	2,506,184
Other receivables	1,273,791	8,928	-	1,282,719
Total	5,562,377	1,479,065	557,425	7,598,867

Credit risk - continued

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. The debt that is overdue is not impaired and continues to be paid. The credit control department is actively following this debt. In addition, the Group has bank guarantees of Kshs. 1.34 billion and Kshs. 769 million as at March 2010 and March 2009 respectively, which can be enforced in the event of customer default. Further, for dealers, the debt is partially covered by future residual commission payments.

The debt that is impaired has been fully provided for. However, debt collectors as well as the legal department are following up on the impaired debt.

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 mainly over 90 days.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
(a) Group	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
At 31 March 2010:				
Liabilities				
- borrowings	9,411,737	-	97,374	9,509,111
- corporate bonds	909,545	909,545	9,938,454	11,757,544
- trade and other payables	25,134,767	-	-	25,134,767
Total financial liabilities (contractual maturity dates)	35,456,049	909,545	10,035,828	46,401,422
Assets				
cash and bank balances	10,723,415	-	-	10,723,415
amounts due from group companies	1,567,262	-	-	1,567,262
other financial assets at fair value through profit or loss	3,409	-	-	3,409
trade receivables	4,825,872	-	-	4,825,872
other receivables and prepayments	2,425,269	-	-	2,425,269
Total financial assets (expected maturity dates)	19,545,227	-	-	19,545,227

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, 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 assets and liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
(a) Group	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
At 31 March 2009:				
Liabilities				
- borrowings	7,226,019	5,152,057	-	12,378,076
- trade and other payables	29,223,068	-	-	29,223,068
- income taxes	1,074	-	-	1,074
Total financial liabilities (contractual maturity dates)	36,450,161	5,152,057	-	41,602,218
Assets				
- cash and bank balances	4,361,629	-	-	4,361,629
amounts due from group companies	2,506,184	-	-	2,506,184
other financial assets at fair value through profit or loss	100,314	-	-	100,314
trade receivables	3,809,964	-	-	3,809,964
other receivables and prepayments	2,693,966	-	-	2,693,966
Total financial assets (expected maturity dates)	13,472,057	-	-	13,472,057

(a) Company	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
At 31 March 2010:				
Liabilities				
- borrowings	9,411,737	-	-	9,411,737
- corporate bonds	909,545	909,545	9,938,454	11,757,544
- trade and other payables	25,019,337	-	-	25,019,337
Total financial liabilities (contractual maturity dates)	35,340,619	909,545	9,938,454	46,188,618
Assets				
cash and bank balances	10,699,197	-	-	10,699,197
amounts due from group companies	2,438,476	-	-	2,438,476
other financial assets at fair value through profit or loss	3,409	-	-	3,409
trade receivables	4,571,735	-	-	4,571,735
other receivables and prepayments	2,339,932	-	-	2,339,932
Total financial assets (expected maturity dates)	20,052,749	-	-	20,052,749

(a) Company	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
At 31 March 2009:				
Liabilities				
- borrowings	6,979,219	5,046,977	-	12,026,196
- trade and other payables	29,011,135	-	-	29,011,135
Total financial liabilities (contractual maturity dates)	35,990,354	5,046,977	-	41,037,331
Assets				
- cash and bank balances	4,261,508	-	-	4,261,508
amounts due from group companies	2,514,082	-	-	2,514,082
other financial assets at fair value through profit or loss	100,314	-	-	100,314
trade receivables	3,791,578	-	-	3,791,578
other receivables and prepayments	2,655,318	-	-	2,655,318
Total financial assets (expected maturity dates)	13,222,800	-	-	13,222,800

Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders.

The Company has a dividend policy that permits dividends to be paid if the Board of Directors finds that the payments are sustainable, after taking into account the sufficiency of distributable reserves and liquidity in order to ensure the Company's operational needs and/or business growth are not limited by the unavailability of funds, as well as the Company's known contingencies and compliance with any funding facility covenants.

The first priority of the Company will be to maintain sufficient distributable reserves and liquidity to ensure that operational needs and/or business growth are not limited by the unavailability of funds and also that facilities are available to cover all known contingencies. Additionally, any dividends will only be declared and paid where allowable under any covenants included in any funding facilities.

Subject to this, the Company intends to operate a progressive distribution policy based on what it believes to be sustainable levels of dividend payments.

Whenever possible, it will be the Company's intention to, at least, maintain annual dividend payments at the level declared in the previous year. However, with respect to the initial dividend payment under the current policy, such dividends will not necessarily be at the level declared in the previous years, 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.

In addition, for purposes of the syndicated loan, a regular quarterly report is sent to the lenders of the syndicated loan. The key elements in the report are financial ratios:

- net financial indebtedness to annualised EBITDA ratio; and
- net financial indebtedness to net worth ratio.

The ratios measure current position against contracted target ranges and confirm compliance.

	2010	2009
	Kshs.'000	Kshs.'000
Total borrowings	16,690,965	11,311,102
Less: cash and cash equivalents	(10,723,415)	(4,361,629)
Net debt	5,967,550	6,949,473
Total equity	62,295,118	51,147,180
Total capital	68,262,668	58,096,653
Gearing ratio	9%	12%

Fair value estimation

Effective 1 March 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following 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 at 31 March 2010.

	Level 1	Level 2	Level 3	Total balance
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Assets				
Derivative financial instruments	-	3,409	-	3,409

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.

The committee considers the business as a segment. Currently the executive committee reviews the results of the segment on a monthly basis in a formal session where the Chief Financial Officer or the Financial Controller takes the committee through all the activities and their impact on the results of the segment.

The reason for looking at the segment as a whole 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 executive committee 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 executive committee.

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 executive committee for the reportable segment for the year ended 31 March 2010 is as follows:

	31 March 2010 Kshs.'000	31 March 2009 Kshs.'000
Total equity and non-current liabilities	70,300,880	55,921,660
Non-current assets	81,550,205	74,179,798
Current assets	22,570,645	17,502,526
Current liabilities	33,819,970	35,760,664
Net current liabilities	(11,249,325)	(18,258,138)
	70,300,880	55,921,660

There are no discontinued operations.

The amounts provided to the executive committee with respect to total assets are measured in a manner consistent with that of the financial statements.

Reportable segment assets are equal to total assets hence no reconciliation is required.

The amounts provided to the executive committee with respect to total liabilities are measured in a manner consistent with that of the financial statements.

Revenue from subscribers is derived from the sale of airtime, handsets, accessories and other data products through our wide dealer network or through our 28 retail outlets across the country.

Breakdown of the revenue from all services is as follows:

Analysis of revenue by category	2010 Kshs.' 000	2009 Kshs.' 000
Voice	63,405,168	58,795,295
SMS and other data	8,167,704	6,170,313
M-PESA commission	7,555,895	2,926,709
Other revenue-Customer Loyalty	729,779	-
Equipment sales and other acquisition revenues	3,661,383	2,310,037
Other	440,748	277,233
Total	83,960,677	70,479,587

The entity 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 continues to contribute a high percentage of total revenue at 75.5% (2009: 83.4%), with SMS and other data at 9.7% (2009: 8.8%), M-PESA at 9.0% (2009: 4.2%) and equipment sales at 4.4% (2009: 3.3%).

In the year, growth in revenue in all categories was positive with voice at 7.8%, SMS and other data at 32.4%, M-PESA at 158.2%, equipment sales at 58.5% and other at 59.0%.

6 Finance income

Group	2010 Kshs.'000	2009 Kshs.'000
Interest income	349,587	142,913
Foreign exchange gain on cash and borrowings	447,721	-
	797,308	142,913

7 Finance costs

Interest expense	(1,458,218)	(861,010)
Foreign exchange losses on cash and borrowings	(820,177)	(145,119)
Other financing costs	(162,859)	(8,036)
	(983,036)	(153,155)
Net finance costs	(2,441,254)	(1,014,165)

8 Expenses by nature

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

Group	2010	2009
	Kshs.'000	Kshs.'000
Depreciation on property, plant and equipment (Note 17)	13,377,364	11,292,736
Amortisation of intangible assets and prepayments (Note 27)	615,496	578,366
Repairs and maintenance expenditure on property, plant and equipment	171,268	113,591
Operating lease rentals		
- buildings	392,537	276,329
- sites	406,846	296,174
Receivables – provision for impairment losses	111,251	157,847
Stock adjustments	22,347	6,964
Employee benefits expenses (Note 9)	3,994,518	2,882,879
Auditor's remuneration	20,850	18,690
Sales and advertising	2,659,185	2,286,185
Consultancy	228,796	235,424
Site/facilities costs	276,824	182,689
Travel and accommodation	337,320	367,317
Computer maintenance	369,395	461,060
Office upkeep	333,312	342,438
Other operating expenses	1,610,045	1,353,977
Net foreign exchange (gains)/ losses, other than on borrowings and cash and cash equivalents	(116,321)	679,605
	24,811,033	21,532,271

9 Employee benefits expense

Group	2010	2009
	Kshs.'000	Kshs.'000
The following items are included within employee benefits expense:		
Salaries and wages	3,774,964	2,729,976
Retirement benefits costs:		
- Defined contribution scheme	212,926	147,585
- National Social Security Funds	6,628	5,318
	3,994,518	2,882,879

10 Employee share option

The Safaricom ESOP scheme was approved by the Board of Directors on 10 November 2009 and launched in February 2010 where 101 million shares were allotted for the scheme. 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 will offer 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 will represent shares of the Company that are listed on the Nairobi Stock 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 26 February 2010 as Kshs. 5.40. The allotment has been done in the current period however the issue will be done in 2013. There is no significant impact on the financial statements in the current year because the grant price was based on the quoted market price of the Company's shares and was made close to year end. However, in 2013, there will be dilution of earnings per share and dividends per share of 0.25% if the current share holding structure remains.

11 Income tax expense

Group	2010	2009
	Kshs.'000	Kshs.'000
Current income tax	6,287,034	5,247,990
Deferred income tax (Note 16)	(468,402)	(480,723)
Income tax expense	5,818,632	4,767,267

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2010	2009
	Kshs.'000	Kshs.'000
Profit before income tax	20,966,670	15,304,027
Tax calculated at the statutory income tax rate of 27% (2009: 30%)	5,661,001	4,591,208
Tax effect of:		
Income not subject to tax	(345)	(300)
Expenses not deductible for tax purposes	122,026	134,843
Over provision of tax in the previous year	-	(2)
Effect of change in tax rate	-	(2,398)
Deferred income tax not recognised	35,950	43,916
Income tax expense	5,818,632	4,767,267

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.

	2010	2009
Profit attributable to equity holders of the Company (Kshs. thousands)	15,287,810	10,610,757
Weighted average number of ordinary shares in issue (thousands)	40,000,000	40,000,000
Basic earnings per share (Kshs.)	0.38	0.27
Diluted earnings per share (Kshs.)	0.38	0.27

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.

13 Dividends per share

No interim dividend was paid during the year (2009: Nil). At the annual general meeting to be held on 2 September 2010, a final dividend in respect of the year ended 31 March 2010 of Kshs. 0.20 (2009: Kshs. 0.10) per share amounting to a total of Kshs. 8,000,000,000 (2009: Kshs. 4,000,000,000) 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.

14 Share capital

	Number of share (Thousands)	Ordinary shares Kshs.'000	Share premium Kshs.'000	Total Kshs.'000
Balance at 1 April 2008	40,000,000	2,000,000	1,850,000	3,850,000
Balance at 1 April 2009	40,000,000	2,000,000	1,850,000	3,850,000
Balance at 31 March 2010	40,000,000	2,000,000	1,850,000	3,850,000

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

The total number of non-voting redeemable preference shares is 5 with a par value of Kshs. 4 per share. These shares have the right to preference in the payment of the paid up par value in the event of liquidation of the Company and may be redeemed at any time by the Board of the Company subject to the provisions of the Companies Act.

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

In November 2009, the Board of Directors approved an Employee Share Option Plan (ESOP). The plan was launched in February 2010 and 101 million shares were allotted to the scheme. These will be issued upon vesting in February 2013.

The Company's ordinary shares are traded at the Nairobi Stock Exchange.

15 Borrowings

The borrowings are made up as follows:

	Group		Company	
	2010 Kshs.'000	2009 Kshs.'000	2010 Kshs.'000	2009 Kshs.'000
Non-current				
Bank borrowings	-	4,680,000	-	4,680,000
Debentures and shareholder loans	97,374	94,580	-	-
Corporate bond	7,513,000	-	7,513,000	-
	7,610,374	4,774,580	7,513,000	4,680,000
Current				
Bank overdraft	-	50,799	-	-
Bank borrowings	9,080,591	6,485,723	9,080,589	6,310,721
	9,080,591	6,536,522	9,080,589	6,310,721
	16,690,965	11,311,102	16,593,589	10,990,721

Included in borrowings is a loan of Kshs. 6,280,000,000 from a syndicate of banks. The borrowings are secured by a fixed and floating charge over the property and assets of the Company, both present and future. Included in the syndicated loan balances is Kshs. 403,963,650 which is denominated in United States Dollars. Interest on the Kenya Shilling denominated syndicated loan balance is payable quarterly at a margin of 1% over the reference 91 day treasury bill rate. Interest on the US dollar denominated loan balance is payable quarterly in advance at a margin of 1.2% over the LIBOR rate.

The Group also has a loan facility of Kshs. 2,309,795,316 from a local bank. This loan is unsecured. Interest on the facility is payable monthly at a margin of 2.05% over the reference 91 day treasury bill rate.

The Group has a corporate bond of Kshs. 7,513,000,000 issued in the year as a medium term notes. The note has fixed and floating rate portions. An amount of Kshs. 7,049,600,000 was issued at a fixed rate of 12.25% p.a. while Kshs. 463,400,000 was issued at a floating rate of 182-day treasury bill rate plus 1.85% margin. At 31 March 2010, the floating rate was 11.77%

A shareholders loan, of Kshs. 97,374,000 has been provided to One Communications Limited by the minority shareholders. The loan is unsecured and interest free and is not payable within the next 12 months. The fair value of the loan approximates its carrying amount.

The weighted average effective interest rates at the year end were 10.53% (2009: 8.28%), for Kenya Shilling denominated borrowings and 1.82% (2009: 4.04%) for USD denominated borrowings.

The carrying amounts of bank borrowings and bank overdrafts 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 annual facilities subject to review at various dates during the year.

16 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 27% (2009: 27% or 30%) depending on the period of expected realisation. The movement on the deferred income tax account is as follows:

Group	2010 Kshs.'000	2009 Kshs.'000
At start of year	(1,873,652)	(1,379,889)
Credit to statement of comprehensive income (Note 11)	(468,402)	(480,723)
On acquisition of One Communications Limited	-	(13,040)
At end of year	(2,342,054)	(1,873,652)

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

Year ended 31 March 2010	1.4.2009 Kshs.'000	Charged/(credited) to SOCI Kshs.'000	31.03.2010 Kshs.'000
Deferred income tax liabilities			
Unrealised exchange gains	62,027	(58,258)	3,769
	62,027	(58,258)	3,769
Deferred income tax assets			
Property, plant and equipment:	(1,637,575)	(637,828)	(2,275,403)
Unrealised exchange loss	(177,505)	183,125	5,620
Provisions for doubtful debts and inventory	(107,559)	44,559	(63,000)
Arising from fair value adjustment on acquisition of subsidiary	(13,040)	-	(13,040)
	(1,935,679)	(410,144)	(2,345,823)
Net deferred income tax asset	(1,873,652)	(468,402)	(2,342,054)

Deferred income tax (continued)

Year ended 31 March 2009	1.4.2008 Kshs.'000	Charged/(credited) to SOCI Kshs.'000	On acquisition of subsidiary Kshs.'000	31.3.2009 Kshs.'000
Deferred income tax liabilities				
Unrealised exchange gains	47,711	14,316	-	62,027
	47,711	14,316	-	62,027
Deferred income tax assets				
Property, plant and equipment:				
- on historical cost basis	(1,257,529)	(380,046)	-	(1,637,575)
Unrealised exchange loss	(63,717)	(113,788)	-	(177,505)
Provisions for doubtful debts and inventory	(106,354)	(1,205)	-	(107,559)
Arising from fair value adjustment on acquisition of subsidiary	-	-	(13,040)	(13,040)
	(1,427,600)	(495,039)	(13,040)	(1,935,679)
Net deferred income tax asset	(1,379,889)	(480,723)	(13,040)	(1,873,652)

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

	2010 Kshs.'000	2009 Kshs.'000
Deferred income tax liabilities		
Unrealised exchange gains	3,769	62,027
Total deferred income tax liabilities	3,769	62,027
Deferred income tax assets		
Property, plant and equipment:	(2,275,403)	(1,637,575)
Unrealised exchange loss	5,620	(177,505)
Provisions for doubtful debts and inventory	(63,000)	(107,559)
Total deferred income tax assets	(2,232,783)	(1,922,639)
Net deferred income tax asset	(2,329,014)	(1,860,612)

17 Property, plant and equipment

(a) Group	Network infrastructure Kshs.'000	Capital work in progress Kshs.'000	Leasehold improvements Kshs.'000	Vehicles & equipment Kshs.'000	Total Kshs.'000
At 1 April 2008					
Cost	76,089,044	6,308,068	1,200,061	5,219,830	88,817,003
Accumulated depreciation	(28,675,374)	-	(706,885)	(2,954,255)	(32,336,514)
Net book amount	47,413,670	6,308,068	493,176	2,265,575	56,480,489
Year ended 31 March 2009					
Opening net book amount	47,413,670	6,308,068	493,176	2,265,575	56,480,489
Additions	6,812,345	16,339,980	125,392	539,346	23,817,063
Transfers	10,533,136	(13,229,899)	557,823	2,138,940	-
Acquisition of One Communications Limited	31,297	-	-	2,098	33,395
Disposal	(264)	-	(2,836)	-	(3,100)
Depreciation charge	(9,750,558)	-	(225,837)	(1,316,341)	(11,292,736)
Closing net book amount	55,039,626	9,418,149	947,718	3,629,618	69,035,111

17 Property, plant and equipment (Continued)

At 31 March 2009					
Cost	93,465,558	9,418,149	1,880,440	7,900,214	112,664,361
Accumulated depreciation	(38,425,932)	-	(932,722)	(4,270,596)	(43,629,250)
Net book amount	55,039,626	9,418,149	947,718	3,629,618	69,035,111
Year ended 31 March 2010					
Opening net book amount	55,039,626	9,418,149	947,718	3,629,618	69,035,111
Additions	12,909,585	2,221,768	748,189	1,555,402	17,434,944
Transfers	14,076	(14,076)	-	-	-
Disposal	-	-	-	(48,073)	(48,073)
Depreciation charge	(11,299,113)	-	(281,404)	(1,796,847)	(13,377,364)
Depreciation on disposal	-	-	-	45,554	45,554
Closing net book amount	56,664,174	11,625,841	1,414,503	3,385,654	73,090,172
At 31 March 2010					
Cost	106,389,219	11,625,841	2,628,629	9,407,543	130,051,232
Accumulated depreciation	(49,725,045)	-	(1,214,126)	(6,021,889)	(56,961,060)
Net book amount	56,664,174	11,625,841	1,414,503	3,385,654	73,090,172

17 Property, plant and equipment (continued)

(b) Company equipment	Network Kshs.'000	Capital work infrastructure Kshs.'000	Leasehold Kshs.'000	Vehicles & in progress Kshs.'000	Total improvements Kshs.'000
At 31 March 2008					
Cost	76,089,044	6,308,068	1,200,061	5,219,830	88,817,003
Accumulated depreciation	(28,675,374)	-	(706,885)	(2,954,255)	(32,336,514)
Net book amount	47,413,670	6,308,068	493,176	2,265,575	56,480,489
At 31 March 2009					
Cost	93,240,249	9,418,149	1,880,440	7,851,504	112,390,342
Accumulated depreciation	(38,325,080)	-	(932,722)	(4,237,290)	(43,495,092)
Net book amount	54,915,169	9,418,149	947,718	3,614,214	68,895,250
At 31 March 2010					
Cost	106,128,957	11,598,343	2,628,629	9,231,300	129,587,229
Accumulated depreciation	(49,593,897)	-	(1,214,126)	(5,880,720)	(56,688,743)
Net book amount	56,535,060	11,598,343	1,414,503	3,350,580	72,898,486

The bank borrowings are secured by a floating and fixed charge over the property and assets, both present and future.

18 Intangible assets

(a) Group	Goodwill Kshs.'000	Licence Fees Kshs.'000	Total Kshs.'000
At 31 March 2008			
Cost	-	5,923,750	5,923,750
Accumulated amortisation and impairment	-	(2,312,369)	(2,312,369)
Net book amount	-	3,611,381	3,611,381
Year ended 31 March 2009			
Opening net book amount	-	3,611,381	3,611,381
Acquisition of One Communication Limited (Note 19)	219,151	14,409	233,560
Amortisation	-	(578,366)	(578,366)
Closing net book amount	219,151	3,047,424	3,266,575
At 31 March 2009			
Cost	219,151	5,938,159	6,157,310
Accumulated amortisation and impairment	-	(2,890,735)	(2,890,735)
Net book amount	219,151	3,047,424	3,266,575
Year ended 31 March 2010			
Opening net book amount	219,151	3,047,424	3,266,575
Additions	-	374,809	374,809
Amortisation	-	(579,613)	(579,613)
Closing net book amount	219,151	2,842,620	3,061,771
At 31 March 2010			
Cost	219,151	6,312,968	6,532,119
Accumulated amortisation and impairment	-	(3,470,348)	(3,470,348)
Net booking amount	219,151	2,842,620	3,061,771

18 Intangible assets (continued)

The goodwill is attributable to the business potential and the technical reputation of the Group and its employees.

(b) Company	Licence Fees	Total
At 31 March 2008	Kshs.'000	Kshs.'000
Cost	5,923,750	5,923,750
Accumulated amortisation and impairment	(2,312,369)	(2,312,369)
Net book amount	3,611,381	3,611,381
At 31 March 2009		
Cost	5,923,750	5,923,750
Accumulated amortisation and impairment	(2,890,064)	(2,890,064)
Net book amount	3,033,686	3,033,686
At 31 March 2010		
Cost	5,923,750	5,923,750
Accumulated amortisation and impairment	(3,467,759)	(3,467,759)
Net book amount	2,455,991	2,455,991

19 Investments

(a) Subsidiaries (cost)

The Company's interest in its subsidiaries, all of which are unlisted and which have the same year end as the Company apart from PacketStream Data Networks Limited; (31 December) were as follows:

Company	Country of incorporation	% interest Held	2010	2009
			Kshs.'000	Kshs.'000
One Communications Limited	Kenya	51	185,561	185,561
PacketStream Data Networks Limited	Kenya	100	373,309	-
			558,870	185,561

Through its 51% shareholding in One Communications Limited, Safaricom Limited indirectly controls the subsidiaries listed below which are incorporated in Kenya and are fully owned by One Communications Limited. The companies are dormant but hold the indicated licences issued by the Communications Commission of Kenya.

Name of subsidiary	Licence
Comtec Training and Management Services Limited	Local Loop Operator License (LLO)
Comtec Integration Systems Limited	Digital Carrier Network Operation (DCNO)
Flexible Bandwidth Services Limited	Internet Service Provider
PacketStream Data Networks Limited has no subsidiary.	

(b) Investment in associate

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

The associate had a net profit of nil for the period under review. The balance sheet as at 31 March 2010 was as follows:

	2010	2009
	Kshs.'000	Kshs.'000
Share capital/retained earnings	(4,772)	-
Retained earnings	184,757	-
Current liabilities	(1,352,011)	-
Non-current liabilities	(8,176,094)	-
Current assets	3,078,437	-
Non-current assets	6,269,683	-

20 Customer loyalty programs

The Company adopted IFRIC13, 'Customer Loyalty Programmes' in the year and now accounts for customer loyalty credits (Bonga points) as a separate component of the sales transaction and hence as a revenue deferral. Previously this was recognised as a charge to expenses. During the year, in order to account for customer loyalty programme in line with IFRIC 13, a deferral of revenue of Kshs. 2,546 million was recognised, out of which Kshs. 1,473 million related to the previous year. The revenue deferral was effected against voice revenue. Without the deferral of revenue, the total revenue for the year would have been Kshs. 86,808 million.

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Deferred revenue- Customer loyalty	2,546,371	-	2,546,371	-
Customer loyalty accrual	-	1,472,633	-	1,472,633
	2,546,371	1,472,633	2,546,371	1,472,633

21 Other receivables

The fair values of the non-current receivables are as follows:

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
TEAMS	1,951,043	-	1,951,043	-
SEACOM	856,624	-	856,624	-
KPLC	288,436	-	288,436	-
	3,096,103	-	3,096,103	-
Current portion included in current other receivables	44,580	-	44,580	-
Non-current portion	3,051,523	-	3,051,523	-

The Company made a prepayment of Kshs. 1,951,043 to The East African Marine Systems Limited (TEAMS) as part of the plan to acquire an indefeasible right of use (IRU) in the TEAMS cable. The capacity purchase arrangements have not been completed.

To enhance capacity in readiness to offer business solutions for data, the Group has taken long term leases over the South East Asia Commonwealth Cable (SEACOM) international fibre cable. The total prepayment for the IRU is Kshs. 890,063. Part payment of Kshs. 316,663,000 has been made with the balance outstanding to be settled within the next five years.

The prepayment to KPLC was for securing a lease for a term of 20 years to use Kenya Power and Lighting Company Limited (KPLC)'s power distribution network to carry the Company's fibre cable. The required prepayment for the lease is Kshs. 290,880,000. Part payment of Kshs. 116,352,000 has been made with the balance outstanding to be settled within the next 12 months.

The total prepayment for SEACOM and KPLC less amortisation charge for the year is as follows:

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
At start of year	-	-	-	-
Additions				
KPLC	290,880	-	290,880	-
SEACOM	890,063	-	890,063	-
Amortisation	(35,883)	-	(35,883)	-
At end of year	1,145,060	-	1,145,060	-

The carrying amounts of above mentioned non-current receivables approximate to their fair value.

22 Inventories

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Network spare parts	1,413,049	1,299,932	1,413,049	1,299,932
Less: Provision for impairment losses	(174,964)	(288,877)	(174,964)	(288,877)
	1,413,049	1,299,932	1,413,049	1,299,932
Handsets and accessories	1,175,278	1,243,314	1,174,585	1,242,699
Scratch cards	128,951	132,636	128,951	132,636
Starter packs	142,377	240,714	142,377	240,714
Stationery and other stocks	27,374	13,087	27,374	13,087
	2,887,029	2,929,683	2,886,336	2,929,068

The cost of inventories recognised as an expense and included in the consolidated 'cost of sales' amounted to Kshs. 7,003,517,865 (2009: Kshs. 5,841,320,000).

23 Receivables and prepayments

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Trade receivables	5,468,363	4,367,389	5,207,960	4,349,003
Less: Provision for impairment losses	(642,491)	(557,425)	(636,225)	(557,425)
	4,825,872	3,809,964	4,571,735	3,791,578
Prepayments	1,366,350	1,411,247	1,357,559	1,411,247
Receivables from related parties (Note 28)	1,567,262	2,506,184	1,788,476	2,514,082
Loans to related party (Note 28)	-	-	650,000	-
Other receivables	1,103,499	1,282,719	1,026,953	1,244,071
	8,862,983	9,010,114	9,394,723	8,960,978

The loan to related party is a loan made by the Company to One Communication Limited at an interest rate based on the

lending rate of either Barclays Bank of Kenya, Kenya Commercial Bank or CFC Stanbic Bank Limited whichever selected by the Company plus 250 basis points. The loan is repayable on demand. The fair value of the loan approximates its carrying amount.

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

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
At start of year	557,425	412,987	557,425	412,987
Provision in the year	111,251	157,847	104,985	157,847
Receivables written off during the year as uncollectible	(26,185)	(13,409)	(26,185)	(13,409)
	642,491	557,425	636,225	557,425

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

24 Derivative financial instruments

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Forward foreign exchange contracts-asset	3,409	100,314	3,409	100,314
	3,409	100,314	3,409	100,314

25 Cash and cash equivalents

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Cash at bank and in hand	6,140,460	2,443,993	6,123,602	2,379,9067
Short term bank deposits	4,582,955	1,917,636	4,575,595	1,881,602
	10,723,415	4,361,629	10,699,197	4,261,508

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

	Group	
	2010	2009
	Kshs.'000	Kshs.'000
Cash and bank balances as above	10,723,415	4,361,629
Bank overdrafts (Note 15)	-	(50,799)
	10,723,415	4,310,830

26 Payables and accrued expenses

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Trade payables	7,092,132	11,923,192	6,861,337	11,703,629
Amounts due to related companies (Note 28)	865,310	1,132,329	865,310	1,132,329
Accrued liabilities				
- Network infrastructure	5,077,061	4,829,941	5,077,061	4,829,941
- Customer Loyalty (Note 20)	2,546,371	1,472,633	2,546,371	1,472,633
- Inventory	603,826	892,399	603,826	892,399
- Other expenses	4,794,133	5,647,997	4,750,642	5,647,997
Other payables -current	3,760,546	3,324,577	3,919,402	3,332,207
	24,739,379	29,223,068	24,623,949	29,011,135

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

27 Cash generated from operations

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

	Group	
	2010	2009
	Kshs.'000	Kshs.'000
Profit before income tax	20,966,670	15,304,027
Adjustments for:		
Interest income (Note 6)	(349,587)	(142,913)
Interest expense (Note 7)	1,458,218	861,010
Unrealised exchange loss on syndicated loan	88,665	111,746
Changes in fair value of financial instruments	96,905	(100,314)
Depreciation (Note 17)	13,377,364	11,292,736
Change in prepaid operating lease rentals	900	2,656
Amortisation of intangible assets (Note 18)	579,613	578,366
Amortisation of other receivables (Note 21)	35,883	-
Profit on sale of property, plant and equipment	(14,805)	(16,270)
Changes in working capital		
– receivables and prepayments	(1,757,838)	(3,861,290)
– inventories	42,654	(645,503)
– payables and accrued expenses	(4,090,307)	6,720,178
Cash generated from operations	30,434,335	30,104,429

28 Related party transactions

Vodafone Kenya Limited incorporated in Kenya, whose ultimate parent is Vodafone Group Plc, incorporated in the United Kingdom, has the largest controlling interest in the Group. There are other companies in the Vodafone Group that are related to the Company through common shareholdings or common directorships.

The Company has roaming agreements with Vodafone affiliated companies in many countries around the world. The Company also has a Kama Kawaida contract with Vodacom Tanzania Limited, a company that is controlled by Vodacom Group Limited, a company in which Vodafone Group Plc has an indirect interest.

The Company, in conjunction with the Vodafone Group Services Limited ('VGSL') through Vodafone Marketing SARL, the licensee, operates M-PESA. This is an innovative mobile payment solution that enables users to complete simple money transfer transactions by mobile phone. The Company also uses the M-PESA platform to sell air time to M-PESA account holders.

VGSL, which owns the M-PESA solution, has entered into a Managed Services Agreement with the Company under which VGSL agrees to provide the M-PESA solution to the Company against which a licence fee is due quarterly.

The license fee is based on 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. Previously the agreement stipulated a share of profits.

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.

The Company has signed an agreement with Vodafone Marketing SARL (VMS), a company incorporated in Luxembourg. The agreement is effective from 1 October 2006 to 30 September 2010. The agreement sets out the framework under which the two companies work together in Kenya with a view to increasing international roaming revenue by marketing and advertising products and services under the Vodafone brand.

For the year ended 31 March 2010, Safaricom shall pay VMS a participation fee of 0.5% of the Company's annual turnover. (2009: 0.5% of the Company's total annual revenue ended 31 March 2009). For all financial years during the term of the agreement, the Company shall pay VMS a participation fee of the lower of 0.5% of the Company's total annual revenue or Euro 2.1 million.

The Company may participate in the Vodafone's global arrangements for the procurement and/or supply chain management of handsets, SIM cards and other hardware and/or software components with third party suppliers. To participate, the Company shall pay VMS 6% of the aggregate

gross amount payable by the Company to vendors in consideration for the procured products.

28 Related party transactions (continued)

The following transactions were carried out with related parties:

	Group	
	2010	2009
	Kshs.'000	Kshs.'000
i) Sale of goods and services		
Vodafone International Holdings B.V.	327,900	218,398
Vodacom Tanzania Limited	1,730	274,633
Commissions earned from M-PESA	7,555,096	2,926,709
	7,884,726	3,419,740
	2010	2009
	Kshs.'000	Kshs.'000
ii) Purchase of goods and services		
Vodafone Group Services Limited	-	189,265
Vodafone Ireland Marketing Limited	44,396	126,177
Vodafone (UK) Limited	214,165	310,527
Vodafone Marketing S.A.R.L.	1,083,230	586,373
Vodacom Tanzania Limited	290,154	387,389
	1,631,945	1,599,731
	2010	2009
	Kshs.'000	Kshs.'000
iii) Key management compensation		
Salaries and other short-term employment benefits	522,506	433,174
Termination benefits	-	5,107
	522,506	438,281
	2010	2009
	Kshs.'000	Kshs.'000
iv) Directors' remuneration		
Fees for services as a director	13,355	1,310
Other emoluments	310,694	112,695
	324,049	114,005

28 Related party transactions (continued)

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

	Group		Company	
	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Amounts due from:				
- Vodafone (UK) Limited	120,442	77,616	120,442	77,616
- M-PESA Holding Company Limited	1,421,276	2,254,592	1,421,276	2,254,592
- Vodacom Tanzania	25,339	173,271	25,339	173,271
- Vodafone Kenya Limited	205	705	205	705
- One Communications Limited	-	-	221,214	7,898
- Loan to related parties	-	-	650,000	-
	1,567,262	2,506,184	2,438,476	2,514,082

vi) Outstanding payable balances arising from sale and purchase of goods/services

	2010	2009	2010	2009
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Amounts due to:				
- Vodafone Group Services Limited	304,987	94,632	304,987	94,632
- Vodafone Ireland Marketing Limited	-	63,088	-	63,088
- Vodafone Marketing S.A.R.L.	38,840	283,952	38,840	283,952
- Vodafone (UK) Limited	8,918	64,711	8,918	64,711
- M-PESA Holding Company Limited	378,839	462,836	378,839	462,836
- Vodacom Tanzania	57,261	163,110	57,261	163,110
- One Communications Limited	76,465	-	76,465	-
	865,310	1,132,329	865,310	1,132,329

vii) Loans to directors of the Company

There are no loans to directors of the Company at 31 March 2010 and 31 March 2009.

29 Contingent liabilities

At 31 March 2010, a guarantee of Kshs. 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 Kshs. 25,521,401 to various suppliers for services regularly provided to the Company and a further guarantee of Kshs. 47,765,000 to CfC Stanbic Bank Kenya Limited for a credit facility given to some of the Company's dealers.

30 Commitments

Capital commitments

	Group		Company	
	2010 Kshs.'000	2009 Kshs.'000	2010 Kshs.'000	2009 Kshs.'000
Property, plant and equipment	6,102,714	4,069,428	6,085,022	4,042,595
Investment in TEAMS	-	1,681,405	-	1,681,405
	6,102,714	5,750,833	6,085,022	5,724,000

Operating lease commitments

	Group		Company	
	2010 Kshs.'000	2009 Kshs.'000	2010 Kshs.'000	2009 Kshs.'000
Not later than 1 year	434,729	371,134	406,845	347,374
Later than 1 year and not later than 5 years	1,706,288	1,410,785	1,650,520	1,410,701
Later than 5 years	1,042,335	1,044,167	1,042,335	1,044,167
	3,183,352	2,826,086	3,099,700	2,802,242

31 Other liabilities

To enhance capacity in readiness to offer business solutions for data, the Group entered into an arrangement to acquire an indefeasible right of use in the SEACOM fibre cable, by prepaying for the right. The total prepayment is required to be Kshs. 890,062,500. An initial payment of Kshs. 316,662,500 has been made. The balance of Kshs. 573,400,000 is payable within the next five years. Out of this balance, Kshs. 178,012,000 is payable within one year and is included in current payables.

The balance is carried as other long term liabilities.

	Group		Company	
	2010 Kshs.'000	2009 Kshs.'000	2010 Kshs.'000	2009 Kshs.'000
Other liabilities - SEACOM	395,388	-	395,388	-

32 Business combination

On 15 December 2009, the Company acquired 100% of the issued share capital of PacketStream Data Networks Limited, a WIMAX service provider.

Details of net assets acquired and goodwill are as follows:

	Kshs.'000
Purchase consideration - cash paid	373,309
Fair value of identifiable net assets acquired (see below)	(373,847)
Goodwill	(538)

The assets and liabilities arising from the acquisition as at 15 December 2009 are as follows:

	Acquiree's carrying amount Kshs.'000	Fair value adjustments Kshs.'000	Fair value Kshs.'000
Intangible assets	1,050	373,309	374,359
Receivables	1,494	-	1,494
Trade and other payables	(2,160)	154	(2,006)
Shareholder loans	(37,839)	37,839	-
Net assets at acquisition	(37,455)	411,302	373,847
Net assets acquired (100%)			373,847
Goodwill on acquisition			(538)
Total purchase price			373,309
Less: Cash in subsidiary			-
Cash flow on acquisition net of cash acquired			373,309

The negative goodwill arising from the transaction has been credited to the income statement.

33 Prepaid operating lease rentals – Group

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:

The following transactions were carried out with related parties:

	2010	2009
	Kshs.'000	Kshs.'000
At start of year	380,830	330,007
Additions	456,715	346,997
Amortisation charge for the year	(411,517)	(296,174)
At end of year	426,028	380,830
Current portion reflected in prepayments	(422,468)	(376,370)
Non-current portion	3,560	4,460

Principal shareholders

The ten largest shareholdings in the Company (ordinary shares only) and the respective number of shares held as at 31 March 2010 are as follows:

Name of shareholder	Number of shares
1. VODAFONE KENYA LIMITED	16,000,000,000
2. PERMANENT SECRETARY-THE TREASURY	14,022,572,580
3. BARCLAYS (KENYA) NOMINEES LTD NON-RESIDENT AC 9011	251,300,000
4. CFC STANBIC NOMINEES LIMITED A/C NR00304	240,459,400
5. NATIONAL SOCIAL SECURITY FUND - UGANDA	160,278,800
6. CFC STANBIC NOMINEES LTD A/C NR13301	150,849,800
7. CFC STANBIC NOMINEES LTD. A/C NR70001	147,931,400
8. BARCLAYS (KENYA) NOMINEES LTD NON-RESD A/C 9301	130,980,000
9. BARCLAYS (KENYA)NOMINEES LIMITED A/C 9230	113,083,100
10. BARCLAYS (KENYA) NOMINEES LTD NONRESIDENT A/C 9054	113,031,626
11. Others	8,669,513,294
Total	40,000,000,000

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
1 to 1000	454,427	280,169,852	0.70
1001– 10,000	280,494	855,174,358	2.14
10,001 – 100,000	46,619	1,225,682,072	3.06
100,001 – 1,000,000	5,093	1,290,378,629	3.23
1,000,001 – 10,000,000	590	1,729,379,847	4.32
10,000,001 – 100,000,000	130	3,288,728,536	8.22
100,000,001 - 1,000,000,000	8	1,307,914,126	3.27
1,000,000,001 - 100,000,000,000	2	30,022,572,580	75.06
Total	787,363	40,000,000,000	100





SAFARICOM LIMITED

PROXY

I/WE

OF

Being a member of the above Company, hereby appoint:

OF _____

OF _____

failing whom, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday, 2nd September 2010 and at any adjournment thereof.

As witness my/our hand this 2nd day of September 2010.

Signed _____

Signed _____

Note:

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

