SAFARICOM LIMITED ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2013

Safaricom

SHAREHOLDER'S DIARY

Financial year end	31 March
Annual General Meeting:	Thursday 12 September 2013
Dividend book's closure date:	Thursday 12 September 2013

DIVIDENDS

Proposed dividend	Cents per share	31
	Payable	On or before 11 December 2013

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

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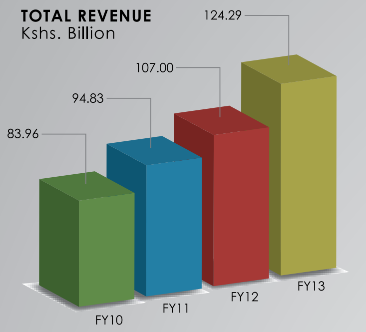
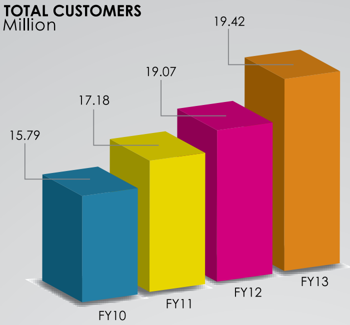
HIGHLIGHTS

Financial Highlights

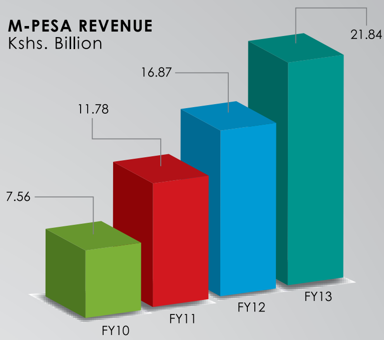
TOTAL REVENUE
Kshs. Billion



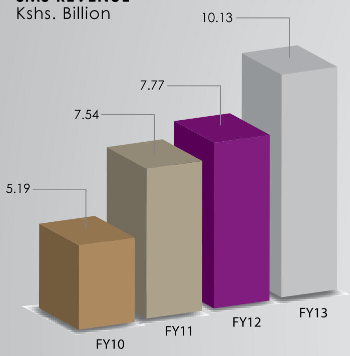
TOTAL CUSTOMERS
Million



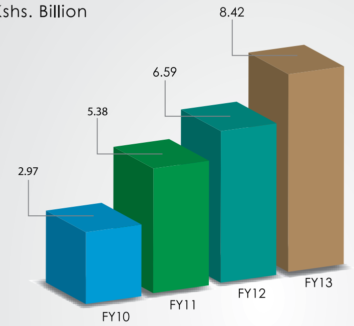
M-PESA REVENUE
Kshs. Billion



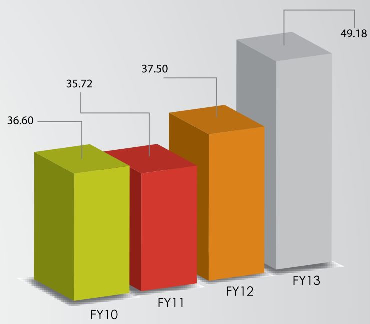
SMS REVENUE
Kshs. Billion



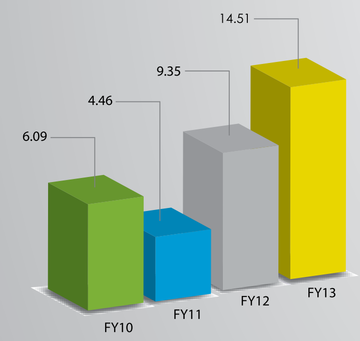
MOBILE & FIXED DATA SERVICE REVENUE
Kshs. Billion



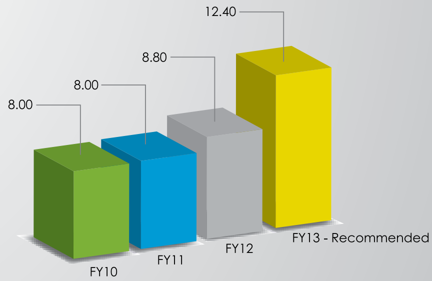
EBITDA
Kshs. Billion



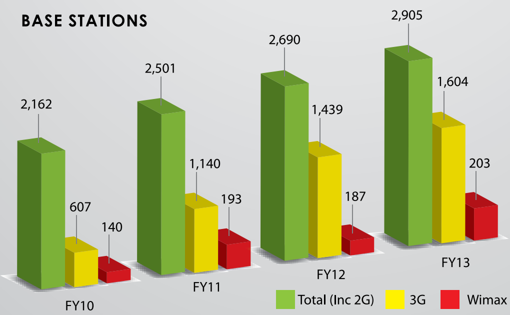
FREE CASH FLOW
Kshs. Billion



TOTAL DIVIDENDS
Kshs. Billion



BASE STATIONS



Chairman's Statement

> As we now direct our attention to 2014, we look forward to the future because we are confident that Safaricom will remain focused, nimble and responsive to the demands of the market.

Mr. Nicholas Nganga

Ahead of the Game

As Chairman of the Board, it is a great pleasure to share with you the events that have shaped our operating environment over the last 12 months.

At the beginning of the financial year under review the macro-economic environment in the country was subdued and so was our performance during that period. However, as the year progressed we saw a positive recovery for both the Kenyan macro-economic environment and indeed for the company.

Despite the long electioneering season and the difficult global economic conditions that characterized the period under review, Kenya has stayed the course in terms of achieving its economic priorities. Monetary policy has remained cautious and institutionalized reforms have progressed as scheduled. The results of these have been favorable. Inflationary pressures have been tamed and economic growth has kept a steady pace. This is commendable considering the immense challenges faced by the Exchequer in mitigating the impact of stagnated exports, reduced inbound tourism, the rising government wage bill, the costs of the recently concluded general elections and the costs associated with the implementation of the new Constitution.

Despite all this, I am pleased to note that interest rates have started to decline, providing the much needed stimulus to economic activity both at the macro-level and at the grass roots. In addition, sound economic management continues to attract foreign direct investment into the country and this is quite visible when one looks at the performance of the Nairobi Securities Exchange which has seen increased participation of foreign investors.

The Kenyan people and the political class undertook a very peaceful general election. The manner in which the election process was handled by all parties has strengthened the confidence of both local and international investors in our country, setting the stage to make Kenya a top destination for doing business in Africa.

All of these positive trends have enabled the Company to continue its substantial investment in the network, its customers, employees and indeed in the Kenyan people.

Key Regulatory Highlights

CCK Directive to Switch Off Counterfeit Handsets

On 28 June 2012, the CCK issued a directive to all mobile operators to switch off counterfeit handsets with effect from 30 September 2012. The directive was aimed at removing from circulation and operation all mobile handsets that fail to comply with International Global System for Mobile Communications Association (GSMA) standards due to various concerns, including health and safety reasons, and poor quality of service.

The directive followed consultations between CCK, mobile operators and other stakeholders. A public awareness campaign spearheaded by CCK was set in motion to ensure a coordinated approach to phase out these handsets. The directive affected approximately 680,000 Safaricom subscribers.

Vandalism of Communications Infrastructure

Following a joint effort between Safaricom and other mobile and optic-cable operators, in July 2012, Parliament passed the Statute Law (Miscellaneous Amendment) Act 2012. This Act, among other things, increases criminal penalties for persons who vandalise or otherwise cut fibre-optic cables. It is expected that, as a result of these stiffer penalties, incidents of vandalism of telecommunications infrastructure will be minimised.

Mandatory Registration of Subscribers

On 4 January 2013, the Government promulgated Regulations prescribing mandatory registration of all mobile subscribers. In compliance with this new law, Safaricom suspended communication services for 2.5 million unregistered subscribers on its network. Once suspended, affected subscribers had a 90-day window within which they must register their identity information, failing which such subscribers are permanently disconnected. Safaricom continued to conduct campaigns to encourage these suspended subscribers to register their numbers. As at 31 March 2013, suspended unregistered subscribers stood at 1.4 million.

Excise Duty on Mobile Money Transfer Fees

Through the Finance Act 2012, the Government introduced a 10% excise duty on mobile money transfer fees and all financial transactions. This tax came into effect on 5 February 2013. Consequently, Safaricom reviewed its M-PESA tariffs to factor in this new tax.

Refund of USD 15 Million 3G Licence Fees

In 2007, Safaricom paid USD 25 million for a 3G licence. However, in 2010 other mobile operators paid USD 10 million for the same licence. In order to attain the principle of equality in licence fees, Safaricom filed High Court Misc. Application No. 197 of 2011, seeking a refund of USD 15 million from CCK being the extra amount paid for the 3G licence. In February 2013, the suit was settled by consent, with CCK agreeing to refund, by way of credit notes against their other fee invoices, the USD 15 million in three equal instalments over three financial years to June 2015.

Guidelines on Transmission of Bulk Political Messages

In anticipation of the General Elections held on 4 March 2013, Safaricom took the initiative to publicly communicate that no bulk political messages containing discriminatory, partisan or hate speech content would be transmitted through its network. Safaricom further engaged the CCK, National Commission for Integration Commission (NCIC) and the Independent Electoral and Boundaries Commission (IEBC) in the development of clear national guidelines for transmission of bulk political messages. Subsequently, a CCK led National Technical Committee developed and launched the national *Guidelines for the Prevention of Undesirable Bulk Political Content/Messages via Electronic Communications Networks* on 24 October 2012.

Mobile Termination Rates (MTR)

In August 2010, CCK conducted a network cost study and issued a Determination No. 2 of 2010, setting out the new Mobile Termination Rates (MTRs). MTRs represent the charge paid by one operator to another for the calls they terminate on the other operator's network. In issuing Determination No. 2, CCK prescribed a glide-path of continued reduction of the MTRs over a three-year period from the then rate of Kshs 4.42 to Kshs 0.99.

On 8 June 2011, the CCK Board suspended the glide path relating to voice services, leaving the MTR at Kshs 2.21. On 26 November 2012, the CCK Board resumed the glide path thereby reducing the MTR by 35% to Kshs 1.44, back-dated to July 2012.

The MTR is expected to reduce further to Kshs 1.15 with effect from 1 July 2013 being a further decline of 20%.

Safaricom has maintained a consistent engagement strategy with CCK, the Government and other stakeholders to ensure that the MTR regime in Kenya is cost-based and reflects the operating costs in the industry.

The Unclaimed Financial Assets Act 2011

The Unclaimed Financial Assets Act that came into force on 16 December 2011, seeks to vest management of unclaimed assets in the Unclaimed Assets Authority. These include unclaimed cheques and other payment instruments, bank deposits, life and other policies, unused gift certificates, unpaid wages, unclaimed ownership interest in companies, etc. As holders of various classes of financial assets, Safaricom is obliged to create a register of, and surrender any unclaimed financial assets including any unclaimed shares or dividends, M-PESA balances and customer deposits. By surrendering unclaimed financial assets to the Unclaimed Financial Assets Authority, we release ourselves from the liability of holding on to the affected assets.

Renewal of Safaricom's CCK Operating Licence

Safaricom's operating license was issued for a period of 15 years from 1 July 1999 to 30 June 2014. The license stipulates that two years prior to the expiry of the license (that is, by 1 July 2012), the Communications Commission of Kenya (CCK) will conduct a mandatory review of the license to determine the terms of renewal. Safaricom has formally applied for renewal of its license, and as at 31 March 2013 is awaiting CCK's response to the application which we expect will be to grant the renewal.

Corporate Governance

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

Mr. Ahmed Essam and Mr. Sunil Sood were appointed to the board as non-executive members.

The following board members resigned during the year:

- Mr. Tim Harrabin
- Ms. Karen Witts

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

Looking Forward

The Board recognizes not only the accomplishments of this great company, its management and staff, but also celebrates the immense opportunities that lie ahead and reemphasizes our commitment towards transforming the lives of Kenyans through innovation.

As we now direct our attention to 2014, we look forward to the future because we are confident that Safaricom will remain focused, nimble and responsive to the demands of the market.

Taarifa ya Mwenyekiti

Na sasa tunapoangazia mwaka unaokuja wa 2014, tunaelekea katika siku zijazo tukiwa na matumaini kuwa Safaricom itaendelea kuwa na mtazamo, uhodari wa kazi na yenye kutimiza kikamilifu mahitaji ya wateja katika soko hili.

Bw. Nicholas Nganga

Tunawaongoza wote

Mimi kama mwenyekiti wa Bodi ya wakurugenzi, nina furaha kuu kwa fursa hii ya kuwasilisha kwenyu matukio ambayo yamechangia kuweko kwa mazingira haya tulimotekeleza na kufanikisha shughuli zetu katika kipindi cha miezi 12 iliyopita.

Mwanzo wa mwaka huu wa kifedha tunaoukariria, hali ya shughuli za kiuchumi humu nchini ilififia na matokeo yetu vile vile yaliathirika katika kipindi hicho. Hata hivyo, kadri mwaka ulivyoendelea tumeshuhudia dalili za kupata afueni kwa hali ya kiuchumi ya Kenya na pia ya shirika hili letu.

Licha ya kuweko kwa msimu mrefu wa shuguli za siasa na hali ngumu ya kiuchumi kote ulimwenguni ambayo ilitukabili katika mwaka huu tunaoukariria, Kenya ilijizatiti katika kufikia malengo yake ya kiuchumi. Sera za kifedha zimeendelea kujumuisha tahadhari na mageuzi katika idara pia yaliendelea kama ilivyopangiwa. Matokeo ya hayo yamekuwa mazuri. Shinikizo la kudorora kwa gharama za kimaisha limethibitiwa na ukuaji wa uchumi umeendelea kuimarika. Hili ni jambo linalostahili sifa ikizingatiwa changamoto zinazokabili Wizara ya Fedha katika kupunguza athari za kudorora kwa uuzaji bidhaa nje, kupungua kwa watalii kutoka Ulaya, kupanda kwa gharama za matumizi ya serikali, gharama za kufanya uchaguzi mkuu uliokamilika hivi majuzi na gharama zihusuzo utekelezaji wa katiba mpya.

Licha ya haya yote, nafurahia ninapoona viwango vya riba vikianza kuteremka, hii inatoa fursa muafaka ya kuchangamsha shughuli za kiuchumi katika viwango vyote vikubwa na pia vya mashinani. Kwa kuongezea, usimamizi imara wa uchumi unaendelea kuvutia uwekezaji wa moja kwa moja kutoka nchi za kigeni kwenye nchi yetu na hii inadhihirika wazi ukifuatilia shughuli zinavyoendelea katika Soko la Hisa la Nairobi ambapo kumeshuhudiwa uhusikaji zaidi wa wawekezaji wa kigeni.

Wananchi wa Kenya pamoja na wanasiasa walitekeleza Uchaguzi Mkuu kwa njia ya amani kabisa. Jinsi shughuli ya upigaji kura zilivyoendeshwa na wahusika wote kumetilia nguvu matumaini ya wawekezaji wote wa humu nchini na wa kimataifa katika nchi yetu, hii inaweka hatua za kuifanya nchi ya Kenya kuwa mahala bora zaidi pa kufanya biashara katika bara la Afrika.

Mienendo hii yote yenye kuleta matumaini imewezesha Kampuni hii kuendelea kuwekeza zaidi katika mtandao, wateja wake, wafanyikazi na wakenya wote kwa ujumla.

Mambo muhimu ya Kisheria

Agizo la Tume ya Mawasiliano ya Kenya (CCK) la kuzima simu zote bandia

Mnamo tarehe 28 Juni 2012, CCK ilitoa agizo kwa watoa huduma wote wa simu za rununu kuzima simu zote bandia ifikapo tarehe 30 Septemba 2012. Agizo hilo lilidhamiria kukomesha kusambaa na kutumika kwa simu zote bandia ambazo hazifikii viwango vilivyowekwa vya kimataifa vya GSMA kwa ajili ya shauku mbali mbali, ikiwa ni pamoja na sababu za kiafya na za kiusalama na pia huduma zilizo duni.

Agizo hilo lilitokamana na ushauriano baina ya CCK, watoa huduma za simu za rununu na washika dau wengine. Hamasisho la umma lililo ongozwa na CCK lilifuatia ili kuhakikisha kuna mpango sawa wa kumaliza simu hizo bandia. Agizo hilo liliathiri takriban wateja 680,000 wa Safaricom.

Uharibifu wa Vifaa katika Muundo Msingi

Kufuatia juhudi za pamoja kati ya Safaricom na washikadau wengine katika sekta ya simu za rununu na wa kebo za kupitisha internet. Katika mwezi wa Julai 2012, Bunge lilipitisha Sheria (Marekebishi Anuwai) Ibara ya 2012. Ibara hii, miongoni mwa mambo mengine, iliongeza adhabu kwa wahalifu wanaoharibu au kukata nyaya za kupitisha internet. Inatarajiwa kuwa kutokana na kuongezeka kwa adhabu hiyo kutaweza kupunguza uhalifu wa kuharibu muundo msingi wa vifaa vya mawasiliano.

Sheria za Kusajili wateja wote

Mnamo tarehe 4 Januari 2013, Serikali ilitoa ilani ya kanuni ya kulazimu wateja wote wa simu za mkono kusajiliwa. Katika kutekeleza sheria hii mpya, Safaricom ilifunga huduma zote za mawasiliano kwa wateja wa simu katika mtandao wetu ambao hawakusajiliwa, jumla ya wateja hao ikifikia milioni 2.5. Pindi walipofungiwa, wateja walioathiriwa walikuwa na muda wa siku 90 ambapo wangeweza kuandikisha maelezo ya utambulisho wao, na wasipo fanya hivyo wafungiwe laini zao kabisa. Safaricom iliendelea kufanya matangazo ya kuwahimiza wateja wake waliofungiwa kuandikisha nambari zao za simu. Kufikia tarehe 31 Machi 2013, wateja ambao hawakuwa wamesajiliwa na wakafungiwa laini walikuwa wamefika milioni 1.4.

Ushuru kwa Huduma ya Kuhawilisha pesa

Kupitia Sheria ya Fedha ya 2012, Serikali ilitangaza ushuru mpya wa 10% kutozwa katika huduma ya kutuma pesa kupitia simu za rununu. Utozaji ushuru huo ulianza kutekelezwa kuanzia tarehe 5 Februari 2013. Kutokana na hivi, Safaricom ilibadilisha orodha yake ya malipo ya M-PESA ili kuzingatia ushuru huu mpya.

Kurudishwa kwa malipo ya leseni ya 3G kiasi cha Dola Milioni 15

Katika 2007, Safaricom ililipa USD milioni 25 kwa ajili ya leseni ya 3G. Hata hivyo, katika mwaka wa 2010 kampuni zingine za simu za rununu zilitozwa USD milioni 10 kwa leseni hiyo hiyo. Ili kuhakikisha kunakuwa na usawa katika ulipaji leseni, Safaricom ilipeleka kesi katika Mahakama kuu kesi nambari Misc. Application No. 197 ya 2011, ikitaka kurudushiwa kiasi cha USD milioni 15 kutoka kwa CCK hiki kikiwa ni kiasi cha ziada tulicholipa ili kupata leseni ya 3G. Katika mwezi wa Februari 2013, kesi ilitatuliwa kwa maelewano, na CCK kukubali kurudisha pesa hizo, kupitia hati za thamani, hizo USD milioni 15 zitalipwa kwa hatamu tatu sawa katika kipindi cha miaka mitatu ya kifedha

Muongozo wa Utumaji Arifa za kisiasa kwa watu wengi

Katika kutarajia Uchaguzi Mkuu uliofanyika tarehe 4 Machi 2013, Safaricom ilichukua jukumu la kutangaza wazi kwa umma kuwa haitaruhusu arifa za jumla za kisiasa zenye ujumbe wa kubagua, ufuasi wa ari au jumbe za kueneza chuki kutumwa kupitia mtandao wake. Zaidi ya hayo Safaricom iliendeleza majadiliano na CCK, Tume ya kitaifa ya Uwiano na Utangamano (NCIC) na Tume Huru ya Uchaguzi na Mipaka (IEBC) ili kupatikane muongozo wa kutuma arifa zenye ujumbe wa kisiasa kwa wingi. Kutokana na haya, CCK ilianzisha kamati ya kiufundi ya kitaifa na kuzindua muongozo wa Kitaifa wa kuzuiya utumaji wa Arifa zenye ujumbe mbaya wa kisiasa kupitia mfumo wa mtandao wa kielektroniki mnamo tarehe 24 Oktoba 2012.

Ada za kulipia mawasiliano ya rununu baina ya mitandao (MTR)

Katika mwezi wa Agosti 2010, CCK ilifanya utafiti wa malipo katika mtandao na kutoa Azimio Nambari 2 la 2010 lililoweka ada mpya ya kulipia mawasiliano baina ya mitandao ya MTR. MTR ni malipo ambayo kampuni ya mtandao mmoja hulipa nyingine kwa simu zake zote ambazo wateja wake hukatiza katika mtandao wao. Kwa kutoa Azimio Nambari 2, CCK ilitoa ratiba ya kuendelea inayoonyesha ada za MTR katika kipindi cha miaka 3 kutoka kiasi cha shilingi 4.42 hadi hatimaye kufikia kima cha shilingi 0.99.

Mnamo tarehe 8 Juni 2011, halmashauri ya CCK ilisimamisha ratiba hiyo kwa upande wa huduma za maongezi, na kuacha malipo ya MTR yakiwa shilingi 2.21. Mnamo tarehe 26 Novemba 2012, halmashauri ya CCK ilianza tena kutumia ratiba ya malipo ya MTR na kuipunguza kwa 35% hadi shilingi 1.44, na kuirudisha masiku yake nyuma ili kutekelezwa kuanzia Julai 2012.

Ada ya MTR inatarajiwa kupungua zaidi hadi shilingi 1.15 na kuanza kutekelezwa tarehe 1 Julai 2013 ikiwa ni kipunguzo zaidi cha 20%.

Safaricom imedumisha mkakati wa kuwa na mawasiliano na CCK, Serikali na washika dau wengine ili kuhakikisha malipo ya MTR hapa Kenya yanategemea gharama na kuzingatia gharama za kufidia shughuli katika biashara hii.

Mali zilizokosa kudaiwa na wenyewe, Sheria ya 2011

Sheria hii ya Mali zilizokosa kudaiwa na wenyewe ambayo ilianza kutekelezwa kuanzia tarehe 16 Disemba 2011 inataka kupelekwa kwa mali hizo kwa Mamlaka ya Usimamizi wa Mali zilizokosa kudaiwa na wenyewe. Hii ikijumuisha hundi zilizokosa kudaiwa na nyaraka zingine za malipo, fedha zilizowekwa benki, fedha za bima ya maisha na sera zingine, vyeti vya zawadi ambavyo havijatumika, ujira ambao hujalipwa, umiliki katika kampuni ambao haujadaiwa na yeyote, na kadhalika. Ikiwa kama mthamini wa rasilimali za kifedha za viwango mbali mbali, Safaricom ililazimika kisheria kuweka daftari la rasilimali za kifedha zilizokosa kudaiwa na yeyote na kusalimisha mali hizo kwa Mamlaka ya Usimamizi wa Mali zilizokosa kudaiwa na wenyewe ikiwa ni pamoja na hisa au mgao, masalio ya M-PESA na pesa zilizowekwa na wateja. Kwa kuwasilisha rasilimali za kifedha zilizokosa kudaiwa kwa Mamlaka ya Usimamizi wa mali zilizokosa kudaiwa na wenyewe, tunajiweka huru na kuwajibika kushikilia mali hizo husika.

Kulipia upya kwa Safaricom leseni ya kuendesha biashara ya CCK

Safaricom ilipata leseni ya kuendesha biashara kwa muda wa miaka 15 kutoka tarehe 1 Julai 1999 hadi tarehe 30 Juni 2014. Leseni hii imeweka sharti la kuwa miaka 2 kabla ya kumalizika muda wa matumizi ya leseni (yaani, ifikapo tarehe 1 Julai 2012), CCK itafanya ukariri wa lazima wa leseni ili kutathmini vigezo vya kuitoa upya. Safaricom tayari imeshatuma ombi rasmi la kupata upya leseni na hadi kufikia tarehe 31Machi 2013 tunangojea majibu kutoka CCK kuhusu ombi hilo ambalo tunatarajia litakuwa la kutukubalia tukate upya leseni.

Usimamizi wa Shirika

Mwakani kulikuwa na mabadiliko kadhaa katika ukurugenzi wa bodi.

Bw. Ahmed Essam na Bw. Sunil Sood waliteuliwa kwenye bodi kama wanachama wa bodi bila wadhifa tekeleza.

Wanabodi wafuatao walijiuzulu kama wanachama katika mwaka huu:

- Bw. Tim Harrabin
- Bi. Karen Witts

Ningependa kuwakaribisha wakurugenzi wapya katika Bodi na ningependa pia kutoa shukrani zangu za dhati kwa wale wanaoondoka kwa mchango wao katika Kampuni hii katika mwaka huu.

Mstakabala wetu

Bodi hii inatambua sio tu mafanikio makubwa ya shirika hili, wafanyikazi na wasimamizi wake, bali pia inazipatia umuhimu fursa nyingi zilizo mbele yetu na kuzidi kusisitiza ahadi yetu ya kuendelea kuleta mabadiliko katika maisha ya wakenya kupitia ubunifu.

Na sasa tunapoangazia mwaka unaokuja wa 2014, tunaelekea katika siku zijazo tukiwa na matumaini kuwa Safaricom itaendelea kuwa na mtazamo, uhodari wa kazi na yenye kutimiza kikamilifu mahitaji ya soko hili.

CEO'S Statement

The Safaricom vision may be ambitious but we strongly believe in being a purpose-led organization that transforms the lives that we touch.

Mr. Robert Collymore

The annual results demonstrate our continued strong commercial and financial performance across our service portfolio. These solid results re-affirm our strategy to transform lives through the provision of quality services, delivering the best network in Kenya and deepening financial inclusion.

Total revenue has grown to Kshs 124.29 billion over the financial year with strong growth evidenced across all our revenue streams. Most notable was our growth in non-voice service revenue with a 29% increase in the year, supporting our strategy to diversify our revenue channels. Our focus on network quality, handset pricing and out-of-bundle tariffs has driven a massive 57% growth in mobile data customer numbers to 7.13 million. M-PESA continues to be a major revenue driver contributing Kshs 21.84 billion – 18% of total revenue. In line with our growth strategy to make M-PESA services accessible to all our customers, we expanded our agent footprint by 66% and closed the year with 65,547 agents up from 39,401 agents in the previous year.

Voice remains a major revenue generator and recorded impressive growth of 13% and contributed 66% of service revenues. This was primarily driven by an improved network experience, recovery from damaging price wars, convenient airtime distribution and attractive customer propositions. Customer numbers grew by 351,343 to 19.42 million; this is after barring 1.4 million customers who did not meet the new mandatory customer registration standards.

The launch of M-Shwari was Safaricom's key innovation in the year. M-Shwari allows M-PESA customers who register with our banking partner, Commercial Bank of Africa, to save, earn interest and access micro loans using their mobile phones. We now have 1.2 million active customers using M-Shwari.

We are committed to our 'Best Network in Kenya' initiative through continued investment in our network and services. This year we have invested Kshs 24.88 billion in capital expenditure, with 90% being allocated to network quality, capacity and coverage. Total sites have increased to 2,905, of which 1,604 are 3G enabled, giving Safaricom the most extensive coverage in the country. As part of our 'Best Network in Kenya' initiative we will continue to invest in network quality, capacity and coverage. In addition, we have just begun a 5 year program to build our nationwide metro fibre network with the goal being to connect all of our metro sites and customer offices to fibre.

Our cost saving initiatives were focused on transmission, inventory, network operating (including fuel) and IT operational costs. Operating costs as a percentage of total revenue has declined to 23% from 24% the previous year. Savings in license fees, customer acquisition, handsets, interconnect and top-up card production costs has yielded an impressive 3.4% improvement in the contribution margin to 62.8%.

Our strong financial performance this year has delivered impressive results for our shareholders. Free cash flow increased by 55% to Kshs 14.51 billion and in line with our dividend policy we propose a payout of 85.5% of free cash flow as dividends. Pending approval by shareholders we will pay out a dividend of Kshs 12.40 billion; once again, the largest dividend in corporate Kenya history.

The Safaricom foundation and M-PESA foundation remain committed to transforming lives. Together with our corporate sponsorships we have spent over half a billion shillings in the year through programs like m-Health, e-Learning and road safety awareness.

STRATEGIC PRIORITIES

Safaricom's intent is to transform lives; the lives of our customers; our shareholders; our business partners; our staff and the communities we serve. One of the ways to do this is through delivering the best network in Kenya by improving on our network reliability, availability and capacity. This will also include increasing the population coverage of our 2G and 3G networks, completing network modernization in six key cities and the roll-out of fibre to at least 40% of sites in Nairobi with particular focus on the Central Business District area in the next year.

With the "Best Network in Kenya" initiative we will continue to democratize data through faster speeds, value based pricing of data, lower priced 3G smartphones, improved customer experience and providing an enabling environment for developers to provide relevant local content.

M-PESA will be the driver for deepening financial inclusion through expanding our distribution network and with it accessibility; reducing system downtimes substantially and growing retail and e-commerce payments. We also aim at ensuring geographical system redundancy for M-PESA, and have begun the 18 month program to locate a new M-PESA system in Kenya.

The Safaricom vision may be ambitious but we strongly believe in being a purpose-led organization that transforms the lives that we touch.

Taarifa ya Afisa Mkuu Mtendaji

> Maono ya Safaricom ya kustawi zaidi yaweza kuonekana kama imekithiri lakini tuna imani kubwa kuwa kwa kufuatilia mipango ya shirika letu tunaweza kuleta mabadiliko katika maisha ya wote tunaojihusisha nao.

Bw. Robert Collymore

Matokeo ya hesabu za mwaka yanadhihirisha wazi ustawi uliyo imara wa biashara na wa kifedha kote katika huduma tunazotoa. Matokeo haya imara yanathibisha kufanikiwa kwa mkakati wetu wa kuleta mabadiliko katika maisha ya watu kupitia huduma zilizo bora, na kuwasilisha mtandao uliyo bora zaidi hapa Kenya na kukuza ushirikishwaji wa fedha.

Jumla ya mapato iliongezeka hadi shilingi bilioni 124.29 katika mwaka wa kifedha tunaokariria ikionyesha ukuaji imara katika Nyanja zote za mapato yetu. La muhimu zaidi ni kuwa ukuaji kutokana na huduma zisizo za maongezi ulikuwa wa 29% mwakani, na hivyo basi kushadidi mkakati wetu wa kuwa na njia tofauti tofauti za kuleta mapato. Kutilia mkazo ubora wa mtandao, kuboresha bei za simu na kuanzisha orodha za malipo nje ya vifurushi, zote hizi zimepatia msukumo ukuaji mkubwa wa 57% wa wateja wa internet ambao idadi yao ilifikia milioni 7.13. M-PESA inaendelea kuwa kichocheo muhimu cha kuleta mapato ikichangia shilingi bilioni 21.84 – 18% ya jumla ya mapato. Kuambatana na mkakati wetu wa ukuaji wa kufanya huduma za M-PESA ziweze kufikiwa na urahisi na wateja wetu wote, tulipanua mtandao wa maajenti kwa 66% na kufunga mwaka na jumla ya maajenti 65,547 ikiwa ni ongezeko kutoka maajenti 39,401 katika mwaka uliotangulia.

Huduma za maongezi bado zinaendelea kuwa chanzo kikubwa cha mapato na kuleta ukuaji mkubwa wa 13% na kuchangia 66% ya jumla ya mapato. Hii hasa ilichangiwa na kuwa na mtandao ulioboreshwa, kupata unafuu baada ya madhara ya vita vya ushindani wa bei, kurahisisha usambazaji wa kadi za muda wa maongezi na mapendekezo ya kuwavutia wateja. Idadi ya wateja iliongezeka kwa 351,343 hadi milioni 19.42; hii ikiwa ni baada ya kufunga laini za wateja milioni 1.4 ambao hawakutekeleza masharti mapya ya kushurutisha wateja wote kujisajili.

Kuzinduliwa kwa M-Shwari kulikuwa ubunifu muhimu wa Safaricom mwakani. M-Shwari huwezesha wateja wa M-PESA ambao wamejiandikisha na benki yetu husika, ya Commercial Bank of Africa, kuweka akiba, kupata riba na kuweza kupata mkopo kupitia simu zao za mkononi. Hivi sasa tayari tuko na wateja milioni 1.2 wanaotumia huduma ya M-Shwari.

Tunajitahidi kufuatilia ahadi yetu ya kuwa "Mtandao bora zaidi hapa Kenya" kupitia kuendelea kuwekeza katika mtandao na huduma zetu. Mwaka huu tumewekeza Kshs bilioni 24.88 katika matumizi kwa mtaji, kukiwa na 90% zilizowekezwa katika kuboresha, kuimarisha uwezo na kupanua mtandao. Idadi ya minara yetu ya kueneza mawimbi iliongezeka hadi 2,905, ambayo miongoni mwa hiyo 1,604 ikiwa na uwezo wa 3G, hii ikiipatia Safaricom uwezo mkubwa zaidi wa kuenea sehemu kubwa kote katika nchi hii. Kama moja ya dhamira yetu ya kuwa 'Mtandao bora zaidi Kenya' tutaendelea kuwekeza katika kuboresha, kuimarisha uwezo na kupanua mtandao. Na isitoshe, hivi karibuni tulizindua mpango wa miaka mitano wa kuweka mtandao wetu nyaya za fibre za chini ya ardhi, lengo letu likiwa ni kuunganisha sehemu za mijini na afisi za wateja wetu kwa nyaya hizo za fibre.

Mipango yetu ya kupunguza gharama ililenga usambazaji, orodha ya bidhaa, kushughulikia mtandao (ikiwa ni pamoja na mafuta ya kuendesha jenereta) na gharama za shughuli za uendeshaji wa teknolojia. Gharama za kuendesha shughuli kama asilimia ya jumla ya mapato zimepungua hadi 23% kutoka 24% katika mwaka uliotangulia. Kuokoa fedha katika malipo ya leseni, kusajili wateja, ununuzi wa simu za rununu, malipo ya kuwezesha wateja wetu kuwasiliana na wateja wa mtandao mwingine; na gharama za uchapishaji wa kadi za simu umepungua mno na kuchangia kwa 3.4% ya faida kabla ya kutoa gharama za uendeshaji biashara hadi 62.8%.

Utendaji wetu wa kifedha ulio imara mno mwaka huu umewasilisha matokeo mazuri kabisa kwa wanahisa wetu. Pesa zilizosalia bada ya matumizi lakini kabla ya kulipa mgao wa hisa ziliongezeka kwa 55% hadi shilingi bilioni 14.51 na kulingana na sera yetu ya mgao wa hisa tunapendekeza malipo ya 85.5% ya pesa hizo kama mgao wa hisa. Ikisubiriwa kuidhinishwa na wamiliki hisa tutalipa mgao wa hisa wa shilingi bilioni 12.40; kwa mara nyingine tena, haya yakiwa ni malipo makubwa zaidi ya mgao katika historia ya makampuni hapa Kenya.

Taasisi ya kutoa msaada za Safaricom foundation na ile ya M-PESA foundation bado zinafuatilia ahadi zao za kuleta mabadiliko katika maisha ya jamii. Hii pamoja na ufadhili wetu wa kishirika tayari umeshatumia zaidi ya shilingi nusu bilioni mwakani kupitia mipango kama m-Health, mafunzo kupitia internet (e-Learning) na hamasisho la usalama barabarani.

MIKAKATI MUHIMU

Lengo la Safaricom ni kuleta mabadiliko katika maisha; maisha ya wateja wetu; wamiliki hisa wetu; washiriki wetu wa kibiashara; wafanyikazi wetu na katika jamii tunayoihudumia. Moja ya njia ya kutekeleza haya ni kupitia kuwa na mtandao uliyo bora zaidi hapa Kenya kwa kuboresha uwe wa kutegemewa, tayari kutumiwa wakati wowote na wenye uwezo zaidi. Hii pia itajumuisha kuongeza uenevu wa huduma zetu za mtandao wa 2G na 3G, kumalizia kuboresha mitambo ya mtandao na kuifanya ya kisasa katika miji mikuu sita na kusambaza huduma ya nyaya za fibre kwa takriban 40% katika maeneo ya Nairobi, eneo la katikati ya jiji likipewa kipaumbele katika mkakati huu mwaka ujao.

Kupitia mpango wa kuwa "Mtandao bora zaidi hapa Kenya" tutaendeleza upatikanaji wa data kwa wote wanoihitaji kwa upesi, kuongeza kasi, kwa bei ya dhamana ,kuweko na simu za kisasa za 3G za bei nafuu , kuimarisha kuridhika kwa wateja na kutoa mazingira mazuri kwa wabunifu kutoa maudhui yanayo faa wateja.

M-PESA itaendelea kuongoza ushirikishwaji wa fedha kwa njia ya kupanua mtandao wa usambazaji wetu na pamoja kupatikana kwa urahisi kwa mtandao; kupunguza masaa ya hitilafu ya mtambo wa M-PESA, na kukuza malipo ya biashara ya rejareja na ile ya kupitia kwa internet. Vile vile tunalenga kuhakikisha kuna uwezo wa kukarabati mtambo kwa kila eneo na tumeanza mpango wa miezi kumi na minane kuweka mtambo mpya wa M-PESA hapa kenya.

Maono ya Safaricom yanaweza kuwa kabambe lakini tuna imani kubwa kuwa shirika lililo na mwongozo mwafaka linalo leta mabadiliko katika maisha ya wote tunaojihushisha nao.


BUSINESS
REVIEW
www

The Value We Have Created

Reinvesting in our business:

We invested **Kshs 24.88 billion (2012: Kshs 25.74 billion)** in capital expenditure, with 90% being allocated to network quality, capacity and coverage. Total sites have increased to 2,905, of which 1,604 are 3G-enabled, giving Safaricom the most extensive coverage in the country.

Investing in our people

We distributed **Kshs 8.39 billion (2012: Kshs 7.51 billion)** to our employees through salaries, short and long-term incentives and contributions to pension funds and medical aid schemes. We also invest in our employees through our learning, development and talent programmes.

Contributing to our country

We contributed to the government **Kshs 34.68 billion (2012: Kshs 33.21 billion)** in duties, taxes and license fees (excluding dividends) in the year ended.

Returns for our providers of finance

Our providers of finance received **Kshs 10.99 billion (2012: Kshs 10.14 billion)** of our total value created. We paid dividends of **Kshs 8.8 billion (2012: Kshs 8.00 billion)** to equity shareholders and interest of **Kshs 2.19 billion (2012: Kshs 2.14 billion)** to debt funders.

Our ability to create value is underpinned by delivering on our strategic priorities.

1. Deliver the 'Best Network in Kenya' program

What we have achieved:

- Modernization of 80% of the planned cell sites
- Call drops have reduced by 25%
- Network downtime reduced by 66% to below 20 minutes per week

2. Grow mobile and fixed data

What we have achieved:

- Increased data customers by 57% to 7.1 million
- Increased the number of 3G devices on the network to 2.3 million, of which 1.2 million are smartphones
- Introduced Sambaza Internet which allows customers to share data bundles
- Data bundles purchase via M-PESA

3. Deepen financial inclusion

What we have achieved:

- Recruited 26,000 new M-PESA agents in the year
- Increased the 30 day active customer base to 10.5 million
- Improved system availability substantially
- Launched M-Shwari, currently 1.2 million customers

4. Retain and reward our loyal customer base

What we have achieved:

- 64.5% of the total customer base
- 77.5% of the voice traffic
- 72.6% of the mobile data customers

Source: CCK Report December 2012 Quarter

5. Encourage further innovation

What we have achieved:

- Launched M-Shwari to provide interest bearing deposits and micro-loans in partnership with Commercial Bank of Africa (CBA)
- Launched m-health, e-learning and m-agriculture services
- Launched the Safaricom AppStar competition to drive and reward innovations in mobile applications
- Launched a Contacts back-up service

What We Do

Customers: We have 19.4 million customers

- We offer both prepay and postpay mobile voice and data services to customers and businesses.
- We offer services, including converged services, to businesses from small and medium enterprises to corporates.
- 99% of our customers, including consumer and business customers, are prepaid customers.

Network: We have 2,905 base stations

- Our mobile operations use at least GSM 2G technology and 1,604 of our base stations are 3G-enabled.
- 3G is available in the metropolitan parts of Kenya.
- Sustained investment in network quality, capacity and coverage through our 'Best Network in Kenya' initiative.
- Currently building our nationwide metro fibre network to connect all of our metro sites and customer offices to fibre.

Distribution: Our retail reach now covers 250,000 retail outlets

- We distribute our products and services through a dealership network of 2,600 outlets, with 22,000 employees directly and indirectly employed within this channel.
- Our M-PESA agent network has also expanded to 65,547 agents countrywide.
- The Enterprise Business Unit has a large direct sales team that sells mobile voice, data products and converged services to business customers.

Devices: In 2013 we had 2.3 million 3G devices on the network, of which 1.2 million are smartphones

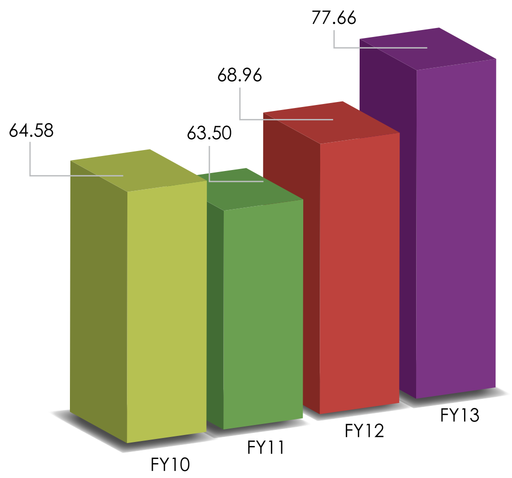
- We offer a wide range of devices such as mobile handsets, mobile broadband modems, routers, tablets, notebooks and laptop computers.
- Through partnership with Vodafone and device manufacturers, we get access to newly-released smartphones and to low-cost devices.

Voice: We grew revenue by 13%

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

- Okoa Jahazi is an emergency credit-based top-up service.
- "*Bonga*" is a customer loyalty program based on usage and during the year we launched "*Changa na Bonga*" that gives the capability to purchase merchandise using part cash and part "*Bonga*" points.
- Value added services include "*Skiza*", a call ring-back tone service and Contacts back-up service that enables customers to back up their phonebook contacts.
- Premium rate services which include purchase of ring tones, wall papers, music as well as gaming activities all run by our premium rate service partners.
- Attractive customer promotions such as "*Wakenya Tuongee*" and "*Wika na 2 bob*".

VOICE REVENUE
Kshs Billion

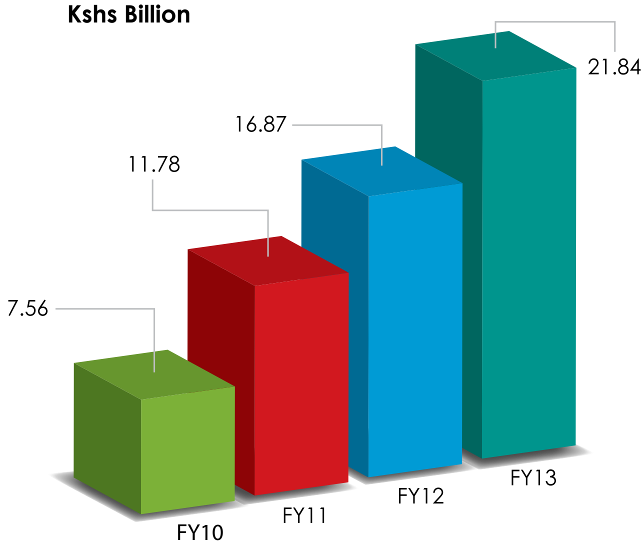


M-PESA

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

- M-PESA has provided financial inclusion to many Kenyans without access to banking services.
- It offers real time money transfer services to individuals and businesses, paybill services, bulk payments, dividend payments and international money transfers.
- M-PESA has 17.1 million customers, 65,547 agent outlets, 1,482 paybill partners and 541 bulk payment partners.
- M-Shwari is a new innovation that allows user to save money, earn interest and access micro-loans using their mobile phones.

M-PESA REVENUE
Kshs Billion

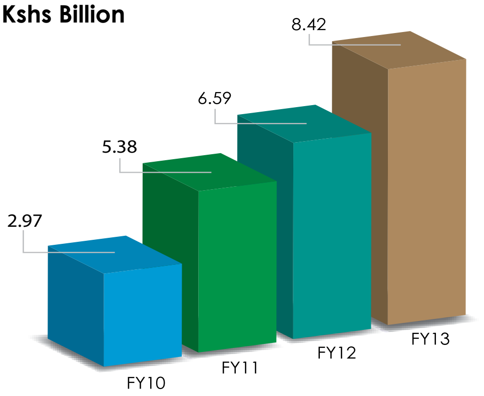


Data

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

- Mobile data services that are accessed through data enabled devices such as handsets, tablets, modems and routers.
- Safaricom Live is a web portal that avails a large selection of local content that includes music, ring tones, wallpapers, videos.
- Sambaza Internet is a service that allows the transfer of data from one customer to another.
- Safaricom Appstore where customers can download local and international mobile applications.
- Fixed data service offered through our Enterprise Business Unit provides access services such as wireless and fixed line solutions, including fibre and leased lines.
- Dedicated internet solutions for enterprises and hosted services such as data storage, hosting and security solutions.

MOBILE DATA & FIXED SERVICE REVENUE
Kshs Billion

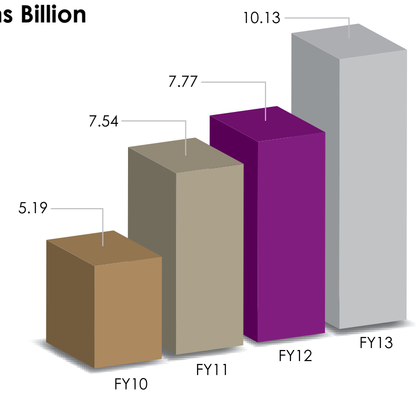


Messaging

We offer a variety of messaging services.

- Our offering includes SMS, MMS and Video messaging.
- Innovative SMS bundles that provide value for money.
- SMS based promotions such as "*Bonyeza Ushinde*".
- Please Call Me is a free message service that enables customers to alert other mobile users to call them back (with daily limits).
- A Call-back SMS notification for missed calls.

SMS REVENUE
Kshs Billion

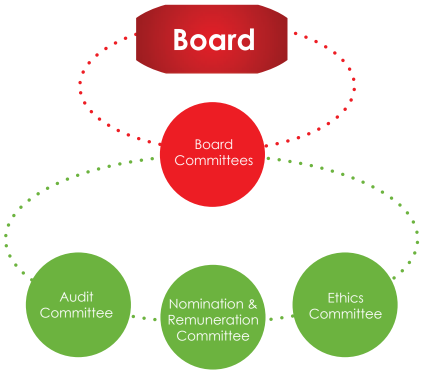


How We are Managed

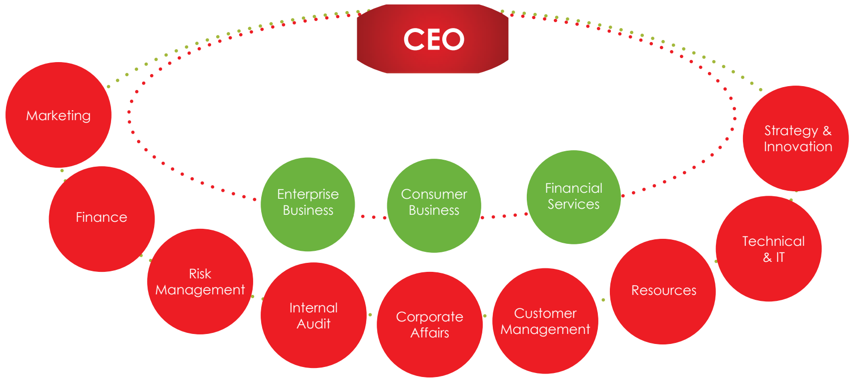
Good governance is the foundation from which we build and sustain value. We are unchanged about our objective to ensure ethical management and responsible control. In our operations we weigh up risk and reward and at the same time balancing the interests of our stakeholders while fulfilling our obligations.

It is important to us to keep in mind that there is much more to this business than just a focus on the bottom line. We are taking sustainability issues to the heart of the business and we are committed to delivering on the issues material to our stakeholders.

Board of Directors



Executive Committee



Ethics

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

Ethics Committee was setup to coordinate and steer the ethics management process in the company. The committee's mandate is to be the oversight body with regard to matters of ethics and integrity and in particular on matters that touch on the established Code of Conduct.

We are focused on getting our business partners and suppliers to contractually agree to comply with our ethical purchasing requirements, including anti-corruption measures and health and safety.

Risk Management

At Safaricom, risk management is everyone's responsibility. Risk management continues to be embedded in our operations. It encompasses the scrutiny and proactive oversight of a number of key elements, including Revenue Assurance and Fraud, Enterprise Risk, Anti-money Laundering and Security.

In the year we restructured the Risk Management and Internal Audit functions to be independent sections and thereby put in place more structures to identify, monitor and manage our risks effectively.

Governance

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

Remuneration

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

This is measured not only in terms of financial and strategic delivery but also how faithfully they apply our business principles of Speed, Simplicity and Trust and includes;

- Annual pay increase awarded to executive directors in line with overall employee pay increases.
- Share allocation programs for senior management.

Who Governs Us

Mr. Nicholas Nganga

Chairman & Non Executive Director
74 Years

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

Mr. Robert Collymore

Executive Director & CEO
55 Years

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

Mrs. Susan Mudhune

Non Executive Director
63 Years

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

Mr. Joseph Kinyua

Non Executive Director
62 Years

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

Mr. Ahmed Essam

Non Executive Director
37 Years

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

Mr. Sunil sood

Non Executive Director
52 Years

- Global telecom industry expertise
- Corporate governance expertise
- Business and operational leadership

Ms. Nancy Macharia

Non Executive Director
47 Years

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

Mr. Michael Joseph

Non Executive Director
67 Years

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

Mr. Nick Read

Non Executive Director
48 Years

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

Mr. John Tombleson

Alternate to Bob Collymore & Nick Read
50 Years

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

Mrs. Esther Koimett

Alternate to Mr. Joseph Kinyua
56 Years

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

Mrs. Enid Muriuki

Company Secretary
38 Years

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

Profiles of the Directors and the Executive Committee are on pages 99 - 102

Who Leads Us

EXECUTIVE COMMITTEE: FROM LEFT: **BETTY MWANGI-THUO** GENERAL MANAGER - FINANCIAL SERVICES | **JOSEPH OGUTU** - DIRECTOR - STRATEGY & INNOVATION | **NICHOLAS MULILA** - DIRECTOR - RISK MANAGEMENT | **JOHN TOMBLESON** - CHIEF FINANCIAL OFFICER | **RITA OKUTHE** - DIRECTOR - MARKETING | **PETER ARINA** - GENERAL MANAGER - CONSUMER BUSINESS UNIT | **ROBERT COLLYMORE** - CHIEF EXECUTIVE OFFICER | **THIBAUD RORELLE** - DIRECTOR - TECHNICAL & IT | **ROY MASAMBA** - DIRECTOR - RESOURCES | **NZIOKA WAITA** - DIRECTOR - CORPORATE AFFAIRS | **PAULINE WARUI** - DIRECTOR - CUSTOMER MANAGEMENT | **SYLVIA MULINGE** - GENERAL MANAGER - ENTERPRISE BUSINESS UNIT

Corporate Governance Statement

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 our business partners' trust in the Company. We foster a culture that values and rewards the highest ethical standards as well as personal and corporate integrity.

We believe that our sphere of influence with regards to good corporate governance should be extended to our business partners. As per our business partner ethics charter, Safaricom engages in mutually beneficial and sustainable relationships with all business partners in an environment of equity, mutual respect and honesty. It is Safaricom policy that all suppliers as well as their subcontractors, employees, directors, shareholders and officers observe the highest standards of ethics.

Board organization and structure

The role of the Board

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

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

The Board carries out its mandate to govern Safaricom's activities thereby giving effect to transparent accountability for the well-being and performance of Safaricom to the shareholders and stakeholders.

This it does by carrying out the following duties:

- Provide effective leadership in collaboration with the Executive management team.
- Facilitate setting up of appropriate corporate governance structures for the management of the business operations.
- Establish Board committees, policies and procedures that shall facilitate the most effective discharge of the Board's roles and responsibilities.
- Review and approve the Company's annual budget proposed by the Executive management team.
- Facilitate Board accountability through effective Board evaluation and succession planning.
- Monitor, evaluate, compensate, and – if necessary – replace the Chief Executive Officer.
- Plan for the succession to the position of the Chief Executive Officer.
- Review and approve management's strategic and business plans, including developing a depth of knowledge of the Safaricom's business, understanding and questioning the assumptions upon which such plans are based, and reaching an independent judgment as to the probability that the plans can be realized.
- Review and approve the Company's financial objectives, plans, and actions, including significant capital allocations and expenditures.
- Ensure that the key strategic risks of Safaricom are identified and understood, and their on-going status and management effectively monitored.
- Ensure that appropriate and effective risk management and internal control processes are operating in the Company.
- Monitor corporate performance against the strategic and business plans, including overseeing the operating results on a regular basis to evaluate whether the Company is being properly managed.
- Ensure ethical behaviour and compliance with laws and regulations, auditing and accounting principles, and the Company's own governing documents.
- Assess its own effectiveness in fulfilling these and other Board responsibilities.
- Perform such other functions as are prescribed by law or assigned to the Board in the Company's Articles of Association.

Activities of the Board

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

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

All directors are equally accountable for the proper stewardship of the company's affairs.

The non-executive directors have a particular responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed. This enables the directors to promote the success of the company for the benefit of its shareholders as a whole, whilst having regard to, among other matters, the interests of employees, the fostering of business relationships with customers, suppliers and others, and the impact of the company's operations on the communities in which the business operates and the environment.

The non-executive directors also oversee the operational performance of the business. To do this they have full and timely access to all relevant information, with updates also provided on governance and regulatory matters affecting the company. In addition, Executive Committee members and other senior executives are invited, as appropriate, to Board and strategy meetings to make presentations on their areas of responsibility. Non-executive directors are also invited to attend the executive committee members' senior leadership meetings to gain further insight into different aspects of the business.

In order to fulfil their duties, procedures are in place for directors to seek both independent advice and the advice and services of the company secretary who is responsible for advising the Board, through the chairman, on all governance matters.

The non-executive directors meet independently without the chairman present and also meet with the chairman independent of management, on a regular basis.

Division of responsibilities

The roles of the Chairman and Chief Executive Officer are separate and there is a division of responsibilities that is clearly established 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 Officer is responsible for the management of the Company's business and the implementation of management strategy and policy.

Board composition and independence

The Board composition enables effective oversight of the executive management. The number of Directors allows the Board to have fruitful discussions and to make appropriate, swift and prudent decisions.

The Company's Board consists of eleven (11) members, of whom nine (9) are non – executive directors and 2 are executive directors.

The non-executive directors demonstrate complete independence in character, judgment and action in fulfilling their duties.

BOARD MEETINGS ATTENDANCE

	9 May 2012	12 Sept 2012	8 Nov 2012	20 Feb 2013
Mr. Nicholas Nganga Chairman	✓	✓	✓	✓
Robert Collymore Executive Director	✓	✓	✓	✓
Mr. Michael Joseph Non-Executive Director	✓	✓	✓	✓
Mrs. Karen Witts (resigned October 2012) Non-Executive Director	✓			
Mr. Tim Harrabin (resigned September 2012) Non-Executive Director	✓	✓		
Mr. Nick Read Non-Executive Director	✓	✓	✓	✓
Mr. Joseph Kinyua Non-Executive Director				
Mrs. Esther Koimet Alternate to Mr. Joseph Kinyua	✓	✓		✓
Ms. Nancy W Macharia Non-Executive Director	✓	✓	✓	✓
Mrs. Susan Mudhune Non-Executive Director	✓	✓	✓	✓
Mr. John Tombleson Alternate to Mr. Robert Collymore & Mr. Nick Read	✓	✓	✓	✓
Mr. Sunil Sood (appointed November 2012) Non-Executive Director				✓
Mr. Ahmed Essam (appointed October 2012) Non-Executive Director		✓	✓	
Mrs. Enid Muriuki Company Secretary	✓	✓	✓	✓

Board effectiveness

Appointments to the Board

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

Independent advice

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

Board committees

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

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

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

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

Audit committee

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

The Audit Committee's responsibilities include:

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

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

AUDIT COMMITTEE MEETINGS ATTENDANCE

	8 May 2012	11 Sept 2012	7 Nov 2012	19 Feb 2013
Mrs. Susan Mudhune Chairperson and Non-Executive Director	✓	✓	✓	✓
Mr. Timothy Harrabin (resigned September 2012) Non-Executive Director	✓	✓		
Mrs. Esther Koimett Non-Executive Director	✓	✓		✓
Ms. Nancy W Macharia Non-Executive Director	✓	✓	✓	✓
Mr. Sunil Sood (appointed November 2012) Non-Executive Director			✓	✓
Mrs. Enid Muriuki Company Secretary	✓	✓	✓	✓

The members of the Audit Committee, together with a record of their attendance at scheduled meetings which they were eligible to attend, are set out in the adjacent table.

The Chief Executive Officer, Chief Finance Officer and Director – Risk Management as well as the Company's external auditors attend all committee meetings as permanent attendees.

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

Nomination and Remuneration Committee

The role of the Nomination and Remuneration committee includes the review of the remuneration and incentives for the Board and Senior Management. The terms of reference for this committee satisfy the requirements of the Capital Markets Authority. The committee is composed of four non-executive directors. Mr. Robert Collymore, CEO and executive director, may be asked to attend by invitation.

NOMINATION AND REMUNERATION COMMITTEE MEETINGS ATTENDANCE

	12 April 2012	11 June 2012	2 Nov 2012
Mr. Nicholas Nganga Chairman and Non-Executive Director	✓	✓	✓
Mrs. Esther Koimett Non-Executive Director	✓	✓	
Mr. Robert Collymore (Executive Director)	✓	✓	✓
Mrs. Susan Mudhune Non-Executive Director	✓	✓	✓
Mr. Michael Joseph Non-Executive Director	✓	✓	✓
Mrs. Enid Muriuki Company Secretary	✓	✓	✓

Ethics Committee

Safaricom strives to ensure that it acts in an ethical manner in all that it does. In line with this, in 2010, the Ethics Committee was setup to coordinate and steer the ethics management process in the company.

Mandate

The mandate of the Ethics Committee can be summarized as;

To be the oversight body on behalf of Safaricom management with regard to matters of ethics and integrity and in particular on matters that touch on the Code of Conduct.

Committee activities

- Making decisions on ethical dilemmas/issues brought before it.
- Recommending, reviewing and approving ethics related policies.
- Reviewing declarations made in line with the code such as conflict of interest declarations.
- Enforcing ethical behaviour within the company.
- Escalating to the Board Audit Committee matters of significant importance or magnitude.

ETHICS COMMITTEE MEMBERS	POSITION
Mr. Bob Collymore - Chairman	CEO
Mr. John Tombleson	CFO
Mr. Nzioka Waita	Director Corporate Affairs
Mr. Joe Ogutu	Director Strategy & Innovation
Mr. Nicholas Mulila	Director Risk Management
Mr. Patrick Kinoti - Secretary	HOD Revenue Assurance & Fraud

Company Secretary

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

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

Board of Directors' shareholding

DIRECTOR	SHAREHOLDING
Mr. Nicholas Nganga	855,100
Mr. Robert Collymore	908,000
Mr. Michael Joseph	2,357,200
Mr. Joseph Kinyua	42,500
Mrs. Esther Koimett	517,600
Ms. Nancy W Macharia	43,000
Mrs. Susan Mudhune	51,200
Mr. John Tombleson	600,000
Mr. Nicholas Read	0
Mr. Sunil Sood	0
Mr. Ahmed Essam	0

Risk Management

To improve the governance structure, the Risk Management and Internal Audit functions have been restructured, to operate, independent of each other, in carrying out their operations. The Risk Management Division reports to the CEO and the Board Audit Committee.

Risk management continues to be embedded in our operations. It encompasses the scrutiny and proactive oversight of a number of key elements, including Revenue Assurance and Fraud, Enterprise Risk, Anti-money Laundering and Security.

A great amount of time and effort was put into our business continuity planning in the year to ensure that key identified risks were managed so that operations are not disrupted. The thrust of the risk management activities are geared towards anticipating and taking advantage of opportunities and risks as they arise.

Physical security and the safety of our staff and assets was key in the just-concluded General Elections. Great caution was exercised owing to the threats that arose from terrorist activities as well as insecurity related to electioneering activities.

Compared to the previous elections where a retail shop and a base station were destroyed, this year's elections were largely peaceful. Arising from the learnings of the 2008 experience, where some staff had to be evacuated, staff were provided with regular security updates via sms which helped them avoid trouble spots. Armed security was on stand-by for any eventualities.

In anticipation of social disruption, sufficient airtime was made available in our dealer network and via M-PESA. Large-scale preventative maintenance on our network ensured that we were able to meet the anticipated demand for high volume of services without outages during peak periods.

Internal Audit

During the financial year, Safaricom implemented a Controls Self-Assessment program whose objective is to develop a central database of all controls and to operationalize a controls conscious culture within the company. This included comprehensive documentation of the company-wide controls and self-assessment by the various process owners to formulate the Safaricom Controls Framework. This will go a long way to enhance process owner's involvement in reviewing the adequacy of their controls in managing risks.

During the year the Board Audit Committee charter, policy and procedures were documented and approved. In addition, the Audit charter and code of conduct were documented and approved by the Board Audit Committee.

In accordance with Internal Audit Standards an external quality review was carried out on Internal Audit and Information Systems (IS) Audit functions. The objective of the review was to gauge the functions compliance with the International Auditing standards and also to identify improvement areas. One of the key improvement areas arising from the review was the separation of the audit functions from the other risk management functions so as to enhance independence and effectiveness.

Twenty two risk based audit reviews were carried out in the year. The objective of the reviews was to obtain assurance on the adequacy of the design and operating effectiveness of the controls in the scoped processes.

STRATEGIC REVIEW

Retain and Reward our Loyal Customer Base

What we want to Achieve

- Sustained growth in our customer base
- Deliver excellent customer experience
- Grow voice further
- Build trust with our customers
- Create a culture that empowers employees to do more
- Celebrate the Safaricom Brand

SUSTAINED GROWTH IN OUR CUSTOMER BASE

Building trust and loyalty among our customers and giving them what they want is vital to our success in an increasingly competitive industry.

We need to retain our customers by offering differentiated products and services so that they recommend us to others.

Our customers want an overall better experience than they can get elsewhere. More access to mobile services and better network quality, more value for money, more convenient interactions and better customer service; all of these add up to an experience that makes our customers smile.

And that keeps them with us.

Customer numbers grew by 2% in the year to 19.4 million. In February 2013, the government announced its intention to enforce subscriber registration through a gazette notice. An adjustment of 1.4 million customers was made to the base in the last quarter. To target the 2.9 million unregistered subscribers, Safaricom ran a customer education and awareness registration campaign. Ultimately 1.5 million people were able to register their SIM cards.

We purchased a knowledge management system that organises company and product information in a manner that supports agents and customers to quickly and easily find answers to questions on our products and services.

EXCELLENT CUSTOMER EXPERIENCE

Customer experience forms the backbone of our customer engagement process. At Safaricom we understand that our customer perceptions are formed through their interactions with our various touch points. When a customer uses a Safaricom product or service and interacts with our staff, they have certain expectations, and we need to ensure that we meet or exceed these expectations. Customer experience management is the process of strategically managing our customer's entire experience with our products and services to ensure that we meet our business goals.

A favourable customer experience translates to business continuity for Safaricom, through customer retention as well as favourable 'word of mouth'. We view customer experience as a business opportunity through the creation of brand ambassadors who advocate our products and services.

Customer Management

Customer care handles calls and inquiries from both individual and corporate customers. Customer care also includes the commercial arm, which undertakes outsourced customer service functions on behalf of other organisations. In order to enhance our customer experience we have undertaken a number of actions, including:

- Ingraining the 'Customer Delight Index' (CDI) score into every staff member's Key Performance Indicators to promote customer ownership.
- Creating 'Tiger teams' which is a cross functional process to spearhead the customer experience agenda through on-going engagement, developing and monitoring agreed actions.
- Undertaking competency assessments for all managers to help build capacity.
- Defining customer segmentation processes to help in product need identification and on-going engagement processes.
- Undertaking after call surveys for rapid response and internal corrective measures.
- Creating a call routing strategy within Customer care including defining alternative channels of engagement i.e. voice/SMS/email/USSD/Interactive voice response/ social media.
- Using research methodologies as a customer feedback avenue, such as the use of focus groups in our customer baseline survey which inform our internal quality compliance level framework.
- Internal quality assurance for on-going compliance checks.
- Undertaking on-going status checks using Customer operations performance centre standards for Customer care to promote increased performance.
- Using a Customer Relationship Management strategy to promote single view/reference point on all customer issues.
- Purchasing an IP-based customer care infrastructure to increase capacity within our interactive voice response system to handle call volumes.
- Using customer relationship management to deliver a satisfying customer experience at every customer touch point e.g. unified communication and superior customer services.

Safaricom Retail Shops

Safaricom now has 36 own shops across the country which principally offer services, resolve customer issues around our products and services while selling devices. During the year, a new shop design was unveiled at the Nakumatt Junction shopping mall and currently this design has been rolled out in eight more shops in Nyali, Westgate, Sarit, I&M, Kimathi, Garissa, Machakos and Nakuru. Another 20 shops will be refurbished during the year.

Safaricom shop - I&M building, Kenyatta Avenue - Nairobi

To increase our touch points, Safaricom introduced Care Desks where all customer service requests will be handled-like Safaricom shops.

The Care Desks are manned by Safaricom staff. In the last year, we rolled out 24 care desks across the country covering such remote locations as Mpeketoni and Marsabit. Another 100 care desks will be rolled out by the end of the next financial year.

To benchmark customer service, overall shop performance delivered an average score of 8.3 against a target of 8.0. This was a result of close follow up with customers, in-shop initiatives to excite customer, increased speed of service, improved shop ambience and ability to engage with customers.

BUILDING CUSTOMER TRUST

Our customers are by far our most valued assets.

We have well-developed systems and put procedures in place to protect our customers. This includes keeping their personal information confidential and preventing fraud.

Customer information is confidential and it is our responsibility to protect it. Our responsibility extends to protecting our customers and preventing fraudsters from preying on them. This is especially so in M-PESA where there has been a rise in fraudulent activity. Through continued customer sensitization and education we are able to help minimise the cases of fraud that affect our M-PESA customers. We have well developed systems and procedures in place to protect our customers on all these fronts.

To discourage the theft of mobile phones, we blacklist all Safaricom handsets reported as stolen so they cannot be used on other mobile networks.

GROW VOICE

Voice remains the heart of our business, contributing 66% of service revenue. Voice revenue grew by 13% in the year. This was primarily driven by an improved network experience, increased usage and customer growth. Our airtime availability now stands above 85% in the market with several consumer propositions carried out in the year.

In June 2012, Safaricom ran a campaign to reduce the off net tariff from Kshs 5 to Kshs 4. Due to minimal impact on revenue, the tariff was made permanent in July 2012.

Mobile Terminating Rates (MTRs) reduced from Kshs 2.21 to Kshs 1.44 effective 1 July 2012. Following the confirmation of MTRs, Safaricom opted to maintain the headline tariff. The rest of the market either held or increased its tariffs, especially the off net calling rates.

To reward our customers, a telescopic billing campaign, ***"Wakenya Tuongee",*** was launched. The objective was to reward customers for speaking longer. Customers who spoke for more than three minutes were charged Kshs 1. This campaign ran successfully for two months.

The ***"Wika Na 2 Bob"*** voice promotion was launched in the fourth quarter of the financial year. The promotion offered a lower per minute rate of Kshs 2 for daily calls past the four-minute threshold. The objective was to grow voice usage among customers speaking for less than 2.5 minutes daily and increase the length of talk time per subscriber. Besides creating excitement around the brand, 29% of our customers took part in the promotion and subsequently increased phone usage by 12.5 % during the campaign.

The introduction of innovative messaging services bundles drove growth in person-to-person SMS purchases. Popular packages included a 500 SMS at a daily rate of Kshs 20. (other bundles include a daily bundle of Kshs 5 for 20 SMS; daily bundle of Kshs 10 for 200 SMS). In October 2012, the SMS promotion **"Bonyeza Ushinde"** was launched and ran for two months. The objective was to reward subscribers, while at the same time driving SMS revenues with various cash prices and the grand prize winner taking home Kshs 10 million. These campaigns contributed to maintaining our revenue market share above 80%.

Safaricom continued to offer innovative and high impact value-added products and services throughout the year. The Bonga loyalty program, ***"Changa Na Bonga",*** allowed the purchase of merchandise using part cash and part bonga points.

The Ring Back tone service, ***"SKIZA"***, saw the engagement of 66% of our subscribers translating into a revenue increase of 38%. This was largely driven by the USSD search mechanism that allowed subscribers to search for tunes.

Safaricom recognised and rewarded the 100 top spenders for the previous financial year. The objective was to increase retention and loyalty of high value customers by recognising and acknowledging their contribution. These top spenders (in all services except M-PESA) received a voice message from the CEO acknowledging their contribution and an appreciation card containing the CEO's signature. They also received a high-end phone of their choice.

Premium rate services delivered a 12% growth in revenue boosted by increased availability of new services. These services included purchase of ring tones, wall papers, music as well as gaming activities. These functions run by our premium rate service partners will continue to be an area of focus in the new-year.

Distribution Channel

The dealer network has continued to grow on the back of new data residual commissions which were introduced to reward dealers selling data products. Outlets directly managed by dealer now stand at 2,600. About 22,000 employees are directly or indirectly engaged within this channel.

There have been several initiatives rolled out to support the growth of the dealership network. These include:

- Short term credit facilities to ensure dealers are able to take advantage of holidays/events to sell more airtime
- Introduction of 8% data residue which dealers earn for data consumed on lines sold by them.
- Dealer training on data and data products.
- Dealer support on distribution tools- in the last financial year we helped dealers to acquire 300 motor bikes through partial funding.

An annual retailer promotion was launched to recognize our 250,000 retailers as part of our retailer loyalty scheme. Various prizes were awarded after the **"Changamka na Mauzo"** promotion which raised Ksh 17 billion and resulted in a 38% increase in sales. About 190,000 retailers won prizes that ranged from airtime to cash awards.

EMPOWERING EMPLOYEES TO DO MORE

Safaricom Champions

We continue to focus on developing our Human capital through various avenues. Secondment and international exposure opportunities were provided for 19 of our key talent in the financial year.

To enhance our capabilities in Data products and services offering, various certifications were achieved with 192 staff successfully completing various levels of data offering related certifications. 5 of our staff are now certified Cisco Internet Experts, having successfully passed the prestigious CCIE lab exams (CCIE). 58 staff members are certified project managers having passed the Prince 2 practitioner examination, while one staff member joined the exclusive ranks of Oracle Certified Masters which is the highest globally recognized expert certification in Oracle.

To entrench self-learning, over 1,000 staff have been certified in various professional areas through our e-learning suite which has over 3,000 Business, ICT and Management & Leadership modules.

Our managers and leaders across the business, benefited from over 20 programs focusing on strategy execution, leading innovation, corporate leadership & Governance, operational excellence, people management and coaching for performance.

Headcount Statistics

Job grade	Total Staff	No. of Women	No. of Men	Gender Ratio
1	1	0	1	0:1
2	11	4	7	1:2
3	36	15	21	1:1
4	142	41	101	1:3
5	259	67	192	1:3
6	548	210	338	1:2
7	572	249	323	1:1
8	1,095	560	535	1:1
9	2	0	2	0:1
Temps	588	364	224	1:1
Total	3,254	1,510	1,744	1:1

Developing Capabilities

To utilize internally available expertise, experiences and skills a Subject Matter Expert program was implemented with over 50 staff sharing their knowledge through training and workshops in areas of their specialization like technology, finance, team building, soft skills and curriculum development.

Functional training across the business continued to ensure exceptional customer experience at all our touch points with world class programs and certification on new technologies, professional development, consultative products and services offerings etc.

We have continued to encourage industry/academia partnership and therefore we renewed our Memorandum of Understanding (MOU) with 2 Universities namely Jomo Kenyatta University of Agriculture and Technology, and Moi University. Our relationship with the universities as well as with Strathmore University remains beneficial in promoting development and industrialization through research, training, innovation, technological development and commercialization and marketing in the areas of telecommunication, ICT and other related fields. Students and staff from the partnering institutions have attachment opportunities and the institutions contribute greatly as sources for "ready-now" staff and Graduate Management Trainees.

Signing of Moi University and JKUAT MOUs by institution CEOs

Talent and Resourcing

Performance Management

We have reviewed and launched a new way of managing performance to include more productive and effective performance dialogues between employees and their line managers. We have also introduced performance calibration meetings that will improve the organization's performance, to fairly reward top performers, and to help improve contributions of low performers. The ultimate goal is more productive employees who perform at levels to make service, revenue, and growth goals attainable.

Talent Management

In order to develop and embed a leadership development framework that will strengthen our talent pipeline and improve rigour of talent identification and assessment, we are reviewing our talent assessment criteria and will conduct Talent reviews for Grade 4 and above as well as put in place development plans for High Potential Employees to drive international and cross functional growth and development opportunities.

Graduate Management Program

The Graduate Management Program will be re-launched in the new financial year and will provide a pipeline from which high potential new hires designated as Graduate Management Trainees will go through an elaborate program that will see them fully equipped with business and functional skills. This program has been running for the last seven (7) years, but the focus has been around building succession within the Technology function. We are expanding it to look at all functions within the business.

The Program will be a rich career and professional development opportunity for committed Kenyan graduates from both local and International Universities who wish to make a positive impact in transforming lives, while at Safaricom, in the telecommunication sector and the country at large. 25 young, ambitious and innovative graduates will go through the program.

Resourcing

We continue to ensure that we recruit the best talent from the market and promote best talent from within Safaricom through rigorous recruitment and selection processes. We have managed to recruit 100% required skills for the previous year and are currently focusing on the new requirements for the next financial year.

We have also aligned our recruitment plans to growing internal talent & identifying external talent for unavailable/rare skills and have achieved a 50:50 internal external hire ratio. In developing diversity of business talent pools on gender, physically challenged and women in leadership, we have a 1:1 male female ratio, 1.4% physically challenged employee complement and a 30% female representation in G4 and above.

We have successfully taken over 160 interns through the Safaricom internship program and have accorded over 70 employees opportunities for job rotation over the past year.

Through our participation in career fairs in several universities across the country, we have managed to create a strong "employer of choice" brand and have established a good talent pipeline for future business needs.

Reward

Sales Commission

The sales commission structure for our retail, distribution and sales staff has been reviewed to incentivize delivery of revenue targets while maintaining internal equity on remuneration.

Employee Share Option Plan

The Employee Share Option Plan ("ESOP") which was rolled out on 26 February 2010 vested on 26 February 2013. The benefit of ESOP to employees is the expectation that the value of Safaricom shares at the NSE will increase to a level higher than the grant price of Kshs 5.40. The value of the Safaricom share price this year has been steadily increasing and this presents an opportunity for staff to either own a piece of Safaricom or to benefit from the share price appreciation.

Eligible employees can choose to exercise the option anytime up to 26 February 2014.

Organization Effectiveness

People Survey

The 2013 people survey by Hay Group was launched in February 2013 and had a response rate of 88%. This survey was shaped around the Safaricom Way and was improved to give individual managers feedback to enable them to work on areas to improve engagement of their teams and their effectiveness as managers. The overall satisfaction index has improved from 62.5% to 75% and the overall engagement score improved from 71% to 82%. This is a demonstration that Safaricom is committed to providing an excellent working environment for its employees.

Job Evaluation

We have engaged Towers Watson to carry out a companywide job evaluation. We are in the process of carrying out a desk top evaluation by pilot testing the EXCO and HR roles using the GGS methodology. Preliminary results have been received and we are in the process of validating them. We will then engage the business in evaluating all the other roles in June 2013.

LEAD THE CHANGE

E-Class is recommended for business change, transformation and growth within your department and you are highly encouraged to enroll.

Enroll now and lead the change with the ITIL E-Class online resource!
http://safaricom.skillport.com

CELEBRATING THE BRAND

In the period under review, the marketing functions across Safaricom were centralized into a single division. This consolidation saw further enhancement of the Safaricom brand stature resulting in the documentation of Safaricom Brand Guidelines and culminating in the launch of the much-acclaimed ***'Naweza" thematic campaign.***

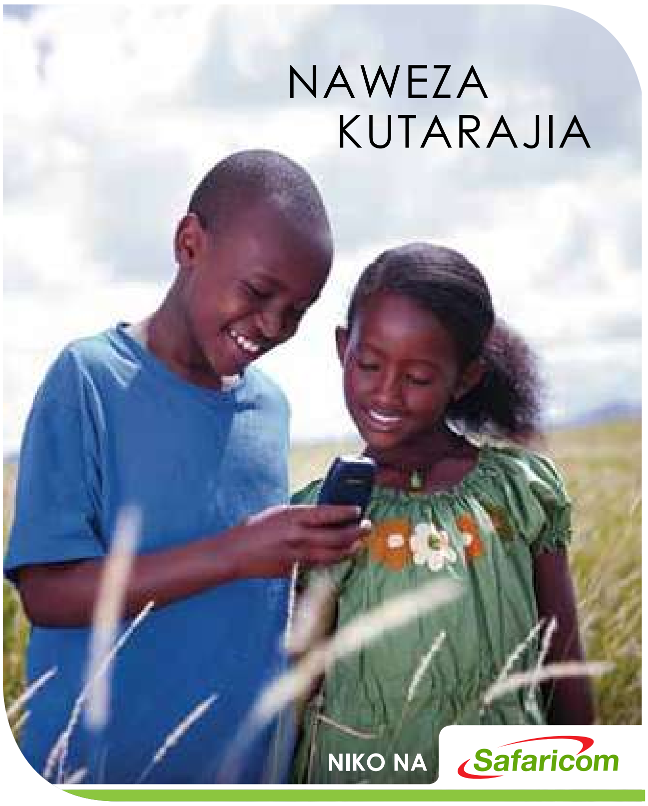
Naweza. Our story, our brand.

When Niko na Safaricom was launched in 2009, the subsequent campaign in 2010 captured a stunning glimpse of Kenya's diversity in a heartwarming way that was culturally relevant to us. This not only helped to define us through the brand, but also to define our lives with a single and powerful line said in everyday-speak, ***Mimi ni Safaricom***. This was a proud statement of ownership and progress by our customers.

With time, ***Niko na Safaricom*** has been the single most compelling association with our brand. So what was next for this dynamic brand?

Wherever you go in Kenya, Safaricom is closely woven into our cultures, making it an essential part of every Kenyan's life. For the brand, a natural progression would flow from this insight. The direction of the brand commercial explores this mutual relationship of brand and consumer by cleverly delving into our lives.

After ***Niko na Safaricom,*** who was the Kenyan consumer three years later? What did it mean when anyone, regardless of their status in society could achieve their goals? It meant that through the Safaricom brand, Kenyans were now more informed, ready and empowered to direct their dreams as they pleased. We were now Limit - less.



So what brand association do we sell to our audience? We simply want Kenyans to affirm ***Niko na Safaricom, Naweza.*** This is why our brand journey is best told by going into the lives of empowered Kenyans represented by two young children and their parents who we see aging through the passage of time. This is framed against the backdrop of the magnificent countryside. With the new Safaricom brand commercial, this emotive story of enabling and empowerment interweaves brand essence and our Kenyan culture. Naweza is simply a brand story owned by Kenyans. It is a telling portraiture of our lives, our needs our desires and our achievements.

This brand positioning continues to explore the lives, dreams and relationships of Kenyans. It is a forward stride to our diversity and a compassionate call to keep going because with Safaricom we have the power in our hands.

Safaricom maintained its customer connection moments by running **"The Safaricom Sevens"** and **"Niko na Safaricom Live"** which provided a platform for young Kenyans to showcase their diverse sporting and musical talents plus generated Positive Local and International Brand PR. The execution of these and other Brand Assets was rooted in the Customer Segmentation process with positive shifts noted within Safaricom's Brand Equity scores which moved from 82.3 in Quarter 1 to 85.1 by the end of the period under review.

Safaricom Sevens

Safaricom took on the title sponsorship of the Safaricom Sevens (then known as Safari Sevens) in 2010 as an opportunity for the brand to connect with rugby lovers. The event, which started in 1996, is an annual rugby tournament run by the Kenya Rugby Union, and is one of the biggest seven-a-side competitions in Africa.

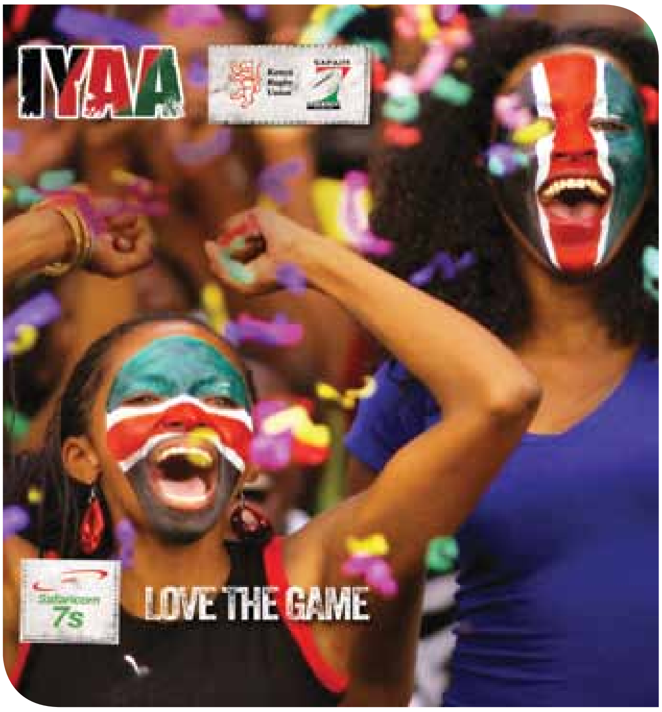
Safarcom's participation in the Safaricom Sevens includes the provision of a Media Center, management of hospitality services at the famous 'Safaricom Village' and more significant, Safaricom is the sole official communications provider for the event which has grown into the biggest and most anticipated sporting event in Kenya.

Niko Na Safaricom Live

In 2012, ***Niko na Safaricom Live*** (NNSL) was re-launched as the successor of the Safaricom Kenya Live. The country's leading music property, NNSL focuses on growing and nurturing local music talent by giving artistes and upcoming talent the opportunity to enhance their skills and perform on a world class platform. The five-month campaign enriched engagements with the youth through live concerts, campus storms, activations and roadshows. Kenyan stars that featured in this initiative included Camp Mulla, Jaguar, Jimmi Gait, Sauti Sol, Size 8 and comedy sensation Jalango.

As a truly Kenyan brand, Safaricom is committed to growing local talent and positively influencing the lives of Kenyans. NNSL delivered world class entertainment, while at the same time creating an emotional connection with the millions of youths and Kenyans across the country.

Niko na Safaricom Live took place between August and December 2012, reaching out to over 100,000 Kenyans per region and a large audience through TV concerts aired on the Kenya Television Network (KTN).



Deliver the Best Network in Kenya

Providing mobile network coverage, for voice, messaging and data services, ensures we are well on our way in providing an excellent customer experience. Building and bringing new base stations on air is quite a challenge in Kenya due to geographic features and energy availability.

This year we have invested Kshs 24.9 billion in capital expenditure, with 90% being allocated to network quality, capacity and coverage. Total sites have increased to 2,905, of which 1,604 are 3G enabled, giving Safaricom the most extensive coverage in the country.

The creation of a stable and quality network poses numerous opportunities for the company:

- ***Creating the best network:*** In November 2012 the company committed to having the best network in the country through all measures by November 2013. From a network quality perspective this means that Safaricom shall provide its subscribers with the best voice, mobile data, fixed data and Value Added Services, both in terms of quality and availability.
- ***Creating a stable fibre network:*** Fibre instability caused by road construction as well as acts of vandalism contributes to a substantial proportion of all network failures. Implementation of our own fibre network will allow for increased redundancies as well as providing greater control of the fibre network. It will also provide required capacity for both consumer and enterprise services.
- ***Network expansion:*** With an increasing usage of services such as voice, data and SMS there has been a need to increase the network resources to reduce network congestion and maintain a desirable level of quality of service.
- ***Network modernization:*** Modernization of radio network equipment is important to achieve a desired level of quality of service in different parts of the country. This involves replacement of legacy radio equipment with modern equipment which results in improved voice quality, a decrease in the number of dropped calls, reduced congestion and enhanced data performance.
- ***Enterprise network:*** With the growth in enterprise services offered by the company, there has been need to expand the enterprise network to meet and exceed desirable levels of quality of service.
- ***Managing the customer experience:*** The fast moving telecommunications landscape has seen an increase in customer expectations, and as such we need to ensure that we match or exceed these expectations, particularly for individual subscribers.

Network quality can be seen as a huge opportunity but there are also risks, which include:

- ***Vandalism:*** We have continued to suffer from huge losses both in terms of loss of equipment as well as loss of service due to acts of vandalism. These acts of vandalism usually affect fibre network, telecommunications equipment and power equipment. Depending on the severity of the vandalism cases, we are exposed to not only reputational losses due to service disruption, but also to financial expenditure.
- ***Security:*** The security concerns in various parts of the country have had a negative impact in the BTS site maintenance operations in these regions. The most affected region has been the North Eastern Region of Kenya, as well as effects of the recent instability experienced in the Tana Region.
- ***Energy availability:*** From a network stability perspective, one of the key challenges with respect to network maintenance is energy availability. While the challenges surrounding energy is multi-faceted, two main challenges include the instability of the national grid, which poses a key challenge in providing a stable network; and our wide footprint, which spans areas that are not covered by the national grid.
- ***M-PESA service delays:*** M-PESA has in the past experienced technical hitches that have led to service delays or unavailability. Due to the large number of customers enjoying the M-PESA service, these cause a level of dissatisfaction amongst some of our subscribers.

With the "Best Network in Kenya" initiative, we will continue to democratize data through faster speeds, value based pricing of data and improved customer experience.

A Base Station Transciever (BTS) site deployed as an 'artificial tree' to camouflage with the existing environment which has an aesthetic appeal as opposed to the ordinary lattice mast.

Grow Mobile & Fixed Data

What we want to achieve

- Diversification of our data business
- Data product innovation
- Further penetration of data and data enabled devices
- Drive growth in Enterprise business

Access to data services puts a world of opportunity in people's hands through the power of the internet, wherever they are. Data is set to play a vital role in lifting economic growth, creating jobs and improving the quality of life in Kenya. Mobile data penetration is still relatively low and this is a huge opportunity for us and we are driving adoption of mobile data services among the Kenyan people. Data for all is a revolution that we lead with 72.6% of the mobile data market share.

INTERNET AND CONTENT

Part of the Safaricom's growth strategy revolves around non-voice revenue - particularly data revenue. Data revenues grew by 21% despite an overall tariff reduction during the year. The out of bundle rate was reduced by 50% from Kshs 8 to Kshs 4. Nevertheless, internet users have increased from 4.6 million to 7.1 million, representing a 37% penetration of base, due largely by an increase in data-enabled phones. There was a deliberate change of device strategy in which the data-enabled range of our handset offering was from 60% to 90%. To grow broadband users, Safaricom offered modems at competitive prices to reduce barriers to entry while safeguarding our investment by locking the modems at the hardware level. This in return ensured that 90% of the devices sold were attached to our network.

In addition to reducing the out of bundle data tariff, Safaricom withdrew the data unlimited product to ensure that a small number of customers do not 'abuse' the network, at the expense of majority.

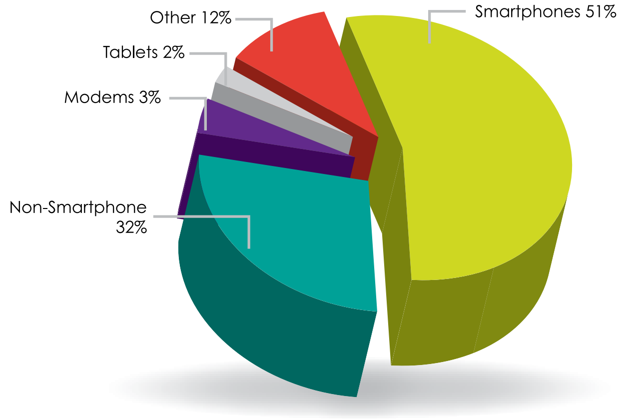
The result was a more evenly distributed and efficient use of network resources thereby improving the browsing experience. A new product, **"Night Shift,"** was introduced where customers were awarded free data bundles on purchase of a limited bundle; the free bundles were only valid for use at night. This ensured better utilization of the network during off peak periods.

To make purchase of data bundles easier, data scratch cards were introduced. Using regular scratch cards, customers are able to top-up airtime or data bundles directly. Modeled on the airtime "Sambaza" technique, an internet sharing product, "Sambaza Internet", was developed. This product allows subscribers to transfer data to another Safaricom subscriber. The product is especially useful to customers with more than one Safaricom line. It also makes it easy for friends and family to share resources.

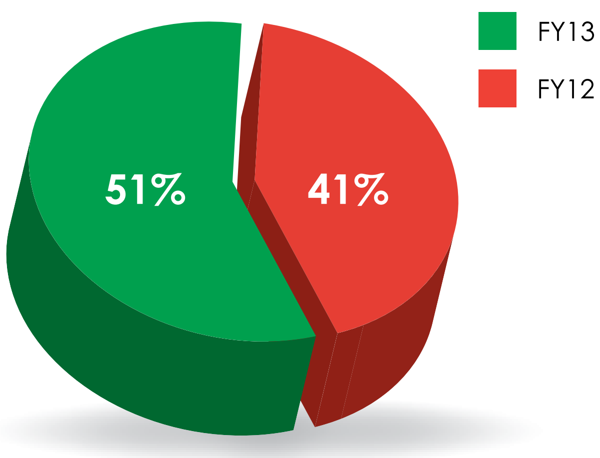
To support growth in data revenues, Safaricom embarked on delivering content to its customers in conjunction with other partners. A free Facebook campaign was launched targeting feature phone customers who had not registered on Facebook. On registration, the customer was awarded with Free Facebook access for 90 days. Further, G+ (Google Plus) was introduced in market in collaboration with Google to grow and provide a platform for user-generated content. These initiatives have resulted in growth in data customer numbers.

In the last financial year, the Retail department shifted emphasis from selling feature phones to selling smart devices. This strategy is aimed at growing data usage. The charts below indicate the achievements made:

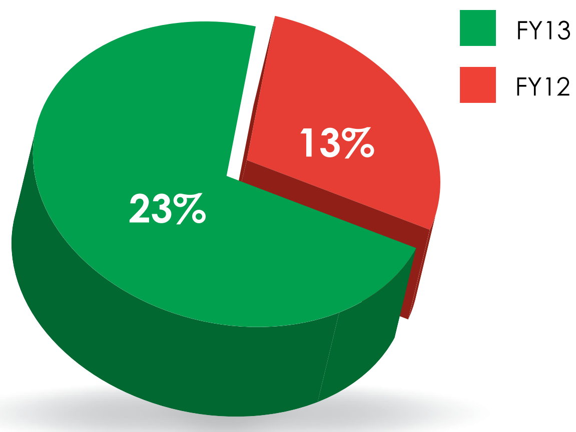
PRODUCT REVENUE CONTRIBUTION



SMARTPHONE REVENUE



SMARTPHONE UNITS SOLD



Our strategy has remained to bring to the market the most affordable data and smart devices. In partnership with our vendors, we provided the cheapest data enabled handset at Kshs 1,699, Smart handset at Kshs 7,999 and additionally have the most affordable tablet device at Kshs 24,999. We aim to make this even better in the coming year.

As at year end, over 10 milion subscribers had data-enabled devices. This represents an immediate opportunity in the new year - 3 million customers with data-enabled handsets but not using the data services.

In the new year, the focus in the data space will be in the following areas:

- Fiber to home – to provide a triple play solution to the home user.
- Wi-Fi for public hot spots and enhanced user experience in high traffic areas.
- Content – we will continue to partner with strategic partners (and local developers) to grow our content business and make Safaricom the one-stop shop on content innovation.

ENTERPRISE BUSINESS

In the period under review, Safaricom business has taken market leadership in the Telco Industry and evolved into an integrated service provider through delivery of converged mobile and fixed connectivity, a host of advanced IP, data, voice, video collaboration, and security solutions. This has been driven by Safaricom Business vision to become and remain the partner of choice for business by developing cost effective solutions that will boost business productivity. With this came major milestones that have strengthened our credentials in the Enterprise Market including being awarded the **CISCO Global Solution Innovation Partner of the year for Africa.**

Market overview

The Enterprise ICT Market experienced a growth of over Kshs 1 billion in the year under review driven mostly by increased ICT spend in the government, SME adaptation to ICT as well as increased m-commerce usage among the corporate entities. Banks have also revamped their m-banking service with enhanced capability to transfer money from bank account directly to M-PESA account through mobile phones and this is expected to continue in the coming financial year. The industry also experienced increased price pressure especially in fixed connectivity with internet prices dropping my more than half by March 2012.

Impressive revenue growth driven by innovation

Leveraging on our extensive network and innovation, Safaricom Business recorded impressive revenue growth. Revenues as at 31 March 2013 stood at Kshs 7.8 billion which translates to Kshs 2.2 billion growth by value or 38% growth compared to the previous financial year. With this performance, Safaricom Business now commands 37% of the Enterprise Telco market share, up from 31% as at 31 March 2012. Key to this performance was growth in enterprise data to Kshs 4.1 billion (29% growth), Business related M-PESA revenue which grew by 82% to Kshs 920 million and Voice revenue which grew by 37% to Kshs 2.6 billion.

In the year under review the SME segment, estimated at 120,000 formal businesses, was given special focus being one of the growth pillars for the business. Leveraging on ***"Zidisha Biashara"*** which is our flagship SME product encompassing an integrated bundled offering of voice, data, and capacity building, we have acquired more than 15,000 SME customers.

Our nationwide reach in both subscriber numbers and network, coupled with our extensive M-PESA ecosystem has made us the innovation and technology partner of choice for corporates, public sector players as well as Non - Governmental Organizations. Key innovations in the year included:

- Cash-less distribution for Corporates whose operations are driven by distributors. The solution which works on M-PESA is aimed at increasing efficiency around cash collection and payments by distributors of major Fast Moving Consumable Goods (FMCG's) as well as reducing cost and risk associated with money collections through traditional security companies. As at 31 March 2013, more than 60 EABL distributors had enrolled to the service with cash transacted at more than Kshs 1billion per month.
- Having invested in a Unified Communications Platform, and leveraging on Safaricom Unified License, Safaricom

business has launched an integrated Voice and data offering dubbed One Connect. This service is expected to transform the enterprise space by offering customers an opportunity to get all their fixed data and fixed voice needs in one pipe, thus reducing Capital and Operating expenditure.

- Safaricom Business has moved into the machine-to-machine and mobile applications space where we are now able to offer customers' value added services around areas such as workforce management, fleet management in transport industry, Stock Management through Electronic Distribution System (EDS) as well as device management riding on our Enterprise Mobility Platform.
- Working with United States Agency for International Development (USAID) and Ministry of Health Safaricom Launched the "TIBU" platform to monitor, evaluate and manage TB/Infectious Diseases funds. This platform will go a long way in creating TB awareness in the country as well as ensuring funds allocated for eradication/treatment of TB cases is well managed. In addition, Safaricom in partnership with **Changamka** and **BRITAM** launched a micro-insurance project dubbed Linda Jamii which is aimed at providing low income earners across the country with a medical cover at affordable rates.

In the education front Safaricom, in partnership with Starehe Boys Centre, launched a pilot e-learning initiative. The success of this initiative is now being replicated in other learning institutions such as Inoorero University, private schools, public schools all the way to semi-urban and rural institutions such as the charity-funded Huruma Children's Home. This is supported through our cloud-based Learning Management Platforms, coupled with our M-PESA services and our 3G network which positions us ahead of other operators to offer the education sector and government the perfect launch pad for learning delivery solutions.

Looking into the future

We will continue to grow Safaricom Business Market Share by leveraging on unrivalled Assets in the coming years. Our focus will be pegged on the following key pillars:

- Winning in new segments; Small and Medium Enterprises.
- Innovation leadership.
- Unmatched customer experience.
- Customer retention through enhanced Customer Value Management.

Deepen Financial Inclusion

What we want to achieve

- Bring financial services closer to the people through M-PESA
- Expand our M-PESA distribution network and accessibility
- Grow M-PESA retail and e-commerce payments

M-PESA

M-PESA in its current form is a payment network, allowing the banked and the unbanked people of Kenya to transfer funds real time between themselves and businesses, irrespective of the bank they belong to.

In March 2007, M-PESA was launched as a fast, safe, and affordable way to send and receive money via a mobile phone. Its growth since then has been nothing short of phenomenal.

As of 31 March 2013 there were over 17.1 million Safaricom subscribers actively using the M-PESA service, supported by a nationwide agent network of over 65,000 outlets.

M-PESA's convenience and low cost has provided financial inclusion to many Kenyans who do not have bank accounts. With the launch of M-Shwari, M-PESA customers can now save, earn interest and borrow. Through M-Shwari, subscribers conveniently transfer money, pay their bills, purchase goods and pay for services.

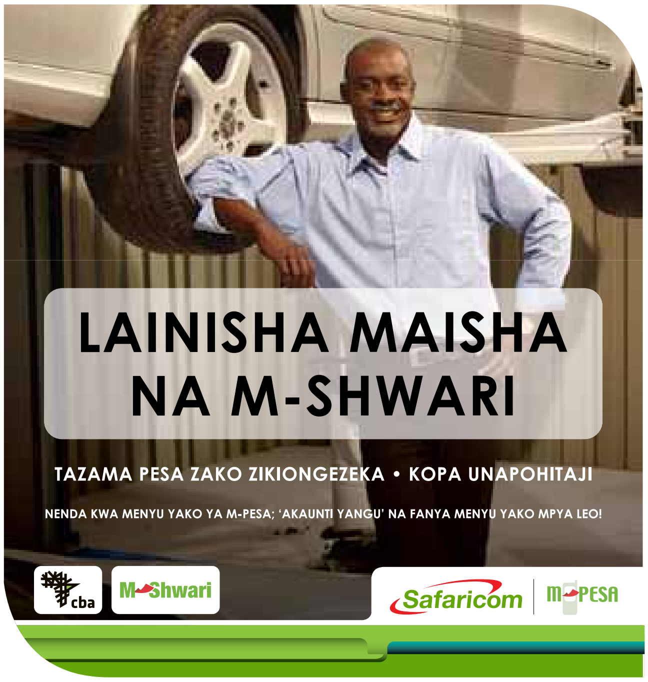
M-PESA has evolved from a mobile money transfer service into a payment platform with over 1,600 pay bill partners and 500 bulk payments partners.

M-PESA and Financial Inclusion

Government statistics estimate that Ksh 200 billion is currently sitting outside the formal banking system. These funds belong to people who have no access to formal banking and struggle to access traditional banking. It is with this in mind that Safaricom and Commercial Bank of Africa (CBA) partnered to launch **M-Shwari.**

M-Shwari is essentially a bank service that has made it possible for millions of Kenyans to save, earn interest and borrow money using their mobile phones.

M-Shwari customers can save as little as Ksh 1 (USD 0.012) and get loans from as little as Ksh 100 (USD 1.22). As an incentive to M-Shwari subscribers, there are no application forms, no ledger fees, no limits on the frequency of withdrawal, no minimum operating balance and no charges for moving money from M-PESA to M-Shwari and vice versa.



M-PESA and Innovation

In the year under review we launched new services in line with our promise to continuously innovate M-PESA.

- **M-PESA Cash in service:** This service was launched in partnership with Pesa Point. It allows customers to move money from their bank accounts to M-PESA accounts through PesaPoint's ATM's.
- **Faini Chap Chap:** This service offers traffic offenders a new system of paying fines through M-PESA. It is currently available at Milimani and Kibera law courts and plans to roll it out to 25 courts across the country are well on course. This service will reduce bureaucracy and limit queues at the courts.
- **Retail Distribution:** M-PESA retail distribution allows distributors of fast- moving consumer goods to receive payments for goods delivered via M-PESA hence eliminating the need for cash within the supply chain.

  The sales distribution team from the distributor only carries an M-PESA Till. Upon making payment, a notification is received by the sales team in real-time via SMS, allowing it to complete the transaction while at the customer's premises. Distributors can download electronic reports immediately payments are made, simplifying the reconciliation and audit process.

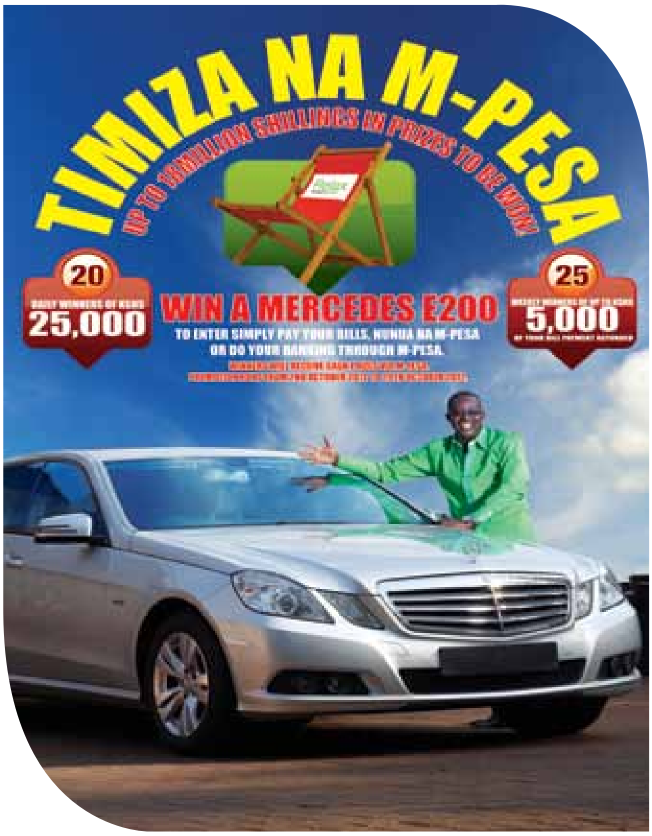
- **Lipa Na M-PESA Merchant Service:** This service makes it easier for merchants to accept payments via M-PESA. After payment, both the merchant and customer receive confirmations of the transaction via text in real-time. The service allows merchants to collect payments without worrying about the risk associated with carrying cash. The funds collected on a buy goods till cannot be transferred or withdrawn from the till and there is no loss even if the till is stolen or misplaced.
- **ATM withdrawal:** This channel provides customers access to their M-PESA funds. ATMs that give M-PESA account holders access to their accounts have increased from 700 to 1,000.
- **Purchase of data bundles via M-PESA:** This service is available to PrePay and post-paid customers.
- **M-PESA Statement on Safaricom webselfcare:** Customers can access M-PESA information without having to call the contact center. Under the webselfcare service, M-PESA customers are able to view their M-PESA statements dating back three months and request for M-PESA Start key.

Timiza Na M-PESA

This promotion offered cash awards of about Ksh 18 million. One customer drove away in a brand new Mercedes E200 valued at Kshs 7.7 million.

Twenty customers were awarded with Kshs 25,000 each; 25 weekly winners were awarded Kshs 5,000 and another 25 weekly winners received Kshs 3,000 on their M-PESA accounts.

The objective of the campaign was to change the perception that M-PESA is merely a cash transfer service and underscore its importance as a convenient lifestyle tool.



M-PESA into the Future.

Going forward, the vision for M-PESA is;

- Drive the financial inclusion agenda.
- Drive micro payments in both Business to Customer (B2C) and Customer to Business (C2B) organisations.
- Continue to partner with more financial institutions.

Encourage Further Innovation

Safaricom aims to embed an innovative culture within the organization by generating new and exciting innovations to meet and exceed our stakeholder's expectations.

Global innovation benchmarking is vital and as such, Safaricom is always keen to learn and harness its skills in this area. This is done through training workshops facilitated by world renown experts in the field of innovation.

Internally, innovation awareness and sensitization among employees is conducted during team building sessions held by various business units. These help to effectively communicate the innovation roadmap and highlight the role each employee has in guaranteeing innovation success.

Enterprise Innovation

- ***Safaricom Blackboard:*** We have invested in the best-in-class cloud based learning and content management system, which provides eLearning solutions to schools, universities, colleges, institutions and corporates that aspire to avail extended reach and footprint for their students and employees. The solution creates a collaborative learning ecosystem that allows teachers, students and parents to jointly participate in the process of learning and support for the student, and makes it possible for them to jointly define, monitor and feedback on personalized programs for individual students. Apart from availing a wide range of interactive eLearning content targeted at various groups, the Safaricom Blackboard also allows teachers, tutors and lecturers to create and upload their own content including course notes, quizzes and other support material that can be accessed by their students anytime, anywhere.

  The solution also allows libraries and publishers to avail their eBooks for sale and rental through a portal. It also supports a process for the Ministry and other learning policy and regulatory institutions such as the Kenya Institute of Education (KIE) to endorse and certify books and materials recommended for delivery of official syllabus and curriculums. Through Safaricom Blackboard we are able to leverage on our technology to provide quality, access and equity in learning; and also to support our subscribers and society to resolve current resourcing, quality and access challenges in the education sectors.

  Target stakeholders and customers include the Ministry of Education, Kenya Institute of Education, universities and colleges, public and private schools, students & teachers, libraries, publishers and corporates.

- ***Linda Jamii Micro-Health Insurance:*** It is estimated that only about 4% of Kenyans have access to medical insurance cover. Safaricom is partnering with Medical Insurance providers NHIF, Britam and Changamka to provide an innovative inpatient and outpatient micro-health insurance and saving product for the excluded segments. The product leverages on existing Safaricom services such as M-PESA (collect subscription data, premiums and send claim payouts), Cloud Services (which hosts the platform and data on which the solution runs), USSD and SMS messaging services (to register and interact with subscribers) as well as our Call Centre Business Process Outsourcing (BPO) services to manage and respond to client queries. Considering that a huge segment of the excluded include the informal sector who do not have steady sources of income, but are sole bread-winners for their families, the Linda Jamii product has 2 key features to buffer the family and make it convenient for subscribers to contribute to their premiums:

  - The product allows a subscriber to save and contribute slowly depending on their cash flow and financial situations. They can save from as low as Ksh. 10 daily until they reach the premium threshold.
  - To cater for situations where the bread-winner is admitted in hospital for more than 2 days, the product pays a daily cash benefit to the family so they do not languish in poverty when the principle member or spouse is in hospital.

  The main objective of the programme is to reduce the burden of disease currently borne by the poorest in the society and make quality healthcare services accessible to Kenyans. The product targets the self-employed populace and expectant mothers who are able to plan and save towards the delivery and baby care expenses in advance.

- ***TIBU (TB Care Program Management):*** In line with our eHealth pillar to support and strengthen health systems in the country, Safaricom has partnered with the Ministry of Public Health and Sanitation - Division for Leprosy, Tuberculosis and Lung Disease, USAID and our innovation partners and integrators to create a technology platform that responds and meets the Ministry's need to achieve efficiency and transparency in running of the TB program. The solution is hosted on the Safaricom Cloud with the following features:

  - A comprehensive mobile data collection monitoring & reporting solution using innovative GIS mapping technology and mobile applications.
  - A consolidated citizen and stakeholder information portal.
  - Lab and commodities management components to manage dependent internal operations and logistics.
  - Integrated mobile payment solution using Mpesa for supervision and patient reimbursements.
  - Social media integration to bring in transparency into the program and facilitate interaction and feedback with citizens and other stakeholders connected to the program.
  - Patient connect module to empower the patient to get personalized services from the division on the do's, the don'ts, steps and tips to follow, reminders and notifications, and pro-active support from the program.

  The objective is to improve efficiency in patient management, governance and transparency in funds and resource management towards attainment of the 70/85 targets – that is to detect 70% of infectious TB and cure 85% of the detected cases and then sustain this effort over a long time to achieve the goals set out in MDG 6. The product targets TB Care program specifically and similar public health programs like Malaria and HIV.

- ***Mobile Video:*** This is a business collaboration Video conference service running on smart mobile devices, such as Android, IOS, tablets, laptops and iPad devices. The service allows individuals and mobile workforces to collaborate and interact with colleagues, customers and vendors while on the move or away from office. The objective is to bundle a collaboration service with our Mobile data offerings and provide a truly enterprise mobility solution that can be adopted by any size of business from SMEs, corporates and government and public institutions.
- ***OneConnect – unified Communication:*** OneConnect is a fixed voice product that simplifies Enterprise communication needs into one offering. The product comprises of a fixed voice and numbering plan, single bill, internet, 24/7 single point of contact support and dedicated account manager. The objective of the project is to provide a total business communication service to SMEs, corporates and Government, and provide a base for rollout of a unified communication experience to our customers.

Customer Segments Innovation

Child safety online: Child safety online is a growing concern with parents worrying on how to protect their children from inappropriate content and contact. We aim to provide parents with safety tools to help them limit access to inappropriate content, websites, people and activities; and also to be actively involved in their children's internet use. Previously, in partnership with Intel, we launched the McFee Parental Guidance Software which was bundled with all laptops sold at Safaricom.

Social Innovation

		Product Name	Product Description
	**Agriculture**	√ iCow	√ Information tips for dairy farmers
	**Health**	√ Afya Tips	√ SMS messaging on general wellness, weight loss and diabetes management
		√ National Gender Violence Hotline	√ Hotline and counseling service for survivors of gender based violence
	**Green energy**	√ M-KOPA Solar	√ Pay-as-you go solar lighting system, powered by M-PESA
	**Governance**	√ Sisi ni Amani	√ Peace Messaging before, during and after the 2013 elections
	**Youth**	√ Young Africa Live	√ A portal with information on health, wellness, relationships for young people

SUSTAINABILITY

Safaricom published and launched its first sustainability report in September 2012. The report presented a balanced overview of our material sustainability issues and related performance. The sustainability business imperative is to;

- Communicate a shared set of values across our ecosystem.
- Broaden our ethical and moral commitment.
- Adapt and support sustainable and responsible policies.
- Demonstrate leadership in sustainability and sustainability reporting in Kenya.

This will be an on-going, integrated and transparent communication to all our internal and external stakeholders.

The process

We undertook a risk and opportunity identification process to define key issues of relevance to the organization and its stakeholders. The key material issues defined as part of this process informed our strategy for this first report and provided the basis for our reporting. Our material issues that evolved into the key sustainability pillars included;

1. Dynamic regulatory environment
2. Energy security
3. Network stability
4. Innovation
5. Supplier ethics and performance
6. Ethics and values
7. Employee environment
8. Environmental performance

It is acknowledged that these eight areas have an impact on our current and future social and economic sustainability and are key to our success.

We used the Global Reporting Initiative GRI version 3.1 reporting guidelines to develop the sustainability report to a C level, as per our self assessment.

Sustainability reporting in Safaricom has evolved from reporting to the United Nations Communications on Progress to having a fully fledged cross functional sustainability team in the company working on sustainability reporting.

The Safaricom CEO, Robert Collymore, was appointed to the United Nations Global Compact board, a voluntary UN initiative that encourages businesses to adapt sustainable and socially responsible policies. This is seen as recognition of Safaricom's commitment to sustainability and in addition, Safaricom has participated in, and addressed several forums ranging from ethics, rights, social responsibility and innovation. Some of the highlights follow below:

1. Presentation at the KPMG CEO Sustainability Forum (September 2012)
2. Representation of the Kenyan Business Sector at the Global Green Growth Forum in Copenhagen (October 2012)
3. Attendance at the United Nations Global Compact Meeting (November 2012)
4. Hosting of the CEO's roundtable meeting on Ethics and Anti-corruption (February 2013)
5. Co-hosted the Africa/Middle East Regional Networks Meeting for the UN Global Compact (February 2013)
6. Presented on Child's Rights at the World Child and Youth Forum at the Royal Palace in Stockholm (March 2013)

Future outlook

We will continue to broaden our stakeholder engagement and broaden our sustainability reporting, and examine and influence responsible business within our ecosystem. In the next year, we will expand our scope to include some of our dealers.

We look forward to addressing improvement measures, engaging with our sustainability partners/like-minded companies and to honour our commitment to the United Nations Global Compact by adapting socially responsible policies, adhering to human rights, adopting good labour practices, supporting environmental conservation and adopting anti-corruption measures.

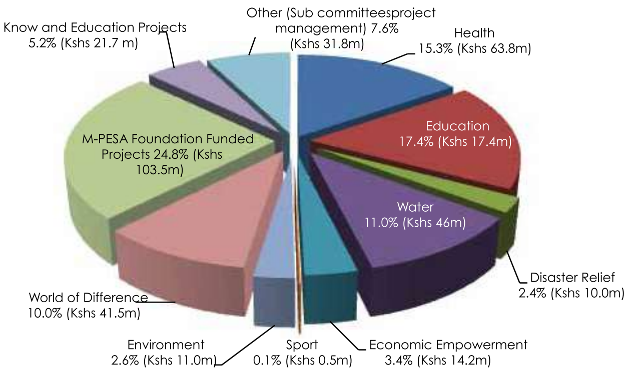
To view our first sustainability report, log onto: **http://www.safaricom.co.ke/sustainabilityreport/**

SOCIAL RESPONSIBILITY

The Safaricom Foundation

Founded in the year 2003, the Safaricom Foundation is the Corporate Social Investment (CSI) arm of Safaricom Limited. In May 2012 Les Baillie, who had served as the Chairman of the Foundation since its inception, stepped down as Chair, and was replaced by Joseph Ogutu who had served as a Foundation Trustee since 2007. Les remains an External Trustee of the Safaricom Foundation.

Safaricom Foundation Disbursements April 2012- March 2013



This includes funds from the M-PESA Foundation as well as some grants carried over from the previous year.

In the financial year, the Safaricom Foundation disbursed Ksh 416.8 million to 119 projects in its thematic areas.

Thought Leadership – Creating Enabling Environment For Holistic Corporate Social Investment

In January, the Safaricom Foundation convened a Corporate Social Investment round table event to discuss holistic Corporate Social Investment strategies, charting the way for a strategic shift from one off donations to corporate social responsibility to corporate social investment. Lord Michael Hastings, a leading figure in the area of global economics, corporate responsibility, sustainability and governance issues who has been involved with socially responsible issues for a large part of his career (culminating in the 2003 award of the Commander of the British Empire) was the chief guest and issued the key note address. Lord Hastings is also a Trustee of the Vodafone Group Foundation.

Corporate Social Investment Roundtable panelists from left: Mugo Kibati, Janet Mawiyoo, Bob Collymore and Lord Michael Hastings

Other panelists included Mugo Kibati (Director General of the Vision 2030 secretariat, Bob Collymore (CEO of Safaricom Limited) and Janet Mawiyoo (CEO of Kenya Community Development Foundation). They all urged corporates to align their CSI programmes with the actual development needs of communities to boost growth.

Building Lasting Partnerships And Making An Impact Within Communities

Education

The Know and Grow Education Programme is a partnership that brings together the Safaricom Foundation, Tinga Tinga Tales Foundation and Coca-Cola Central East and West Africa in a Kshs 43 million initiative aimed at improving the learning environment in primary schools in disadvantaged regions of Kenya. Selection of the constituencies was made using the National Poverty Index and the selection of schools was done in conjunction with District Education officials.

The schools in areas as diverse as Ganze, Kitui, Rarieda, Ikolomani, Wajir, Mbita and Kuria have benefited from Early Childhood Development (ECD) classrooms equipped with furniture, water harvesting and sanitation facilities and greenhouses (where appropriate). As such, students have an all-round improved learning environment that will contribute towards improved attendance and ultimately improved performance.

A new classroom at Mwaluvuno Primary school donated by Safaricom Foundation through the Know and Grow Education Programme Partnership

Health

The Safaricom Foundation continued to make investments in various ways to improve the health and wellbeing of Kenyans, women and children in particular. Key is the continued support of mobile medical camps around the country in areas such as Laikipia, Emuhaya, Turkana Central, Lamu, Molo and West Mugirango, and many more locations that attract close to 3,000 people in each location seeking specialized medical attention that they cannot access due to financial, quality or geographical constraints.

The Foundation has donated medical equipment and supplies and improved infrastructure in clinics and hospitals in places as diverse as Nakuru, Chuka, Kilifi, Kitui, Migori and Msambweni.

A patient using the dialysis machine donated to the Nakuru Provincial General Hospital by the Safaricom Foundation

Water

The Safaricom Foundation continues to work with the Kenya Red Cross Society and Action Aid Kenya to implement large scale water projects that have given communities in Kitui and Taita Taveta a new lease of life.

The Foundation invested Kshs 25 million in a water project in Wundanyi, Taita District. When complete, this project will transform the lives of more than 3,500 people living in the area by sparing them from the 15-kilometre daily trek in search of water. The Foundation, working with Action Aid and the Kangemi Mlilo Water Project Self Help Group, will tap water from the only permanent and reliable water source in the area, Makurati Spring. The two-phase project will entail the installation of pipes from a concrete weir at the Makurati Springs to a main storage tank from where residents can access water through solar powered water kiosks. Statistics indicate that Wundanyi receives 800 to 1,000 mmm of rainfall annually, with seasonal rivers drying out within a few days of rain. This has forced residents to walk long distances in search of water.

The water and irrigation infrastructure in Waldaa, Moyale on the Kenyans for Kenya farmland

Disaster Response

In July 2011, Kenyans from all walks of life, joined hands in the biggest fundraiser to date, Kenyans for Kenya, to raise funds for the drought stricken communities in Northern Kenya. The initiative was coordinated by the Kenyans for Kenya Secretariat, which comprised Safaricom Foundation, Kenya Red Cross Society, the Media Owners Association and GDCC. Kshs 677 million was raised in cash and a further estimated Kshs 300 million in kind. Of the cash raised, Kshs 404 million of the funds went towards three long term sustainable projects in Moyale, East Pokot and Turkana North that would integrate water and agriculture to contribute towards improved food security for the communities. In this financial year, these integrated projects were unveiled in Waldaa in Moyale and Chemisirion in East Pokot.

At the height of Tana Delta clashes earlier in the year, thousands of families were displaced and left without access to basics such as food, shelter, drinking water and medical care. According to the Kenya Red Cross Society, more than 30,000 people were affected by the clashes with 12,000 of these displaced in the violence that left 118 people dead. The Safaricom Foundation gave a grant of Kshs 10 million to the Kenya Red Cross Society to provide emergency health services and to reconstruct or build homes for the displaced.

World Of Difference

The Safaricom Foundation launched the third phase of the World of Difference programme, a unique secondment programme where participants, who are competitively selected, can give their time, knowledge and skills to improve the Foundation's partner organization's capacities. In the process, the participants are exposed to a whole new working world, new experiences and new challenges. It is a two-way exchange and learning process.

This third phase extended the invitation to members of the Kenyan public to participate. There were over 1,100 applications from the public, and eventually 7 individuals were selected to participate, alongside 14 Safaricom staff. Two media personalities, Julie Gichuru from Royal Media Services and DJ Protégé from Capital FM are also participating in the programme. This team of secondees is working with the Foundation's partners in areas as diverse as strategy development, fund raising, marketing, financial management and I.T. In the process they are exposed to new organisations, new ways of doing business and a new outlook to life.

Winners of the World of Difference Phase Three with the Chairman of the Safaricom Foundation and the CEO

Future Outlook

The Safaricom Foundation will be celebrating its 10th anniversary in 2013. This marks an important milestone in our history and is the opportune moment to review our strategy and future direction. We recognize the continued need to invest in maternal and child health; as well as the important role that mobile communications technology plays in transforming lives in areas such as health, education and economic empowerment and will continue to identify opportunities to increase our engagement in these areas.

M-PESA FOUNDATION

The M-PESA Foundation was registered as a charitable trust on 23 March 2010, and a Board of Trustees was established. Michael Joseph is the Chair of the Board with Bob Collymore, Hamish Keith and Andrew Dunnett as Trustees and Les Baillie as the Executive Director.

The M-PESA Foundation aims to promote Education, Health and Environmental Conservation for the social and economic benefit of the people of Kenya, and to share the benefits of developments in mobile communications technology that relate to social and economic development. This will be done through partnerships with Kenyans and Kenya organisations on large scale and long term high impact social projects.

The M-PESA Foundation has funded and completed implementation of the following projects:

- Construction of eight classrooms and dormitory for Starehe Girls Centre.
- The fencing and conservation of the Nairobi National Park through the Nairobi Green Line.
- The purchase of 650 Handsets for an integrated maternal health project to be used by 600 Community Health Workers and 50 Community Health Workers to provide women with mHealth and pre-pregnancy and post-pregnancy care .

Other projects approved during the course of the year include:

1. The fencing and bio diversity conservation of the Mau Eburu Forest ecosystem.
2. A comprehensive Maternal Health Programme to improve maternal health outcomes in Northern Kenya.
3. Construction and rehabilitation of a waste and water treatment plant for Starehe Girls Centre.
4. Funding of an mHealth learning solution programme that will train and up skill health workers.
5. A mobile-driven agricultural commodity platform that will support farmers to aggregate their produce and buy and sell at favorable prices.

Les Baillie, Executive Director of the M-PESA Foundation, joins hands with Rhino Ark Trust personnel during ground breaking ceremony of fencing Mau Eburu forest.

THE MICHAEL JOSEPH CENTRE

The Michael Joseph Centre (MJC) is an event hosting facility within the Safaricom House. In 2012, over 120 events of various nature including launches, childrens' events, jam sessions, youth talks, school visits and much more were hosted at the centre. The MJC has fast become one of Nairobi's leading event venues, promoting arts and culture across all disciplines.

In November 2012 the MJC was closed for major renovation and re–opened in April 2013, boasting enhanced comfort and state–of–the–art equipment and facilities.

FINANCIAL REVIEW

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DIRECTOR'S REPORT

The directors submit their report together with the audited financial statements for the year ended 31 March 2013, which disclose the state of affairs of Safaricom Limited (the Company) and its subsidiaries (together, the Group).

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The net profit for the year of Kshs 17,539.8 million (2012: Kshs 12,627.6 million) has been added to retained earnings. No interim dividend was paid during the year (2012: Nil). The directors recommend the approval of a final dividend of Kshs 12,400.0 million (2012: Kshs 8,800.0 million).

DIRECTORS

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

N Nganga	Chairman
R Collymore	Managing Director
J Kinyua	
N Macharia	
S Mudhune	
N Read	
M Joseph	
A Essam	(Appointed w.e.f 12 September 2012)
S Sood	(Appointed w.e.f 31 October 2012)
J Tombleson	(Alternate to R Collymore and N Read)
E Koimett	(Alternate to J Kinyua)
T Harrabin	(Resigned w.e.f 31 October 2012)
K Witts	(Resigned w.e.f 12 September 2012)

AUDITOR

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

By order of the Board

Mrs Enid Muriuki
SECRETARY
13 May 2013

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

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

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

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

Director | **Director**

13 May 2013

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SAFARICOM LIMITED

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Safaricom Limited (the Company) and its subsidiaries (together, the Group) set out on pages 52 to 93. These financial statements comprise the consolidated statement of financial position at 31 March 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended together with the statement of financial position of the Company standing alone as at 31 March 2013 and the statement of changes in equity of the Company for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company as at 31 March 2013 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:

i. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii. in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and

iii. the Company's statement of financial position is in agreement with the books of account.

PricewaterhouseCoopers

Certified Public Accountants (Kenya)
13 May 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 March 2013 Kshs'000	2012 Kshs'000
Revenue	5	124,287,856	106,995,529
Cost of sales		(56,544,436)	(54,139,219)
Gross profit		67,743,420	52,856,310
Other income	6	197,888	487,881
Distribution costs		(4,680,665)	(3,544,561)
Administrative expenses		(8,440,194)	(7,652,870)
Other expenses		(27,720,255)	(21,995,403)
Operating profit	7	27,100,194	20,151,357
Finance income	8	1,199,298	873,518
Finance costs	8	(2,839,249)	(3,656,280)
Share of (loss) / profit of Associate	19 (b)	(9,678)	805
Profit before income tax		25,450,565	17,369,400
Income tax expense	11	(7,910,755)	(4,741,793)
Profit for the year (of which Kshs 17,320,185,000 (2012: Kshs 12,873,482,000) has been dealt with in the accounts of the Company)		**17,539,810**	**12,627,607**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		**17,539,810**	**12,627,607**
Attributable to:			
Owners of the Company		17,539,810	12,737,837
Non-controlling interest		-	(110,230)
		17,539,810	**12,627,607**
Earnings per share for profit attributable to the equity holders of the Company			
- Basic and diluted (Kshs per share)	12	0.44	0.32

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Capital and reserves attributable to the Company's equity holders	Notes	At 31 March 2013 Kshs'000	2012 Kshs'000
Share capital	13	2,000,000	2,000,000
Share premium	13	1,850,000	1,850,000
Retained earnings		64,015,128	59,940,584
Proposed dividend	14	12,400,000	8,800,000
Attributable to owners of the Company		80,265,128	72,590,584
Non-controlling interest		-	(508,886)
Total equity		80,265,128	72,081,698
Non-current liabilities			
Borrowings	15	12,000,000	12,104,554
Payables and accrued expenses	25	-	97,525
Total non-current liabilities		12,000,000	12,202,079
Total equity and non-current liabilities		92,265,128	84,283,777
Non-current assets			
Property, plant and equipment	17 (a)	95,296,398	91,659,218
Intangible assets – Licences	18 (a)	1,422,011	2,094,951
Intangible assets – Goodwill	18 (a)	219,151	219,151
Investment in associate	19 (b)	-	9,678
Indefeasible rights of use	20	4,006,681	4,240,400
Deferred income tax	16 (a)	2,553,665	2,480,063
Prepaid operating lease rentals	30	2,227	2,021
		103,500,133	100,705,482
Current assets			
Inventories	21	2,234,294	2,653,125
Receivables and prepayments	22	8,124,808	8,190,298
Current income tax		-	1,542,714
Cash and cash equivalents	24	14,996,922	8,808,058
		25,356,024	21,194,195
Current liabilities			
Payables and accrued expenses	25	27,825,322	30,463,358
Current income tax		537,749	-
Derivative financial instruments	23	-	147,000
Borrowings	15	8,227,958	7,005,542
		36,591,029	37,615,900
Net current liabilities		(11,235,005)	(16,421,705)
		92,265,128	84,283,777

The financial statements on pages 52 to 93 were approved for issue by the Board of Directors on 13 May 2013 and signed on its behalf by:

Director **Director**

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	At 31 March 2013 Kshs'000	2012 Kshs'000
Equity			
Share capital	13	2,000,000	2,000,000
Share premium	13	1,850,000	1,850,000
Retained earnings		65,453,750	60,533,565
Proposed dividend	14	12,400,000	8,800,000
Total equity		81,703,750	73,183,565
Non-current liabilities			
Borrowings	15	12,000,000	12,000,000
Payables and accrued expenses	25	-	97,525
Total non-current liabilities		12,000,000	12,097,525
Total equity and non-current liabilities		93,703,750	85,281,090
Non-current assets			
Property, plant and equipment	17 (b)	95,183,211	91,534,227
Intangible assets – Licences	18 (b)	1,409,334	2,081,078
Investment in subsidiaries	19 (a)	745,891	189,511
Investment in associate	19 (b)	-	9,678
Indefeasible rights of use	20	4,006,681	4,240,400
Receivables and prepayments	22	850,000	898,482
Deferred income tax	16 (b)	2,540,625	2,467,023
Prepaid operating lease rentals	30	2,227	2,021
		104,737,969	101,422,420
Current assets			
Inventories	21	2,234,294	2,653,125
Receivables and prepayments	22	8,094,793	8,167,706
Current income tax		-	1,542,150
Cash and cash equivalents	24	14,963,243	8,790,444
		25,292,330	21,153,425
Current liabilities			
Payables and accrued expenses	25	27,560,389	30,142,213
Current income tax		538,202	-
Derivative financial instruments	23	-	147,000
Borrowings	15	8,227,958	7,005,542
		36,326,549	37,294,755
Net current liabilities		(11,034,219)	(16,141,330)
		93,703,750	85,281,090

The financial statements on pages 52 to 93 were approved for issue by the Board of Directors on 13 May 2013 and signed on its behalf by:

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to owners of the Company					
		Share capital	Share premium	Retained earnings	Proposed dividends	Non-controlling interest	Total equity
		Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Year ended 31 March 2012							
At start of year		2,000,000	1,850,000	56,002,747	8,000,000	(398,656)	67,454,091
Total comprehensive income for the year		-	-	12,737,837	-	(110,230)	12,627,607
Transactions with owners							
Dividends:							
- Final for 2011		-	-	-	(8,000,000)	-	(8,000,000)
- Proposed final for 2012	14	-	-	(8,800,000)	8,800,000	-	-
Total transactions with owners		-	-	(8,800,000)	800,000	-	(8,000,000)
At end of year		2,000,000	1,850,000	59,940,584	8,800,000	(508,886)	72,081,698
Year ended 31 March 2013							
At start of year		2,000,000	1,850,000	59,940,584	8,800,000	(508,886)	72,081,698
Total comprehensive income for the year		-	-	17,539,810	-	-	17,539,810
Purchase of 49% ownership of subsidiary		-	-	(1,065,266)	-	508,886	(556,380)
Transactions with owners							
Dividends:							
- Final for 2012	14	-	-	-	(8,800,000)	-	(8,800,000)
- Proposed final for 2013	14	-	-	(12,400,000)	12,400,000	-	-
Total transactions with owners		-	-	(12,400,000)	3,600,000	-	(8,800,000)
At end of year		2,000,000	1,850,000	64,015,128	12,400,000	-	80,265,128

COMPANY STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Retained earnings	Proposed dividends	Total equity
		Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Year ended 31 March 2012						
At start of year		2,000,000	1,850,000	56,460,083	8,000,000	68,310,083
Total comprehensive income for the year		-	-	12,873,482	-	12,873,482
Transactions with owners						
Dividends:						
- Final for 2011		-	-	-	(8,000,000)	(8,000,000)
- Proposed final for 2012	14	-	-	(8,800,000)	8,800,000	-
Total transactions with owners		-	-	(8,800,000)	800,000	(8,000,000)
At end of year		2,000,000	1,850,000	60,533,565	8,800,000	73,183,565
Year ended 31 March 2013						
At start of year		2,000,000	1,850,000	60,533,565	8,800,000	73,183,565
Total comprehensive income for the year		-	-	17,320,185	-	17,320,185
Transactions with owners						
Dividends:						
- Final for 2012	14	-	-	-	(8,800,000)	(8,800,000)
- Proposed final for 2013	14	-	-	(12,400,000)	12,400,000	-
Total transactions with owners		-	-	(12,400,000)	3,600,000	(8,800,000)
At end of year		2,000,000	1,850,000	65,453,750	12,400,000	81,703,750

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 March	
	Notes	2013	2012
		Kshs'000	Kshs'000
Cash flows from operating activities			
Cash generated from operations	26	46,486,321	40,038,720
Interest received		740,395	427,402
Interest paid		(2,192,078)	(1,896,201)
Income tax paid		(5,903,893)	(5,333,847)
Net cash generated from operating activities		39,130,745	33,236,074
Cash flows from investing activities			
Purchase of property, plant and equipment	17 (a)	(24,875,965)	(25,278,428)
Acquisition of One Communications Limited	19 (a)	(556,380)	-
Investment in indefeasible rights of use	20	-	(419,158)
Proceeds from disposal of property, plant and equipment		71,041	16,048
Net cash used in investing activities		(25,361,304)	(25,681,538)
Cash flows from financing activities			
Proceeds from long-term borrowings		4,227,958	6,392,231
Repayments on long-term borrowings		(3,008,535)	(2,399,755)
Dividends paid	14	(8,800,000)	(8,000,000)
Net cash used in financing activities		(7,580,577)	(4,007,524)
Net increase in cash and cash equivalents		6,188,864	3,547,012
Movement in cash and cash equivalents			
At start of year		8,808,058	5,261,046
Increase		6,188,864	3,547,012
At end of year	24	14,996,922	8,808,058

Notes

1 General information

Safaricom Limited is incorporated in Kenya under the Companies Act as a public limited liability Company, and is domiciled in Kenya.

The address of the registered office of the Company is:
L.R. No. 13263
Safaricom House, Waiyaki Way
P.O Box 66827-00800
NAIROBI

The Company's shares are listed on the Nairobi Securities Exchange.
For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of comprehensive income in these financial statements.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

Changes in accounting policy and disclosures

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

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

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

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

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

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

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

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

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

2 Summary of significant accounting Policies (continued)

(a) Basis of preparation (continued)

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

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

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

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

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

(b) Consolidation

(i) Subsidiaries

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

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

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

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

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

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

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

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 Summary of significant accounting Policies (continued)

(b) Consolidation (continued)

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iv) Associates

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associate' in the statement of comprehensive income.

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

(v) Transactions and non-controlling interests

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

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenya Shillings (Kshs), which is the Group's presentation currency.

(ii) Transactions and balances

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

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

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating

2 Summary of significant accounting Policies (continued)

(d) Segment reporting (continued)

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

The directors consider the Group to be comprised of one operating segment. The financial statements are presented on the basis that risks and rates of return are related to this one reportable segment.

(e) Revenue recognition

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), excise duty, rebates and discounts. The Group's principal business is the sale of airtime for use in voice and data transmission. The business is transforming itself to a Total Telecommunication Solution provider. Phones, starter packs and other accessories are sold through dealers and retail centres spread across the country. Starter packs consist of a SIM card and information brochures. There is no right of return for SIM cards.

M-PESA is a Safaricom Limited service allowing customers to transfer money using a mobile phone. Kenya was the first country in the world to use this service, which is operated under license from Vodafone. M-PESA is available to all Safaricom Limited subscribers (PrePay and PostPay). Registration is free and available at any M-PESA agent countrywide. The M-PESA application is installed on the SIM card and works on all makes of handsets. Revenue from this service is earned largely from transfer and withdrawal transactions performed by customers. A tariff that is graduated depending on the funds being transacted is applied on all transactions which are cumulatively reported as M-PESA transaction commission revenue.

Safaricom Limited in partnership with Commercial Bank of Africa (CBA) launched a product called "M-Shwari" in the year. M-Shwari is a first of its kind service in the world. M-Shwari is essentially a bank service that allows our customers to save, earn interest and borrow money using their mobile phones. M-Shwari customers can save as little as Kshs 1 (USD 0.012) and get loans from as little as Kshs 100 (USD 1.22). This has enabled more and more Kenyans to get access to banking services that they did not have before. As added value to our customers, M-Shwari has no application forms, no ledger fees, no limits on the frequency of withdrawal, no minimum operating balance and no charges for moving money from M-PESA to M-Shwari and vice versa. Revenue from this service is earned from the facilitation fee charged at the point of loan disbursement and this is shared between Safaricom Limited and CBA.

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

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

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

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

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

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

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

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

Interest income is recognised using the effective interest method.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost and subsequently depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

2 Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

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

Network infrastructure	3 - 10 years
Equipment and motor vehicles	3 - 5 years
Leasehold improvements	Shorter of life of lease or useful life of the asset

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each period end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2 (i)).

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Property, plant and equipment acquired in exchange for non-monetary assets or a combination of monetary and non-monetary assets are measured at fair value of the new asset. If the fair value cannot be determined reliably, then the exchanged asset is measured at the carrying amount of the asset given up.

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

Gains and losses on disposal of property and equipment are determined by comparing proceeds with their carrying amounts and are taken into account in determining profit for the period.

(g) Intangible assets

(i) Goodwill

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

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

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

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

(ii) Licences

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

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

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

Currently, the Group has the following licences:

Safaricom Limited is licensed under the Unified Licence Framework which means it possesses

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(g) Intangible assets (continued)

(ii) Licences (continued)

- Digital Carrier Network Operation (DCNO) issued to Comtec Integration Systems Limited in March 2006;
- Internet Service Provider (ISP) issued to Flexible Bandwidth Limited in March 2006;
- Public Data Communications Network Operator Licence (PDCNO) transferred to Safaricom Limited in September 2011 (Held by PacketStream Data Networks Limited from July 2005); and
- Public Data Network Operators Licence (PDNO) transferred to Safaricom Limited in September 2011 (Held by IGO Wireless Limited from July 2005); and Content Service Provider (CSP) and Application Service Provider Licence (ASP) issued to Instaconnect Limited in 30 April 2009.

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

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

The network licences are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(h) Accounting for derivative financial instruments and hedging activities

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

(i) Impairment of non-financial assets

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

(j) Accounting for leases

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

(k) Indefeasible rights of use

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

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

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of inventories comprises purchase price and other incidental costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

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

(m) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a classified as current assets. If not, they are presented as non-current assets.

2 Summary of significant accounting policies (continued)

(m) Trade and other receivables (continued)

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

(n) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

Deferred revenue is accounted for as described under Note 2 (e).

(o) Share capital

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

Ordinary shares represent the residual economic value of a company. They carry rights to distribution of profits through dividends, to the surplus assets of a company on a winding up and to votes at general meetings of the Company.

There are no differences in the voting rights of the ordinary shares held by the shareholders of the Company.

Non-participating preference shares have the right to preference in the payment of the paid up par value in the event of liquidation of the Company and may be redeemed at any time by the Board of Directors of the Company subject to the provisions of the Kenyan Companies Act.

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

(p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(q) Employee benefits

(i) Retirement benefit obligations

The Group operates a defined contribution retirement benefit scheme for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group and Company pay contributions to publicly or privately administered plans on a mandatory, contractual or voluntary basis. The entity has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

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

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the statement of financial position date is recognised as an expense accrual.

(iii) Employee share options

Employee Share Ownership Plan

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

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

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

2 Summary of significant accounting policies (continued)

(q) Employee benefits (continued)

(iii) Employee share options (continued)

Employee Share Grant Option Plan

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

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

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

(r) Current and deferred income tax

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

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

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

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

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

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

(s) Borrowings

Borrowings are recognised initially at fair value including transaction costs and subsequently stated at amortised cost using the effective interest method. Any differences between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year end.

(t) Dividend distribution

Dividends payable to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends are shown as a separate component of equity until declared.

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(v) Comparatives

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

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the statement of financial position date.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 (g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 18.

Income taxes

Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Property, plant and equipment

Critical estimates are made by management in determining depreciation rates for property, plant and equipment. The rates used are set out in Note 2 (f) above.

Valuation of Bonga points

Bonga points are valued based on fair value which is determined by historical redemption information. The length of historical period used to determine the fair value is set by management and is based on previous redemptions rates on voice, SMS, data or merchandise.

(ii) Critical judgments in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made judgements in determining:

- the classification of financial assets and leases; and
- whether assets are impaired.

(iii) Critical judgement on going concern

The Group's current liabilities exceed its current assets by Kshs 11,235.0 million (2012: Kshs 16,421.7 million) at the statement of financial position date.

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

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

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

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

4 Financial risk management

The Group's activities expose it to a variety of financial risks, market risk (including foreign exchange risk, interest rate risk, and price risk), credit risk and liquidity risk.

Financial risk management is carried out by the treasury section in finance division under policies approved by the Board of Directors. The treasury section identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily, with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

4 Financial risk management (continued)

Market risk (continued)

(i) Foreign exchange risk (continued)

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

At 31 March 2013, if the Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, consolidated post tax profit for the year would have been Kshs 461.6 million (2012: Kshs 386.0 million) higher/lower, mainly as a result of US dollar denominated cash and bank balances.

At 31 March 2013, if the Shilling had weakened/strengthened further by 10% against the Euro with all other variables held constant, consolidated post tax profit for the year would have been Kshs 34.7 million (2012: Kshs 13.0 million) lower/higher, mainly as a result of Euro denominated cash and bank balances.

(ii) Price risk

The Group does not hold investments or securities that would be subject to price risk. The group is not exposed to commodity price risk.

(iii) Interest rate risk

Interest rate risk arises from long-term and bank borrowings. Borrowings issued at variable rates expose the Group and Company to cash flow interest rate risk which is partially offset by cash held at variable rates. To manage interest rate risk the Group ensures that a portion of its borrowings are fixed rate borrowings. The Group and Company regularly monitor financing options available to ensure optimum interest rates are obtained.

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

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from derivative financial instruments, deposits with banks as well as trade and other receivables. The Group has no significant concentrations of credit risk. Derivative financial instruments and bank deposits are re-valued at closing rates at the end of the period.

For banks and financial institutions, only reputable well established financial institutions are used. Category 1 is made up of counterparties with international credit ratings; Category 2 are counterparties who are subsidiaries of parents with international credit ratings; Category 3 counterparties have local credit ratings or are not rated but are classified as large by the Central Bank of Kenya.

Cash at bank and short term bank deposits

	Group		Company	
	2013	**2012**	**2013**	**2012**
	Kshs'000	**Kshs'000**	**Kshs'000**	**Kshs'000**
Category 1	4,242,997	27	4,242,997	27
Category 2	7,526,908	5,367,204	7,506,199	5,359,147
Category 3	3,067,548	3,382,769	3,054,578	3,373,210
Others	152,026	57,926	152,026	57,926
	14,989,479	8,807,926	14,955,800	8,790,310

Trade and other receivables

For trade and other receivables, depending on the type of customer, the Group credit controller or head of consumer sales assesses the credit quality of each customer, taking into account its financial position, past experience and other factors including information from credit reference bureau. Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored.

Dealers comprise the distribution network for the Group. Dealers operate either on a cash basis or on credit following successful application of the credit facility. All credit limits are supported by a bank guarantee. The credit risk associated with these dealers is low. This is supported by stringent review of account balances.

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

4 Financial risk management (continued)

Credit risk (continued)

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

The Group currently has 471 signed international roaming agreements in place. The roaming strategy targets countries which historically have had the most visitors to Kenya, including UK, Italy, Spain, Sweden, South Africa, and Kenya's neighbouring countries. Roaming partners have entered into an agreement with the Group to terminate their calls on the Group's network for visitors travelling into Kenya. Amounts due from the roaming partners are settled within 60 days unless a dispute arises. Disputes are handled by Syniverse, a roaming clearing house.

The Group has also signed interconnect agreements with partners to terminate calls to and from other networks on the Group's network. Amounts due from interconnect partners are settled within 30 days of invoice unless a dispute arises. Disputes are handled in the first instance by the Regulatory Department of the Group. The Group's maximum exposure to credit risk is approximated by the carrying amounts.

The Group has an elaborate aging system for monitoring its receivables. Dealers' transactions and credit positions are closely monitored. All fully performing balances are within 90 days. The other categories are past due. Collateral is held for bulk of the trade receivables in the form of bank guarantees and deposits. None of the above assets are either past due or impaired except for the following amounts in trade receivables.

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

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

4 Financial risk management (continued)

Credit risk (continued)

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

Dealers' debt is fully secured by bank guarantees. The Group has bank guarantees of Kshs 1,430.0 million and Kshs 1,439.0 million as at March 2013 and March 2012 respectively, which can be enforced in the event of default. Customers under the 'past due but not impaired' category continue paying their debts as they trade. The default rate is low. The credit control department is actively following the debts that are overdue but not impaired.

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

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs.

Such forecasting takes into consideration the entity's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets. Surplus cash held by the entity, over and above the amounts required for working capital management are invested in interest bearing current accounts, fixed accounts and marketable securities.

The Group's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Treasury section maintains flexibility in funding by maintaining availability under committed credit lines. Liquidity position is monitored through daily cash position as well as monthly cash forecast that monitors debt structure and expected cash position.

The table overleaf analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table overleaf are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

4 Financial risk management (continued)

Liquidity risk (continued)

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

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

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

4 Financial risk management (continued)

Capital management

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

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

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

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

Whenever possible, it will be the Company's intention to, at least, maintain annual dividend payments at the level declared in the previous year. However, with respect to the initial dividend payment under the current policy, such dividends will not necessarily be at the level declared in the previous years, as the Company's previous dividend policy was based on other considerations and past dividend payments should not be taken as an indication of future payments.

The Company's focus is to minimise funds tied up in working capital, whilst ensuring that the Company has sufficient financial ability to meet its liabilities as and when they fall due. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. The strategy is to maintain gearing at low levels as demonstrated by the position below for the year ended 31 March 2013.

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

Fair value estimation

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

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

4 Financial risk management (continued)

Fair value estimation (continued)

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily NSE equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

5 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

Management has determined the operating segment based on the reports reviewed by the Executive Committee (EXCOM) for the purpose of allocating resources and assessing performance.

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

The reason for looking at the business as one segment is because of the interrelated nature of the products and services on offer as well as their dependence on the network infrastructure. Total profitability is discussed and action plans agreed where necessary to improve performance. Other than revenue, there is no other discrete financial information relating to the revenue streams that the CODM looks at.

The reportable operating segment derives its revenue from the provision of telecommunication solutions to its customers.

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

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

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

5 Segment information (continued)

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

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

The amounts reported to the EXCOM with respect to total assets and total liabilities are measured in a manner consistent with these financial statements.

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

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

Breakdown of the revenue from all services is as follows:

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

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

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

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

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

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

6 Other Income

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

7 Expenses by nature

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

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

8 Net finance costs

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

9 Employee benefits expense

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

10 Employee Share Option

(i) Employee Share Ownership Plan

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

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

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

(ii) Employee Share Grant Option Plan

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

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

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

11 Income tax expense

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

11 Income tax expense (continued)

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

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

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

12 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

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

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

13 Share capital and share premium

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

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

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

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

14 Dividend per share

No interim dividend was paid during the year (2012: Nil). At the annual general meeting to be held on 12 September 2013, a final dividend in respect of the year ended 31 March 2013 of Kshs 0.31 (2012: Kshs 0.22) per share amounting to a total of Kshs 12,400.0 million (2012: Kshs 8,800.0 million) is to be proposed.

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

15. Borrowings

Borrowings are made up as follows:

	Group		Company	
	2013	2012	2013	2012
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Non-current				
Shareholder loans	-	104,554	-	-
Corporate bond	12,000,000	12,000,000	12,000,000	12,000,000
	12,000,000	12,104,554	12,000,000	12,000,000
Current				
Bank borrowings	8,227,958	7,005,542	8,227,958	7,005,542
Total borrowings	20,227,958	19,110,096	20,227,958	19,005,542

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

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

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

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

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

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

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

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

16 Deferred income tax

(a) Group

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

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

16 Deferred income tax (continued)

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

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

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

16 Deferred income tax (continued)

(b) Company

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

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

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

17 Property, plant and equipment

(a) Group

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

17 Property, plant and equipment (continued)

(b) Company

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

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

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

18 Intangible assets

(a) Group

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

18 Intangible assets (continued)

The goodwill arose on acquisition of One Communications Limited. At the time of acquisition, the five year plan reflected positive future cash flows which when discounted resulted in the net present value (NPV) exceeding the goodwill recognised.

On an annual basis, the goodwill is tested for impairment. In assessing impairment of the goodwill, management have reviewed the five year business plans of One Communications Limited and further discounted the cash flows for the same period to determine if the net present value exceeds the investment held in the books at year end. Revenue growth rates of 10% in the first year, 7% in the second and 5% in the third to the fifth year have been used. A discount rate of 11.3%, being the Company's cost of capital has been used.

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

(b) Company

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

19 Investments

(a) Investment in subsidiaries

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

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

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

	Year end	% interest Held	Company 2013 Kshs'000	Company 2012 Kshs'000
One Communications Limited and its subsidiaries (Comtec Training Management Service Limited; Comtec Integrations System Limited; and Flexible Bandwidth Service Limited)	31 March	100	741,941	185,561
Packet Stream Data Networks Limited	31 March	100	-	-
IGO Wireless Limited	31 March	100	-	-
Instaconnect Limited	31 March	100	3,950	3,950
			745,891	189,511

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

19 Investments (continued)

(b) Investment in associate

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

The movement in investment in associate is as follows:

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

TEAMS has a 30 June year end and derives its revenues from the provision of submarine fibre optic cable system. The fluctuation of the results of the Associate is not expected to have a significant impact on the results of the Group. As such, the unaudited 9 months results for the associate have been incorporated in the Group's financial statements as at 31 March 2013. As at 31 March 2012, a profit of Kshs 16.2 million being the Company's share of estimated profit was recognised in the results of the Group. The year end audited results of TEAMS reported a significant loss which on adjustment has absorbed the previously recognised share of profit.

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

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

21 Inventories – Group and Company

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

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

22 Trade and other receivables

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

The loan to related party is a loan made by the Company to its subsidiary company, One Communication Limited at an interest rate based on 91 days treasury bill rate plus 100 basis points. The repayment date is based on future profit expected from One Communications Limited but has no fixed repayment terms. The fair value of the loan approximates its carrying amount.

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

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

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

23 Derivative financial instruments

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

24 Cash and cash equivalents

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

25 Trade and other payables

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

All customer loyalty credits (Bonga points) which form a separate component of the sales transaction are reported as deferred revenue and forms part of accrued liabilities.

The accrued liability relating to customer loyalty credits of Kshs 3,211.5 million (2012: Kshs 2,449.8 million) is expected to be recognised into revenue as customers redeem their points.

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

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

26 Cash generated from operations

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

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

27 Related party transactions

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

The following arrangements exist and form the basis of various transactions within the group.

(a) The Company has roaming agreements with Vodafone affiliated companies in many countries around the world including the UK. The Company also has a Kama Kawaida contract, which allows its customers to enjoy international interconnection with Vodacom Tanzania Limited, a company that is controlled by Vodacom Group Limited, a company in which Vodafone Group Plc has an indirect interest.

(b) The Company operates the M-PESA business on a license basis. M-PESA is an innovative mobile payment solution that enables users to complete simple money transfer transactions by mobile phone for which the Company earns a commission which is based on the amounts transacted. The Company also uses the M-PESA platform to sell air time to M-PESA account holders as well as run the M-Shwari product as detailed out in note 2(e).

The Vodafone Sales and Services Limited (VSSL), which owns the M-PESA solution, has entered into a Managed Services Agreement with the Company under which VSSL agrees to provide the M-PESA solution to the Company against which a licence fee is due quarterly.

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

M-PESA Holding Company Limited, which is controlled by directors who are independent of Safaricom Limited, acts as the trustee for M-PESA customers and holds all funds from the M-PESA business in trust to ensure that those funds are safeguarded at all times.

(c) The Company has signed an agreement with Vodafone Sales and Services Limited, a company incorporated in England. The agreement is effective from 1st April 2011 to 31 March 2014, renewable every year. Under the agreement, Safaricom Limited will have access to Vodafone's global price book and supply chain resources for purposes of procurement, terminals management, Vodafone technical expertise, best practice systems and processes, Vodafone knowledge bank, benchmarking reports, Vodafone Global Enterprise customers to increase revenues, Vodafone business assurance and the business and consumer products and marketing support.

The participation fee is fixed at an annual amount equal to six million Euros (EUR 6,000,000).

(d) The Company has employees who are seconded from Vodafone Group Services Limited (VGSL), UK. The payroll cost for the secondees is managed by VGSL UK and recharged to the Company for payment on a monthly basis.

27 Related party transactions (continued)

The following transactions were carried out with related parties:

i) Sale of goods and services

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

ii) Purchase of goods and services

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

iii) Key management compensation

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

iv) Directors' remuneration

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

27 Related party transactions (continued)

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

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

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

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

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

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

vii) Loans from shareholders

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

viii) Loans to directors of the Company

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

ix) Donations to Safaricom Foundation

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

28 Contingent liabilities

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

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

The company has outstanding matters with KRA.

The directors have assessed the status of the contingent liabilities and as a result do not anticipate any material liabilities that may have an impact on these financial statements.

29 Commitments

Capital commitments

Capital expenditure contracted for at the statement of financial position date but not recognised in the financial statements is as follows:

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

Operating lease commitments relate to contracted leases for facilities and site rentals at the statement of financial position date. The lease terms are between 6 years and 20 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.

30 Prepaid operating lease rentals – Group and Company

Prepaid operating lease rentals relate to payments made in advance for the rental of sites on which the Company's equipment is located.

The analysis of prepaid operating lease rentals is as follows:

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

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PRINCIPAL SHAREHOLDERS

The ten largest shareholdings in the Company (ordinary shares only) and the respective number of shares held as at 31 March 2013 are as follows:

	Name of shareholder	Number of shares
1	VODAFONE KENYA LIMITED	16,000,000,000
2	PERMANENT SECRETARY-THE TREASURY	14,022,572,580
3	STANDARD CHARTERED NOMINEES NON-RESIDENT AC 9835	263,888,669
4	STANDARD CHARTERED NOMINEES NON-RESIDENT AC 9054	250,449,200
5	STANDARD CHARTERED NOMINEES NON-RESIDENT A/C 9069	247,062,081
6	STANDARD CHARTERED NOMINEES NON-RESD. A/C 9057	230,399,432
7	STANDARD CHARTERED NOMINEES NOMINEE A/C KE14353	187,978,909
8	NATIONAL SOCIAL SECURITY FUND - UGANDA	160,278,800
9	STANDARD CHARTERED NOMINEES NON-RESD. A/C 9866	156,783,885
10	STANDARD CHARTERED NOMINEES A/C 9230	156,560,200
11	Others	8,324,026,244
	Total	**40,000,000,000**

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
1 to 1000	427,797	261,287,426	0.65%
1001– 10,000	235,878	695,631,501	1.74%
10,001 – 100,000	31,952	813,718,942	2.03%
100,001 – 1,000,000	2,726	684,526,387	1.71%
1,000,001 – 10,000,000	350	1,073,219,355	2.68%
10,000,001 – 100,000,000	143	3,930,721,260	9.83%
100,000,001 - 1,000,000,000	15	2,518,322,549	6.30%
1,000,000,001- 100,000,000,000	2	30,022,572,580	75.06%
Total	698,863	40,000,000,000	100.00%

Notice of the Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of the Company for the year 2013 will be held at Bomas of Kenya on Thursday, 12 September 2013 at 11.00 a.m. to conduct the following business:-

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Financial Statements for the year ended 31 March 2013 together with the Chairman's, Directors' and Auditors' reports thereon.

2. To approve a first and final dividend of Kshs 0.31 per every share of Kshs 0.05 being 620% on the issued and paid up share capital of the Company for the Financial Year ended 31 March 2013 as recommended by the Directors, payable on or before 11 December 2013 to the Shareholders on the Register of Members as at the close of business on 12 September 2013.

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 Messrs 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. Amendment to the Articles of Association

To recommend to the Shareholders of the Company to consider and, if thought fit, to pass the following resolutions as Special Resolutions:-

(i) To delete Article 88 in its entirety and to replace it with the following new Article:-

"The Company may, if required by law, deliver or pay to any prescribed person any shares and/or any dividends in the Company which are deemed by any law to be abandoned or unclaimed as may be specified in any such law. Upon such delivery or payment, the shares and/or dividends shall cease to remain owing by the Company and the Company shall no longer be responsible or liable to the actual owner or holder or his or her estate, for the relevant shares and/or dividends."

(ii) To delete Article 140 in its entirety and the subsequent Articles be renumbered accordingly.

BY ORDER OF THE BOARD

ENID MURIUKI (Mrs)

COMPANY SECRETARY

Date: 11 August 2013

Notes:

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

b) 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.

c) 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.

d) In accordance with Article 145 of the Company's Articles of Association, a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company's website (www.safaricom.co.ke) or from the Registered office of the Company i.e. Safaricom House, Waiyaki Way Westlands, Nairobi. An abridged set of the Statement of Financial Position, Comprehensive Income Statement, Statement of Changes in Equity and Cash Flow Statement for year ended 31 March 2013 has been published in two daily newspapers with nationwide circulation.

e) 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 National Identification Cards, a Passport or other acceptable means of identification and the Member's Share Certificate or current Central Depository Statement of Account for their shares in the Company will be required.

f) The preferred method of paying dividends of less than Kshs 70,000 will be via the M-PESA mobile money transfer system. Members who are M-PESA account holders and who will attend the Annual General Meeting are requested to provide details of their M-PESA registered mobile telephone number to which their dividend payment may be sent. Shareholders who are M-PESA account holders and who will not be attending the AGM may submit details of their M-PESA registered mobile telephone number together with Registrars of P.O. Box 9287, 00100 Nairobi or through whichever mode that Safaricom Limited may advise.

Proxy Form

SAFARICOM LIMITED

PROXY

I/WE ____

OF____

Being a member of the above Company, hereby appoint:

____

OF____

failing whom, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday, 12 September 2013 and at any adjournment thereof.

As witness my/our hand this   day of   2013.

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.

Appendix

BOARD OF DIRECTORS

Mr. Nicholas Nganga - Chairman

Mr. Nganga, 74, joined the Board of Safaricom Ltd on 6 May, 2004 and was elected Chairman on 16 January, 2007. He is a holder of a BA degree from Makerere University, and served as Permanent Secretary in the Ministries of Finance, Foreign Affairs and Health.

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

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

Mr. Robert Collymore – Chief Executive Officer

Mr. Collymore is the CEO of Safaricom Limited, a position held since 1 November 2010. Previously he has worked in the UK, Japan, and South Africa in a number of senior executive roles in marketing, purchasing, retail, governance and corporate affairs. He has more than 30 years of commercial experience working in the telecommunications sector.

Mr. Collymore has recently served on a UN Commission on Life Saving commodities for women and children and is a member of the United Nations Global Compact Board.

He also sits on USIU advisory board, vision 2030 board, a trustee in the National Road Safety Trust and Chairman of the TEAMS Board.

Mr. Ahmed Essam - Non Executive Director

Mr. Essam age 37 joined Safaricom Board on 12 September 2012. He is responsible for Vodafone Commercial operations in the Africa, Middle East and Asia Pacific region. Mr Essam joined Vodafone Egypt in 1999 and spent the following years gaining experience in the fields of Financial Planning, Customer Care, Sales and Marketing. He moved to the UK in January 2012, taking up his current role as Commercial Director.

He graduated from Cairo University with an Honors Degree in Systems and Biomedical Engineering and also has an MBA and Management Diploma from Henley Management College, UK.

Mr. Michael Joseph – Non Executive Director

Mr. Joseph, 67, joined the board on 8 September 2008. Mr. Joseph is employed by Vodafone Group Services Limited as the Director of Mobile Money. He is also Vodafone's Strategic Advisor, appointed to the Boards of Vodacom Group South Africa, Vodacom Tanzania, Vodacom Mozambique and Safaricom Limited in Kenya.

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

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

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

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

Mr. Joseph Kinyua – Non Executive Director

Mr. Kinyua, 62, joined the board of Safaricom on 28 February 2008. He was appointed the permanent Secretary, Treasury on 1 July 2004, he is a career economist having held various senior positions in the Central Bank of Kenya, International Monetary Fund, Ministry of planning and National Development, Ministry of Agriculture and Ministry of Finance.

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

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

Ms. Esther Koimett – Alternate Director to Mr. Joseph Kinyua

Ms. Koimett, 56, joined the Board of Safaricom on 24 May 2005. She previously served on the Board between 11 April, 2001 and 5 September, 2002. She is currently the Investment Secretary in the Treasury and she has also served as Permanent Secretary in the Ministry of Tourism and Information and as Managing Director, Kenya Post Office Savings Bank.

She holds Bachelor of Commerce and MBA degrees from the University of Nairobi.

Ms. Nancy Macharia – Non Executive Director

Ms. Macharia, 47, joined the Board of Safaricom on 16 January, 2007. She is a member of Audit committee of the Board. Ms. Macharia is the Deputy Director, JKUAT Institute of Computer Science and Information Technology, a researcher, trainer and a consultant in ICT. She is a member of the Computer Society of Kenya, Public Relations Society of Kenya, The Institute of Directors, The Research and Training Committee of JKUAT and the ICT committee – JKUAT.

Ms. Nancy is currently pursuing her PhD studies and holds a Master's degree in Computer Based Information Systems from Sunderland University in the UK.

Ms. Susan Mudhune – Non Executive Director

Ms. Mudhune, 63 , joined the Board of Safaricom on 20 May 2009. She holds a Bachelor of Arts degree in education and an MBA. A fellow of Kenya Institute of Bankers (KIB), a director of the Eveready East Africa board and also of Pan Africa Insurance Holding; sits in the board of Center of Corporate Governance, a member of Institute of Directors (K) a Trustee of Management University of Africa (MUA) and the national chairlady of Kenya Girl Guides Association.

Ms. Enid Muriuki - Company Secretary

Ms. Muriuki, 38, was appointed Company Secretary with effect from 9 September 2011, Mrs. Muriuki has a Bachelor of Science Degree is a Certified Public Secretary and a member of the Institute of Certified Public Secretaries of Kenya (ICPSK). She has over 11 years' experience in the provision of Company Secretarial Services.

Mr. Nick Read – Non Executive Director

Mr. Read, age 48, joined the board on 17 January 2010. He is the CEO Africa, Middle East & Asia Pacific for Vodafone, covering all operations in the region. Mr Read joined Vodafone in 2001. He spent six years at Vodafone UK for a short period as CFO, before becoming CCO and then CEO in 2006. He has been in his current role since November 2008.

Prior to joining Vodafone, Mr. Read spent 10 years at Federal Express Worldwide where he was Vice President and CFO for Europe, Middle East and Africa, based in Brussels, and Vice President Global Corporate Finance and planning, based in the USA. He was also the former CFO of Miller Freeman Worldwide plc, the largest division of the media group, United News and Media Plc.

He is a Chartered Management Accountant and has a BA (Hons) Accounting and Finance.

Mr. Sunil Sood – Non Executive Director

Mr. Sood, 52, joined the board on 31 October 2012; currently he is the Chief Operating Officer for Vodafone India. He is part of the senior leadership team at Vodafone India and is responsible for the day to day operations and the P&L management for all circles in the country. He also spearheads the new business development initiative of Mobile Commerce for the organization. Mr. Sood is a telecom veteran and has been in the industry for over 12 years.

Prior to joining telecom, Mr. Sood has had a long career with Pepsi in various roles within India and abroad, his last job was of CEO - Pepsi in Bangladesh. Mr. Sood has also spent four years in Nigeria where he was working to establish the market for Nestles milk and infant formulae in the country.

Mr. Sood did his Engineering in B. Tech from IIT – Delhi and MBA from IIM - Kolkata.

Mr. John Tombleson – alternate to Robert Collymore & Nick Read

M. Tombleson, 50, joined Safaricom as the Finance Director in November 2011 from Vodafone Qatar, where he held the roles of Acting Chief Executive Officer and Chief Financial Officer. He is an original member of the Qatar start-up team which was founded in 2008 and has built a population market share of 48% within two years.

Mr. Tombleson first joined Vodafone in New Zealand in 2003, and has since held senior financial roles in both mobile and fixed telecommunications operations. He is a Board member of Vodafone Qatar, and was previously a Board member of Vodafone Fiji.

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

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

EXECUTIVE COMMITTEE

Mr. Robert Collymore – Chief Executive Officer

Mr. Collymore is the CEO of Safaricom Limited, a position held since 1 November 2010. Previously he has worked in the UK, Japan, and South Africa in a number of senior executive roles in marketing, purchasing, retail, governance and corporate affairs. He has more than 30 years of commercial experience working in the telecommunications sector.

Mr. Collymore has recently served on a UN Commission on Life Saving commodities for women and children and is a member of the United Nations Global Compact Board.

He also sits on USIU advisory board, vision 2030 board, a trustee in the National Road Safety Trust and Chairman of the TEAMS Board.

Mr. Peter Arina - General Manager, Consumer Business Unit

Mr. Arina is the General Manager for Consumer Business responsible for revenue and profit for mobile voice and data. He joined Safaricom on 1 November 2004 as Chief Commercial Officer, a role he held for 6 years.

He has extensive experience in Brand and Product Marketing and Sales gained at Unilever Kenya where he served for 15 years in various roles in Marketing and Sales and was Customer Development Director from 2001 to 2004.

He has a Bachelor of Commerce degree from the University of Nairobi.

Mr. Roy Masamba – Director, Resources

Mr. Masamba joined Safaricom on 1 November 2012 and is currently Director Resources. He is an international Human Resources executive with over 20 years' experience gained working in various countries in Europe, U.S.A., Africa & Middle East. Before joining Safaricom, Roy worked with Vodafone group for three years having joined them in December 2009. He was Regional HR executive for Central Europe, Africa, Middle East & Asia Pacific before taking up the role of Vice President Human Resources for Verizon Vodafone Enterprise Services. These roles were based in London.

Additionally, Mr. Masamba has headed the Human Resource function in other multi-national companies. These include, Zain group of companies and British American Tobacco.

Mr. Masamba started his career as an Electrical Engineer having graduated from University of Zimbabwe with a BSc Hons in Electrical Engineering. Thereafter, he moved into Operations Management and Human Resources.

Mr. Masamba graduated in 2005 with an MBA in general management from Cranfield School of Management in the United Kingdom.

Mr. Nicholas Mulila – Director, Risk Management

Mr. Mulila is the Company's Director – Risk Management, responsible for the Risk Management functions of the company that include, Enterprise Risk Management, Revenue Assurance & Forensics, Anti-Money Laundering and Security.

He joined Safaricom in 2001 and has risen the ranks to become a member of Senior Leadership Team. His journey through Safaricom has seen him hold the positions of Senior Management Accountant and Principal Business Planning & Forecasting Accountant in the finance division, Head of Corporate Strategy and Planning, Head of Commercial Planning/Pricing Department and most recently Executive Business Analyst and Program Management Officer. Prior to joining Safaricom, Nicholas had worked for General Motors (EA) and Eastern produce (K) Ltd, where he held various positions in finance.

Mr. Mulila has over 14 years' experience in Finance, Strategy formulation/Execution, Business analysis and Program management.

He holds a Bachelor of Commerce degree (Accounting option) and a Master of Business Administration degree in Strategy from the University of Nairobi. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Certified Public Secretaries of Kenya (ICPSK).

He is a Kenyan citizen and is married with two children.

Ms. Sylvia Mulinge – General Manager, Enterprise Business Unit

Ms. Mulinge is currently the General Manager Enterprise Business Unit at Safaricom which is one of the leading integrated communications companies in Africa. With a keen interest in consumer marketing and brand activation, she has spent over a decade in marketing with half of this in the telecommunications industry.

Ms. Mulinge joined Safaricom in February 2006 from Unilever and rose from the role of Prepay product manager to Head of Retail, then Head of Safaricom Business and eventually taking her current position as GM, Enterprise Business.

A first class honours graduate in Food Science and Technology from the University of Nairobi, Ms. Mulinge is a member of the Marketing Society of Kenya and she has distinguished herself by winning various marketing awards in the industry.

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

Mr. Joseph Ogutu–Director, Strategy & Innovation

Mr. Ogutu joined Safaricom as Chief Corporate Affairs Officer in May 2005 from Telkom Kenya where he was the Principal Assistant to the Managing Director and Chief Strategy & Regulatory Officer. He then served as Chief Human Resource Officer from 2008 before taking on the role of Director, Resources Division in the March 2011 company reorganization. He also serves as the Chairman of Safaricom Foundation and sits in the Board of TEAMS Limited.

In October 2012, Mr. Ogutu was appointed as the Director, Strategy & innovation Division, where he works closely with the CEO in formulating strategic direction for the business focusing on developing Safaricom's position as an industry leader in driving innovation in products & services.

Mr. Ogutu has had a dynamic career in the telecommunications industry spanning more than 25 years of which the last 12 have been at Executive Committee level. During this period, he has actively been involved in the reform of the sector including the drafting of the Postal and Telecommunication Policy Paper that led to the restructuring of the defunct Kenya Posts and Telecommunications Corporation and subsequent establishment of CCK, Telkom Kenya and Postal Corporation of Kenya. He has also been involved in the establishment of the institutional framework for the Eastern Africa Submarine Cable System (Eassy).

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

Ms. Rita Okuthe – Director Marketing

Ms. Rita was appointed the Head of Marketing in October 2012. She joined Safaricom on 10th Aug 2009 as Head of Consumer Segments, a role in which she proved over the years to be invaluable in driving voice revenues through her great understanding of our consumer behaviour. Before joining Safaricom, she held several marketing roles, including Head of Marketing at MTN Uganda.

Ms. Rita has over 15 years work experience in advertising and brand management and has successfully managed brands at all stages; from infancy to maturity in both monopolistic and highly competitive environments.

Rita holds a Bachelor's degree in Economics and a Master's degree in Marketing.

Mr. Thibaud Rerolle - Director, Technical & IT

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

Mr. Rerolle has a Master's Degree in Telecommunications with a specialization in Networks from the prestigious Télécom ParisTech (ENST) and has also attended Prytanée National Militaire Prepatory School in France.

Mr. Rerolle is married with children. He is fluent in 6 languages.

Ms. Betty Mwangi-Thuo - General Manager, Financial Services

Ms. Mwangi-Thuo joined Safaricom in December 2007 as Head of Division charged with managing the New Products comprising M-PESA business and GSMA projects. She was promoted to Chief Officer New Products Division in October 2008 with the additional responsibility for Safaricom's Value Added Service which championed product innovation and new product roadmap.
Ms. Mwangi-Thuo is currently the General Manager of Financial Services business unit which oversees M-PESA, the globally acclaimed mobile money transfer service.

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

In June 2010, Ms. Mwangi-Thuo was featured by MCI (Mobile Communications International) as one of the top 10 women in mobile globally and in August 2011, she was recognized as one of the TOP 10 African Women in ICT by the ITNewsAfrica.

In December 2011, Ms. Mwangi-Thuo was recognized for her contribution to Kenya's Information Communications Technology (ICT) sector by His Excellency the President of Kenya, Hon. Mwai Kibaki who awarded her the prestigious State honours of the Moran of the Order of the Burning Spear (MBS).

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

Mr. John Tombleson – Chief Financial Officer

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

Mr. Tombleson first joined Vodafone in New Zealand in 2003, and has since held senior financial roles in both mobile and fixed telecommunications operations. He is a Board member of Vodafone Qatar, and was previously a Board member of Vodafone Fiji.

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

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

Mr. Nzioka Waita – Director, Corporate Affairs

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

Nzioka is also a founding Trustee of the Safaricom Foundation, a role he has held from August 2003.

Mr. Waita is an Advocate of the High Court of Kenya and a Certified Public Secretary, he holds a Bachelor of Laws (LLB) degree from the University of Sheffield and a Post Graduate Diploma in IT & Communications Law from Queen Mary, University of London both in the United Kingdom.

Ms. Pauline Warui – Director Customer Management

Ms. Warui joined the Company in January 2008 as the Head of Call Centre Department responsible for the Call Centre in the Commercial Division.

Ms. Warui was the Executive Head of Customer Care having been appointed to the role in April 2011. Prior to this, she was the Chief Customer Management Officer of Safaricom Limited.

She previously worked at Chevron Corporation for 2 years as the Area Customer Service Coordinator for East Africa and Egypt. Prior to that she worked for Celtel (K) Ltd now Airtel (K) Ltd for 6 years as Customer Service Manager where she gained experience and training in Customer Service and Call Centre Operations through holding various positions in those functions.

Ms. Warui is a Kenyan citizen and a holder of Bachelor of Arts (Hons) from the University of Nairobi.

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