SAFARICOM LIMITED

ANNUAL REPORT 2014

Safaricom

SAFARICOM LTD ANNUAL REPORT 2014

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DELIVER THE BEST NETWORK IN KENYA PROGRAMME

770 km of own fibre covering 70% of Nairobi sites

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High-speed data connectivity for access to email and internet

Mobile data services on modems, handsets and tablets

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GROWING OUR CUSTOMER BASE BY 11%

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OUR DESIRE TO DELIGHT MORE THAN 21 MILLION CUSTOMERS

We are continually looking for ways to improve our systems, processes and interactions

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As a brand we have made great strides on our journey towards youthfulness

Our score on the “youthful” image attribute grew significantly

READ MORE PG46

We continued to focus on the roll out of 2G and 3G sites across the country

All major towns are covered and the focus is now on covering smaller urban centres and areas

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M-PESA payment offering, which was launched in 2007, has paved the way for numerous other pioneering services

READ MORE PG42

We maintained our market leadership in the enterprise telecommunications industry

Safaricom Enterprise Business commands a 42% share of the enterprise telecommunications market, (37% in March 2013)

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INNOVATION IS FUNDAMENTAL TO EVERYTHING WE DO AT SAFARICOM

We never stop thinking about how to improve

READ MORE PG50

THE SAFARICOM FOUNDATION MARKED ITS 10TH ANNIVERSARY

Contributions made to the community

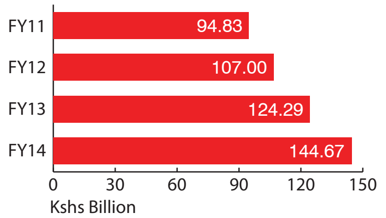
READ MORE PG58

HIGHLIGHTS

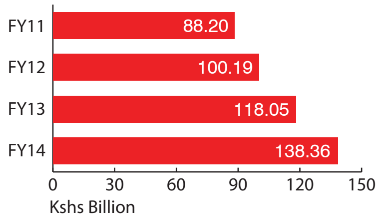
HIGHLIGHTS

PERFORMANCE AT A GLANCE

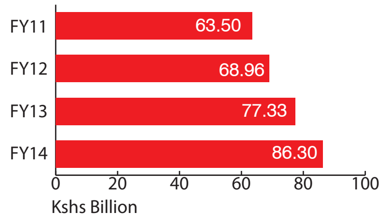
TOTAL REVENUE



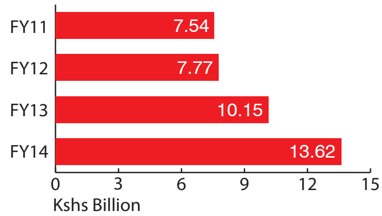
SERVICE REVENUE



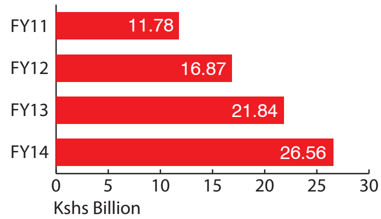
VOICE REVENUE



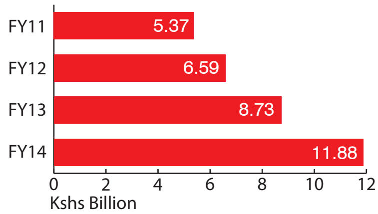
MESSAGING REVENUE



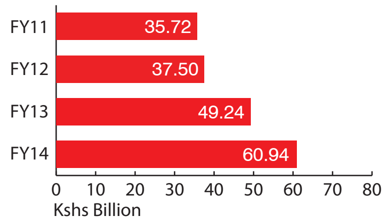
M-PESA REVENUE



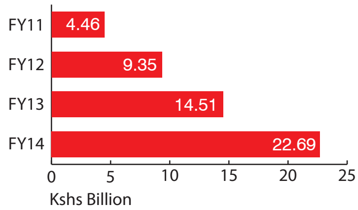
MOBILE DATA & FIXED SERVICE REVENUE



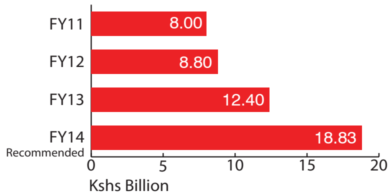
EBITDA



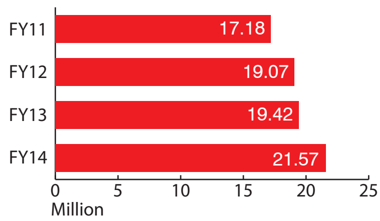
FREE CASH FLOW



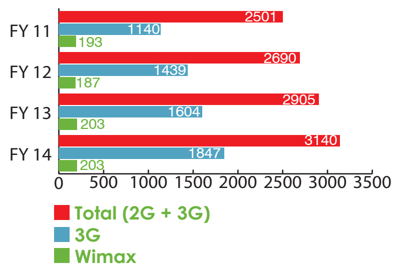
TOTAL DIVIDEND



TOTAL CUSTOMERS



BASE STATIONS



SOLID GROWTH IN ALL REVENUE STREAMS WITH CONTINUED SIGNIFICANCE OF NON-VOICE SERVICE REVENUE IN REVENUE GENERATION

CHAIRMAN'S **STATEMENT**

AN ERA OF TRANSFORMATION

It is with great pride that I report yet another year of solid growth and stellar financial performance for our company, in line with our expectations. We have remained steadfast in our commitment to transforming the lives of Kenyans through continuous innovation and focus on the products and services that make a real difference to our customers. Our pursuit of this clear-sighted strategy, which this report will highlight, is already delivering robust returns for our stakeholders.

The last twelve months have been characterised by several dynamic factors that have shaped the overall business environment. These factors include changes to the VAT regime and legislative developments that have redefined some elements of our industry. At the macro-level, the economy grew by 4%. We also witnessed a steady dollar exchange rate that fostered a conducive business environment for the company, which is heavily dependent on forex stability for its capital expenditure.

On the governance front, the impact of devolution has started to take shape. We got involved in large-scale infrastructure projects that some of the county governments began implementing. At the same time, we noted sustained interest in Kenya as a business hub and destination for Pan-African and international investors. We believe that the new capital being channelled into the country will not only create employment, but also open up new markets for Kenya, within the continent and beyond.

The Safaricom share has maintained its impressive upward trend, with a doubling of the share price over the last year, a factor we consider to be a validation of our business strategy.

Our dedication to our strategy has yielded a strong set of financial results, generated significant free cash flow. This is a confirmation of our commitment to generating long term value for our shareholders. The Board has recommended a dividend of Kshs 0.47 per share, an increase of 52%, totalling Kshs 18.83 billion, which is once again, the largest dividend payment in Kenyan history.

We continue to invest in the communities we operate in through various corporate social responsibility initiatives. The Safaricom Foundation marked its 10th anniversary in August 2013, celebrating the disbursement of about Kshs 2 billion to over 700 community development projects in partnership with over 500 organisations. Through several innovations, the Safaricom and M-PESA Foundations and our sustainability initiatives, we continue to foster goodwill in our communities, build on the strength of our partnerships and promote the contributions by our staff in community projects.

KEY REGULATORY HIGHLIGHTS

Renewal of Safaricom's CA (Formerly CCK) Operating Licence

Safaricom's initial operating licence was issued for a period of 15 years from 1 July 1999 to 30 June 2014. On 25 June 2014, the Communications Authority of Kenya (CA), formerly the Communications Commission of Kenya (CCK), confirmed the renewal of Safaricom's operating licence for a further ten years from 1 July 2014 to 30 June 2024 at a renewal fee of USD 27 million.

Mobile Termination Rates

In August 2010, the CA 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 terminating on the other operator's network. In issuing Determination No. 2, the CA prescribed a glide-path of continued reduction of the MTRs from the then rate of Kshs 4.42 to the final rate of Kshs 0.99. On 1 July 2013, the MTR dropped from Kshs 1.44 to Kshs 1.15. The MTR is expected to reduce to the final rate of Kshs 0.99 from 1 July 2014. Safaricom has maintained a consistent engagement strategy with CA, the Government and other stakeholders to ensure that the MTRs regime in Kenya is cost based and reflects the operating costs in the industry.

The Kenya Information and Communications (Amendment) Act, 2013

The amended Kenya Information and Communications Act (KICA) came into effect in December 2013.
Key highlights of the amended law include an increment in the penalty for non-compliance with licence conditions or Regulations from Kshs 500,000 to 0.2% of gross turnover of the offending licensee. The Act also changed the identity of the Communications Commission of Kenya (CCK) to the Communications Authority of Kenya (CA) and granted it additional powers, including prosecutorial powers and powers to make various regulations.

Subscriber Registration

On 4 January 2013, the Government promulgated regulations prescribing mandatory registration of all mobile subscribers. The law was further reviewed in December 2013 through the Kenya Information and Communications (Amendment) Act, 2013 to include stiffer penalties for non-compliance and to outlaw hawking of SIM cards. Safaricom continues to comply with these regulatory requirements.

Universal Service Fund (USF)

The USF was established to ensure universal access to communication services (voice, data and postal services) in unserved and under served areas in Kenya. On 24 December 2013, the CA issued a letter to Safaricom stating that the USF levy is payable with effect from 1 July 2013. The USF levy has been set at 0.5% of gross turnover, based on our current audited accounts. Safaricom and other operators through the industry lobby group, Kenya Telecommunications Network Operators (KTNO), are engaging the CA on various matters with respect to the implementation of the USF, including governance, representation of operators on the Universal Service Advisory Council and the process of setting the objectives for the USF.

CORPORATE GOVERNANCE

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

Mr John Otty and Mrs Serpil Timuray were appointed to the board as non-executive board members.

The following board members resigned during the year:

- Mr Ahmed Essam
- Mr Nicholas Read

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

LOOKING FORWARD

Our industry is going through a period of rapid evolution. The digital era is in full bloom globally and is transforming the way people use ICT. The impact that technology has on our working and everyday lives is immeasurable. As a telecommunications company, being able to stay ahead of this wave of development is the defining factor for our continued success.

We are the established market leader in Kenya and in a strong position to leverage on our capabilities and meet the ever evolving needs of our customers, who are looking to us to deliver new services and provide the network they require to fully participate in the new digital world. With our strategy in place and our commitment to transforming lives, we are confident that we will see new opportunities for growth in the future.

Mr Nicholas Nganga
Chairman

HIGHLIGHTS

TAARIFA YA MWENYEKITI

KIPINDI CHA MABADILIKO

Ni kwa fahari kuu kuwatangazia mwaka mwingine wenye ukuaji wa kipekee na matokeo bora ya kifedha katika kampuni yetu, sawia na matarajio yetu. Tumeendelea kujitolea kubadilisha maisha ya Wakenya kupitia kwa mbinu za kiubunifu na uzingatiaji wa bidhaa na huduma zinazoyabadilisha maisha ya wateja wetu. Shabaha yetu kuu ya kufanikisha mkakati bayana ambao – jinsi taarifa hii itakavyofafanua – tayari unaendelea kutoa matokeo yakuridhisha kwa wadau wetu.

Katika muda wa miezi kumi na miwili iliyopita zimekuwepo hali mbali mbali ambazo zimeelekeza mazingira ya kibiashara kwa ujumla. Hali hizi zinahusisha marekebisho ya sheria ya ushuru wa VAT na mabadiliko ya kisheria ambayo yamebadilisha vipengele kadhaa vya sekta yetu. Kwa jumla uchumi ulikua kwa 4%. Pia tulishuhudia hali imara katika ubadilishanaji wa Dola ya Marekani, hali ambayo iliimarisha mazingira ya kibiashara kwa kampuni hii, ambayo kwa kiwango kikubwa hutegemea ubadilishanaji imara wa sarafu za kigeni katika matumizi yake ya ununuzi wa mitambo.

Kwa upande wa uongozi wa taifa, matokeo ya ugatuzi tayari yameanza kuonekana. Tumejihusisha na miradi mikubwa ya miundomsingi ambayo baadhi ya serikali za kaunti zimeanza kutekeleza. Wakati huo huo, imedhihirika kwamba wawekezaji wa kutoka Afrika na wa kimataifa wamepata mvuto wa kuendeshea shughuli zao hapa nchini Kenya na kulifanya taifa hili kama eneo bora la kufanyia biashara. Tunaamini kwamba mtaji mpya unaoendelea kuletwa humu nchini hautatoa tu nafasi za kazi bali pia utafungua masoko mapya kwa Kenya katika maeneo mengi barani na hata maeneo mengine duniani.

Hisa za Safaricom zimeendelea kuimarika kwa kuongezea maradufu thamani yake katika kipindi cha mwaka mmoja uliopita, tunachukulia hili kuwa moja wapo ya thihirisho la mafanikio makubwa ya mkakati wetu wa kibiashara.

Kujitolea kwetu katika kufuata mkakati huu kumetoa matokeo bora ya kifedha, kwani hatua hii ilichangia pakubwa katika uzalishaji wa fedha zilizosalia baada ya matumizi lakini kabla ya kulipa mgao wa hisa (free cash flow) na hii ikiwa ni thihirisho tosha la kujitolea kwetu kuwapa wenyehisa wetu wote thamani ya kudumu. Bodi imependekeza mgao wa Kshs 0.47 kwa kila hisa, hii ikiwa ni ongezeko la 52% ambapo kwa jumla mgao huo ni Kshs18.83 bilioni, ambao kwa mara nyingine ndio mgao mkubwa zaidi kuwahi kutolewa nchini Kenya.

Tunaendelea kuwekeza katika jamii ambazo tunaendeshea biashara zetu kwa kushughulikia miradi mbalimbali chini ya kanuni ya majukumu ya kiushirika kwa jamii. Wakfu wa Safaricom uliadhimisha mwaka wake wa 10 mnamo Agosti 2013, ambapo ulisherehekea utoaji wa karibu Kshs 2 bilioni kwa zaidi ya miradi 700 ya maendeleo ya jamii kwa ushirikiano na mashirika zaidi ya 500. Kupitia kwa mbinu zetu mbali mbali za kiubunifu, wakfu wa Safaricom na M-PESA pamoja na jitihada zetu za kudumisha, tunaendelea kuimarisha uhusiano mwema kwa jamii zetu, kuboresha ushirika wetu na kuzidi kuwahimiza wafanyikazi wetu kuimarisha utoaji wa michango yao kwa manufaa ya miradi ya jamii zetu.

MASUALA MUHIMU YA KISHERIA

Kuandikishwa Upya Leseni ya Safaricom ya Kuendeshea Biashara kutoka kwa CA (iliyokuwa CCK)

Leseni ya Safaricom ya kwanza ya kuendeshea biashara ilitolewa kwa kipindi cha miaka 15 kuanzia tarehe 1 Julai 1999 hadi Juni 30, 2014. Mnamo Juni 25, 2014, Mamlaka ya Mawasiliano ya Kenya (CA), hapo awali ikiitwa Tume ya Mawasiliano nchini Kenya (CCK), ilidhibitisha kuongezewa kwa muda wa leseni ya Safaricom kwa kipindi cha miaka mingine kumi (10) kuanzia Julai 1, 2014 hadi Juni 30, 2024 kwa ada ya Dola za Merekani (USD) 27 milioni.

Ada ya kuvukisha mazungumzo ya simu za rununu kutoka mtandao mmoja hadi mtandao mwingine (Mobile Termination Rates)

Mnamo Agosti 2010, CA ilifanya utafiti kuhusu gharama ya mtandao wa rununu na kutangaza uamuzi nambari 2 wa mwaka wa 2010 (Determination No. 2 of 2010), uliobuni ada mpya ya kuvukisha mazungumzo ya simu za rununu (MTR). MTR ni ada inayolipwa na kampuni moja kwa kampuni nyingine kwa mazungumzo ya simu yanayovukishwa hadi kwa mtandao wa kampuni hiyo nyingine. Katika mpangilio wa kutoa maamuzi nambari 2, CA ilitoa mwelekeo wa kupunguza MTR kutoka kwa ada ya wakati huo ya Kshs 4.42 hadi Kshs 0.99. Mnamo Julai 1, 2013 ada hiyo ya MTR ilipungua kutoka Kshs 1.44 hadi Kshs 1.15. Ada hiyo inatarajiwa kupungua hadi kiwango cha mwisho cha Kshs 0.99 kuanzia Julai 1, 2014.

Safaricom imedumisha mkakati thabiti wa majadiliano na CA, Serikali na wadau wengine ili kuhakikisha kuwa mfumo wa MTR nchini Kenya unaambatana na gharama za matumizi na unazingatia gharama za uendeshaji biashara katika sekta hii.

Sheria ya Habari na Mawasiliano Kenya (Iliyorekebishwa), mwaka 2013

Sheria mpya ya habari na mawasiliano nchini Kenya (KICA) iliyofanyiwa marekebisho, ilianza kutekelezwa mwezi wa Desemba 2013. Vipengee muhimu katika sheria hiyo vinajumuisha kuongezwa kwa adhabu ya kutotii masharti ama kanuni ya leseni kutoka Kshs 500,000 hadi 0.2% ya mapato ya jumla ya shirika lenye hatia. Sheria hiyo pia ilibadilisha jina la Tume ya Mawasiliano nchini Kenya (CCK) hadi kwa Mamlaka ya Mawasiliano ya Kenya (CA) na kisha ikaipatia mamlaka zaidi, ikiwa ni pamoja na uwezo wa kushtaki na wa kuunda kanuni kadha wa kadha.

Usajili wa wateja wanaomiliki laini za simu

Mnamo Januari 4, 2013, Serikali ilitoa rasmi sheria zinazofafanua usajili wa lazima wa wamiliki wa laini za simu za rununu. Sheria hiyo ilirekebishwa zaidi mnamo Desemba 2013 kupitia kwa Sheria ya Habari na Mawasiliano ya Kenya (Iliyorekebishwa) mwaka 2013 ili kujumuisha adhabu kali kwa wakiukaji na kupiga marufuku uchuuzi wa laini za simu. Hadi leo, Safaricom imezingatia sheria hizi.

Hazina ya huduma kwa wote (USF)

Hazina ya huduma kwa wote (USF) iliundwa ili kuwezesha kila mtu kufikiwa na huduma za mawasiliano (huduma ya maongezi, data na posta) zinapatikana katika maeneo ambayo hayajafikiwa na huduma na yasiyofikiwa na huduma kikamilifu nchini Kenya. Mnamo Desemba 24, 2013, CA ilituma barua kwa kampuni ya Safaricom ikisema kwamba ada ya USF itatolewa kuanzia Julai 1, 2013. Ada hiyo ya USF ni 0.5% ya mapato yetu ya jumla, kwa mujibu wa mapato yetu yaliyokaguliwa. Safaricom pamoja na mashirika mengine ya mawasiliano ya simu kupitia chama cha Kenya Telecommunications Network Operators (KTNO) yanajadiliana na CA kuhusu masuala mbalimbali ya utekelezaji wa USF, ikiwemo usimamizi, uwakilishaji wa mashirika hayo katika baraza la ushauri kuhusu huduma kwa wote na harakati ya kubuni malengo ya USF.

USIMAMIZI WA KAMPUNI

Katika mwaka huo wa kifedha mabadiliko kadhaa yalifanyika katika Bodi ya usimamizi.

Bw John Otty na Bi Serpil Timuray waliteuliwa kwenye bodi kama wanachama wasiokuwa watendaji. Wanachama wafuatao walijiuzulu mwaka huo:

- Bw Ahmed Essam
- Bw Nicholas Read

Ninawakaribisha wakurugenzi hao wapya katika Bodi na kuwashukuru wanaoondoka kwa mchango wao mwaka huo.

MUSTAKABALI

Sekta yetu inapitia katika kipindi cha mabadiliko ya kasi. Enzi ya dijitali imezuka kwa nguvu kote ulimwenguni na inaendelea kubadilisha jinsi watu wanavyotumia Teknolojia ya habari na mawasiliano (ICT). Matokeo ya teknolojia kwa kazi na maisha yetu ya kila siku ni makubwa. Sisi kama kampuni ya mawasiliano, uwezo wetu wa kwenda sambamba na wimbi hili la maendeleo ni kigezo muhimu kwetu ili kuendelea kusalia kwenye ufanisi.

Nchini Kenya, sisi ndio maarufu zaidi katika sekta hii tukiwa katika nafasi nzuri ya kutumia uwezo wetu kutimiza mahitaji ya wateja wetu ambayo yanabadilika mara kwa mara. Wateja wetu wanatutarajia tuwape huduma mpya na mtandao wa kuwawezesha kushiriki kikamilifu katika dunia hii mpya ya dijitali. Huku tukiwa na mkakati wetu imara na kujitolea kuimarisha maisha, tuna imani kuwa tutapata nafasi mpya za ustawi katika siku zijazo.

Mr Nicholas Nganga
Chairman

CEO'S **STATEMENT**

I am pleased to announce yet another year of strong performance in all aspects of our business. We have maintained our record of exceptional growth through superior commercial performance across our entire service portfolio. Our customers have rewarded us with loyalty as we have strived to over deliver on our promise of a superior customer experience.

Our solid financial performance has enabled us to continue with substantial investment in our network and innovative products and services. Customer satisfaction levels have continued to improve as evidenced by higher usage of all our products and services.

As a result of our strong focus on delivering quality services to our customers, our total revenue grew by 16% to Kshs 144.67 billion and our customer base grew by 11% to over 21 million customers. Voice remains our predominant revenue stream having increased by 12% to Kshs 86.30 billion. This growth was supported by our loyal customer base, attracted by a superior network experience, convenient airtime distribution and attractive consumer propositions and promotions. Once again, we have successfully gone against the trend that we're seeing in many markets where voice revenue is on the decline.

Our non-voice service streams continue to increase in significance in revenue generation and now account for 36% of total revenue. M-PESA remains the key driver, having generated Kshs 26.56 billion, which is half of our non-voice service revenue. This growth was driven primarily by a 15% increase in 30-day active M-PESA customers, who stood at 12.2 million, as well as an increase in the average number of transactions per customer. The M-PESA agent footprint also expanded to 81,025 thereby promoting accessibility of the service to our customers. We achieved yet another milestone in deepening financial inclusion with the launch of the *Lipa na* M-PESA service, which has enabled cashless merchant payments and facilitated trade between businesses and their customers while improving business efficiency. In the period under review, the service had 122,000 registered merchants, of which 20% were actively using it.

Messaging revenue was a standout performer, growing at a stellar 34% to Kshs 13.62 billion, as more customers enjoyed short messaging, affordable bundles and the promotions we ran throughout the year such as *'Bonyeza Ushinde'.* We continue to defy the trends in other parts of the world where instant messaging services are eroding the SMS business. We have positioned the pricing of our SMS service at a level where customers can use the service to meet their needs in a cost efficient way. We also launched the tailor made *'Chattitude'* service, which combines data and SMS in bundles and helps customers with smartphones to make the best of both of these services.

Mobile data revenue grew by an impressive 41% supported by a 34% growth in customers to 9.6 million and an increased uptake of affordable data bundles. Through faster adoption of smartphones as a result of lower entry level pricing and promotions like *'Jisort na Smartphone'*, we now have 3.1 million customers using 3G enabled devices of whom 1.9 million are on smartphones. Fixed data service revenue also grew by 22% to Kshs 2.56 billion on the back of increased customer numbers and usage.

We started our Best Network in Kenya programme 18 months ago and promised to achieve great results within that period. With our ongoing drive to provide customers with the best network experience in Kenya, we invested Kshs 27.78 billion in improving our network quality, capacity and coverage. We increased the population coverage of our 2G and 3G networks, completed network modernisation in six key cities and rolled out fibre to 50% of our base stations in Nairobi. In October 2013, we commissioned independent drive tests to measure key quality metrics such as dropped calls, voice quality and data speeds. These tests show that our network delivers the best data services and comparative voice services.

We remain focused on driving business efficiency through cost control initiatives we put in place. These initiatives were focused on transmission costs, network operating costs (including fuel) and IT operational costs as our operating costs stood at 22% of total revenue. Savings on direct costs such as customer acquisition costs (sim cards and devices) and top up card costs bolstered the contribution margin by 2.1 percentage points to 64%.

For another consecutive year, we have delivered robust results and ensured value for our shareholders supported by growth across all our revenue streams. This growth in revenue, coupled with cost efficiency, pushed the EBITDA margin upwards to 42.1%, a 2.5 percentage point improvement. Free cash flow also increased by 56% to Kshs 22.69 billion as a result of the strong trading results and positive working capital.

STRATEGIC PRIORITIES

Our goal is to continue transforming the lives of our fellow Kenyans and delighting our customers with great value, innovative products and services, a responsive customer service and exciting promotions.

M-PESA is at the forefront of deepening financial inclusion in Kenya. In the past year, we launched the revolutionary *Lipa na* M-PESA service, which enables our customers to carry out day to day transactions on a cashless basis. Our priority this year is to commercialise this service by growing the number of active merchants and making *Lipa na* M-PESA the preferred electronic payment platform. This will make a significant contribution to the lives of our customers and accelerate Kenya towards a cash-lite economy.

We are focused on being the business partner of choice by empowering the growth of businesses through the provision of relevant and innovative ICT solutions. We will therefore focus on accelerating our fibre to the building, fixed calling, cloud services and managed services.

Mobile data is one of the key drivers of future growth. We will endeavour to continue increasing smartphone and 3G device penetration through partnerships with vendors to offer quality and cost effective devices. We are now ready to roll out LTE (4G), subject to availability of spectrum, to deliver super-fast broadband to Kenyans. This will extend the reach of data and the internet, including the provision of WiFi access to schools in support of the Government of Kenya's digital education programme.

We continue on our Best Network in Kenya journey, with a new set of goals to ensure world class quality of service. We remain steadfast in our goal to provide the best network experience supported by significant investments in fibre rollout, network modernisation and LTE (4G) when the relevant spectrum becomes available.

Mr Robert Collymore
CEO

TAARIFA YA
AFISA MKUU MTENDAJI

Ninayo furaha kuwatangazia mwaka mwingine wa matokeo mazuri katika vitengo vyote vya biashara yetu. Tumedumisha ufanisi wetu usiolinganishwa katika ukuaji kupitia matokeo mazuri ya kibiashara katika huduma zetu zote. Wateja wetu wametuzawadi kwa uaminifu wao huku nasi tukijizatiti zaidi kutimiza ahadi yetu ya kuwahudumia kwa njia ya kipekee.

Matokeo yetu mazuri ya kifedha yametuwezesha kuendelea kuwekeza pakubwa katika mtandao wetu na katika bidhaa na huduma bunifu. Viwango vya wateja kuridhika vimeendelea kuimarika kama inavyoshuhudiwa katika matumizi ya juu ya bidhaa na huduma zetu zote.

Jitihada za kuwapa wateja wetu huduma bora zimezalisha matokeo bora. Mapato yetu ya jumla yaliongezeka kwa 16% hadi kufika Kshs 144.67 bilioni na idadi ya wateja wetu ikikua kwa 11% hadi zaidi ya 21 milioni. Huduma ya sauti bado ndiyo njia kuu ya kutuletea mapato kwani iliongezeka kwa 12% hadi kufikia Kshs 86.30 bilioni. Ukuaji huu ulichangiwa na wateja wetu waaminifu waliovutiwa na mtandao wetu bora, kusambazwa kwa wingi kwa vocha za ada ya mawasiliano (airtime) pamoja na uuzaji wa bidhaa na huduma zetu kwa bei za kuvutia. Kwa mara nyingine, tumehimili mwelekeo tunaoshuhudia katika masoko mengi ambapo mapato yanayotokana na huduma za sauti yamekuwa yakipungua.

Huduma zetu zisizokuwa za sauti zinaendelea kuimarika na kuleta mapato ya kupendeza na kwa sasa huduma hizo zinachangia 36% ya jumla ya mapato yetu. Huduma ya M-PESA inaendelea kuwa nguzo kuu, ikiwa imeleta Kshs 26.56 bilioni, ambayo ni nusu ya mapato yetu yanayotokana na huduma zisizo za sauti. Ukuaji huu ulitokana hasa na ongezeko la 15% la wateja wanaotumia huduma ya M-PESA kwa mara moja au zaidi katika siku 30, ambao walifikia 12.2 milioni na pia ongezeko la matumizi ya M-PESA kwa kila mteja kwa wastani, kadhalika lilichangia katika ukuaji huo. Idadi ya maajenti wa M-PESA pia iliongezeka hadi 81,025 na hivyo kuimarisha upatikanaji wa huduma hiyo kwa wateja wetu. Tulipiga hatua kubwa katika upanuzi wa huduma za kifedha kwa kuzindua huduma ya *Lipa na* M-PESA, ambayo imewezesha malipo ya kibiashara yasiyohusisha pesa taslimu na kuwezesha biashara kati ya mashirika ya kibiashara na wateja wao huku ikiboresha utaratibu wa kufanya biashara hizo. Katika kipindi hiki kinachochanganuliwa, huduma hiyo ya *Lipa na* M-PESA ilisajili wateja 122,000, ambapo 20% walikuwa wakiitumia huduma hiyo mara kwa mara.

Mapato kutokana na huduma ya ujumbe mfupi (SMS) yalikuwa ya kuvutia, yakiongezeka kwa 34% hadi Kshs 13.62 bilioni, huku wateja wengi zaidi wakifurahia utumaji wa ujumbe mfupi, kutumia vifurushi-data vya bei nafuu na toleo za kuvutia (promotions) zilizotolewa katika mwaka huo kama vile *'Bonyeza Ushinde'*. Tunazidi kukiuka hali zinazoshuhudiwa katika sehemu nyingine duniani ambako mawasiliano ya ujumbe wa papo hapo (instant messaging) yanadidimiza mawasiliano ya ujumbe mfupi (SMS). Tumefanya bei ya ujumbe mfupi (SMS) kuwa nafuu ili kuwezesha wateja kutumia huduma hiyo ili kutimiza mahitaji yao kwa gharama nafuu. Pia tulizindua huduma mahususi ya wateja *'Chattitude'*, inayojumuisha data na arafa (SMS) katika kifurushi kimoja na kuwezesha wateja walio na simu za 'smartphones' kunufaika kwa huduma hizi mbili.

Mapato kutokana na huduma za data kupitia simu ya rununu (mobile data) yaliongezeka kwa kiasi cha kupendeza cha 41%, yakipewa msukumo na ongezeko la wateja kwa 34% hadi kufikia wateja 9.6 milioni na ongezeko la matumizi ya vifurushi vya data (data bundles) vya bei nafuu. Kutokana na kuongezeka haraka kwa simu za 'smartphones' kunaochangiwa na bei ya chini pamoja na toleo kama vile *'Jisort na Smartphone'*, sasa tuna wateja milioni 3.1 wanaotumia simu zenye teknolojia ya 3G ambao 1.9 milioni wana simu za 'smartphones'. Mapato kutokana na huduma za data zisizo tumia simu za rununu (fixed data) pia yaliongezeka kwa 22% na kufikia Ksh 2.57 bilioni kutokana na ongezeko la idadi ya wateja na matumizi yake.

Miezi kumi na nane iliyopita, tulianzisha juhudi za kuwa na Mtandao Bora zaidi Nchini Kenya (Best Network in Kenya), na kuahidi kupata mafanikio makubwa katika kipindi hicho. Kutokana na azimio letu la kuwapa wateja wetu huduma za hali ya juu kupitia mtandao wetu, tuliwekeza Kshs 27.78 bilioni ili kuboresha, kuimarisha uwezo na kupanua mtandao. Tuliongeza idadi ya watu wanaohudumiwa na mitandao ya teknolojia ya 2G na 3G, tukaimarisha mtandao katika miji sita mikuu na kuweka mtandao wa nyaya za faiba katika 50% ya vituo vyetu vya msingi (base stations) mjini Nairobi. Mwezi Oktoba 2013 tuliagiza uchunguzi huru ili kubaini ubora wa huduma zetu kama vile kukamilika kwa mazungumzo, ubora wa huduma ya maongezi na kasi ya huduma ya data. Uchunguzi huu unabaini kuwa mtandao wetu unatoa huduma bora zaidi za data na huduma za sauti zinazolingana na za kampuni zingine nchini.

Tunaendelea kumakinika katika kuendesha vyema biashara kupitia mikakati tuliyobuni ya kudhibiti gharama. Mikakati hii ililenga gharama za upeperushaji, gharama za kuendesha mtandao (ikiwemo mafuta) na gharama za teknolojia za habari (IT) kwani gharama zetu za kuendesha biashara zisizo za moja kwa moja (operating costs) zilifikia 22% ya jumla ya mapato yetu. Fedha tulizookoa kutokana na gharama za kuendesha biashara ambazo ni za moja kwa moja (direct costs) kama vile gharama za kupata wateja (laini za simu na simu za rununu) na gharama za vocha za ada ya mawasiliano (top up cards) ziliimarisha kiwango cha mapato baada ya kutoza garama za moja kwa moja (contribution margin) kwa pointi 2.1% hadi 64%.

Kwa mwaka mwingine mfululizo, tumepata matokeo imara na kuwaletea wanahisa wetu dhamani kutokana na ukuaji katika vitengo vyetu vyote vya biashara. Ukuaji huu wa mapato, pamoja na matumizi bora ya fedha, ulisukuma juu mapato kabla ya kutoza riba, ushuru na garama zisizo lipiwa kwa pesa taslimu (EBITDA) hadi 42.1%, hii ikiwa ni kuimarika na 2.5%. Fedha zilizosalia baada ya matumizi lakini kabla ya kulipa mgao wa hisa (Free cash flow) ziliongezeka kwa 56% hadi kufikia Kshs 22.69 bilioni kutokana na matokeo mazuri ya kibiashara na kuongezeka kwa mtaji wa kufanyia biashara (working capital).

MIKAKATI MUHIMU

Lengo letu ni kuendelea kuboresha maisha ya Wakenya wenzetu na kuwaridhisha wateja wetu kwa kuwapa dhamani kubwa, bidhaa na huduma bunifu, huduma zinazozingatia maslahi ya mteja na matoleo (promotions) ya kufurahisha.

Huduma ya M-PESA iko kwenye mstari wa mbele katika kuimarisha matumizi ya huduma za kifedha nchini Kenya. Katika kipindi cha mwaka mmoja uliopita, tulizindua huduma ya kipekee ya *Lipa na* M-PESA, inayowezesha wateja kutekeleza shughuli zao za kifedha bila kutumia pesa taslimu. Lengo letu kuu mwaka huu ni kuifanya huduma hii kuwa moja ya biashara zetu kuu kwa kuongeza idadi ya wateja wanaoitumia mara kwa mara na kufanya *Lipa na* M-PESA kuwa mbinu ya malipo ya kielektroniki inayopendwa zaidi. Hii itachangia pakubwa katika kuimarika kwa maisha ya wateja wetu na kuelekeza Kenya haraka katika uchumi usiotegemea pesa taslimu.

Tunalenga kuwa mshirika imara wa kibiashara kwa kuwezesha ukuaji wa biashara mbalimbali kwa kubuni bidhaa na huduma mwafaka za habari, mawasiliano na teknolojia (ICT). Kwa hivyo, tutalenga kueneza nyaya zetu za faiba hadi kwenye majengo ya biashara na kuimarisha huduma za simu zisizo za rununu, huduma zilizosimamiwa na zinginezo.

Huduma za data kupitia simu za rununu (mobile data) ni kati ya mbinu kuu ya ukuaji wa siku zijazo. Tutajitahidi kuendelea kueneza simu za 'smartphone' na vifaa vinavyo tumia teknolojia ya 3G kupitia ushirikiano na watengenezaji wa bidhaa hizi ili kutoa simu bora na za bei nafuu. Sasa tuko tayari kuzindua teknolojia ya LTE (4G), kutegemea kuwepo kwa wigo (spectrum), ili kuwapa Wakenya huduma ya intaneti yenye kasi ya juu. Hii itaongeza upatikanaji wa data na intaneti, ikiwemo teknolojia ya intaneti ya WiFi kwa shule kwa ajili ya kuwezesha mradi wa Serikali ya Kenya wa kutoa elimu kwa njia ya dijitali.

Tunazidi kuendeleza safari yetu ya kuwa mtandao bora zaidi nchini, tukiwa na malengo mapya ili kuhakikisha tunatoa huduma bora za kiwango cha kimataifa. Tunaendelea na lengo letu la kuwapa wateja wetu huduma bora zaidi za mtandao kupitia uwekezaji katika kusambaza nyaya za faiba (fibre), kuimarisha mtandao ili uwe wa kisasa na kuzindua teknolojia ya LTE (4G) pindi wigo unayohitajika utakapopatikana.

Robert Collymore
Afisa Mkuu Mtendaji

BUSINESS REVIEW

WHAT WE DO

01

CUSTOMERS

We have 21.6 million customers

- We offer mobile voice and data prepaid or postpaid services to consumers 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

02

NETWORK

We have 3,140 base stations

- Our mobile operations use GSM 2G technology and 1,847 of our base stations are 3G-enabled
- 3G is available in the metropolitan parts of Kenya
- Our network is being modernised to Internet Protocol (IP) to improve the quality of the network and the capacity of existing base stations to handle the customer growth. We have rolled out a new single real-time billing system and upgraded our 3G network to the most advanced technology that will allow speeds of 21 and 42 Mbps on Internet services

03

DISTRIBUTION

Our retail reach now covers 270,000 retailers and 43 retail shops

- We distribute our products and services through a dealership network of 3,000 outlets, with 24,000 employees directly and indirectly employed within this channel
- Our M-PESA agent network has also expanded to 81,025 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 2014 we had 3.1 million 3G devices on the network, of which 1.9 million were smartphones

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

04

VOICE

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

- *'Okoa Jahazi'* is an emergency credit-based top-up service
- Voice services include national, regional and international roaming services
- *'Bonga'* is a customer loyalty programme based on usage of Safaricom services
- Value added services include *'Skiza',* a caller ring-back tone service

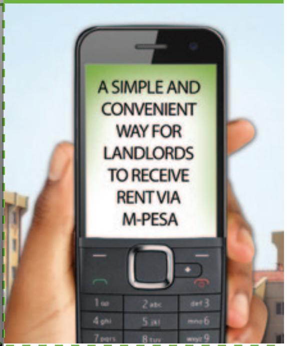
05

M-PESA

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

- M-PESA continues to drive financial inclusion by providing access to formal financial services
- It offers money transfer services to individuals and businesses, paybill services, bulk payments, dividend payments and international money transfers
- M-PESA has 19.3 million registered customers serviced by 81,025 agent outlets

06



DATA

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

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

07

08

MESSAGING

We offer a variety of messaging services

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

OTHER SERVICES

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

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

09

THE VALUE WE CREATE

REINVESTING IN OUR BUSINESS

We invested Kshs 27.78 billion (2013: Kshs 24.88 billion) in capital expenditure, with 90% being allocated to network quality, capacity and coverage. Our total sites have increased to 3,140, of which 1,847 are 3G-enabled, giving Safaricom the most extensive coverage in the country.

INVESTING IN OUR PEOPLE

We distributed Kshs 10.09 billion (2013: Kshs 8.39 billion) to our employees through salaries, short and long-term incentives and contributions to pension funds and medical aid schemes. We also invested in our employees through development and talent programmes.

CONTRIBUTING TO OUR COUNTRY

Our corporate tax payments amounted to Kshs 47.61 billion (2013: Kshs 34.68 billion). This included remittances to the government in form of value-added tax, corporate tax and excise duties, as well as through our license fees.

RETURNS FOR OUR FINANCE PROVIDERS

Our finance providers received Kshs 13.89 billion (2013: Kshs 10.99 billion) of our total value created. We paid dividends of Kshs 12.40 billion (2013: Kshs 8.80 billion) to equity shareholders and interest of Kshs 1.49 billion (2013: Kshs 2.19 billion) to debt providers.

OUR STRATEGIC PRIORITIES

Our ability to create value is informed by how we deliver on our strategic priorities.

DEEPEN FINANCIAL INCLUSION

- We launched *Lipa* na M-PESA and acquired 122,000 merchants of which 24,137 are now active
- We increased our M-PESA outlets by 15,478 in the year to 81,025
- *'M-Shwari'* now has 3.6 million active customers with Kshs 4.0 billion in deposit and Kshs 1.2 billion worth of loans issued per month with Non Performing Loans (NPLs) at 2.7%
- We increased our cashless distributors to 158 with a total of 1,271 distribution points

RETAIN AND REWARD OUR LOYAL CUSTOMER BASE

- Our customer base grew by 11% to 21.6 million
- We launched a partnership with DSTV in February 2014
- Our online self-care product was launched
- We improved our prepay airtime distribution
- We distributed top-up cards through over 270,000 retail outlets and 43 own retail shops
- 34% of airtime top-ups were made directly through M-PESA
- There was a 36% increase in emergency top ups through *'Okoa Jahazi'*

GROW MOBILE AND FIXED DATA

- We increased our data customers by 34% to 9.6 million
- We increased total usage by 74% through content usage stimulation
- The number of 3G devices on the network increased to 3.1 million, of these 1.9 million are smartphones
- We offered value based pricing through combined Internet and SMS bundles and social media propositions
- We introduced a WiFi service, *'Vuma Online',* in public transport vehicles for internet sampling

GROW YOUTH APPEAL

- We have built strong youth appeal and affinity
- We held a variety of events and brand assets targeted at different segments including Groove Awards tour, Niko na Safaricom Live and the Safaricom Sevens series around the country
- Launched the Safaricom International Jazz Festival, which aims to create a platform for collaboration between local and international artistes, and build youth appeal
- Increase our involvement in sponsoring the National Rugby Series has driven better connection with our brand especially among young sports enthusiasts
- Acquisition of the Safaricom Stadium Kasarani and Safaricom Indoor Gymnasium naming rights
- Consolidation of our involvement in athletics through the Safaricom athletics series to amplify the sponsorship

DELIVER THE BEST NETWORK IN KENYA PROGRAMME

- We expanded our reach to cover 91% of our population via 2G network.
- 3G coverage is up to 61%
- We conducted successful LTE trials on 10 sites in Nairobi and Mombasa where 70Mbps data speeds were achieved
- 86% of our Radio Network is modernised and 78% of our transmission network is on IP
- We built 770 km of fibre. An additional 640km is underway in key metro areas
- Our own fibre deployment covers 70% of Nairobi sites
- Our adoption of green energy practices in 11% of our sites resulted in a 15% reduction in unit power utilisation

STAYING AHEAD OF THE CURVE

- We launched our own Safaricom Appstore
- We introduced *'Appstar'* and *'Appwiz'* innovation challenges to foster local mobile applications and content development
- Launched the Safaricom Way Heroes programme
- Invested significantly in the developement of our employees equiping them with the necessary skills and competencies
- Established seven absolute rules on health, safety and wellbeing

PARTNER OF CHOICE FOR BUSINESS

- We re-launched our *'Software as a Service'* (Cloud) with SMEs (small and medium size Enterprises) connected to either of our services: Hosted Payroll Solution, Hosted Accounting Solution, Website and Email Hosting
- Safaricom OneConnect business to provide corporates with high quality fixed voice service with added channels and a dedicated internet connection
- Cashless distribution for corporates with clientele such as EABL, Unilever, BAT, Nairobi Bottlers, Total, Shell and Oil Libya
- Our fixed customer accounts grew by 4% and our fixed voice connections increased by 24%

HOW WE ARE MANAGED

Good corporate governance is at the core of our efforts to build and sustain the business. We are committed to ensuring ethical management and responsible control. Operationally, we weigh up the risks and rewards while balancing the interests of our stakeholders in fulfilling our obligations.

ETHICS AND COMPLIANCE

With the newly introduced compliance function of our ethics programme, we have ensured process and controls improvement as well as compliance with Regulations, Laws and Safaricom policies. We continue to promote the right ethical culture through intensive and interactive ethics awareness programmes for our staff and other stakeholders. We collaborate with law enforcement authorities to tackle crime affecting our products and services. This has enhanced the efficiency and effectiveness of investigations involving various types of crimes in our industry.

GOVERNANCE

Good governance is fundamental to business sustainability and integrity and to maintaining investors' trust in the company. At Safaricom, 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 controls and are aligned to changing requirements as well as local and international best practice. Our directors and employees are expected to act with honesty, integrity and fairness. In addition, we strive to act in accordance with the laws of Kenya and observe and respect the diverse cultures of Kenyan people.

REMUNERATION

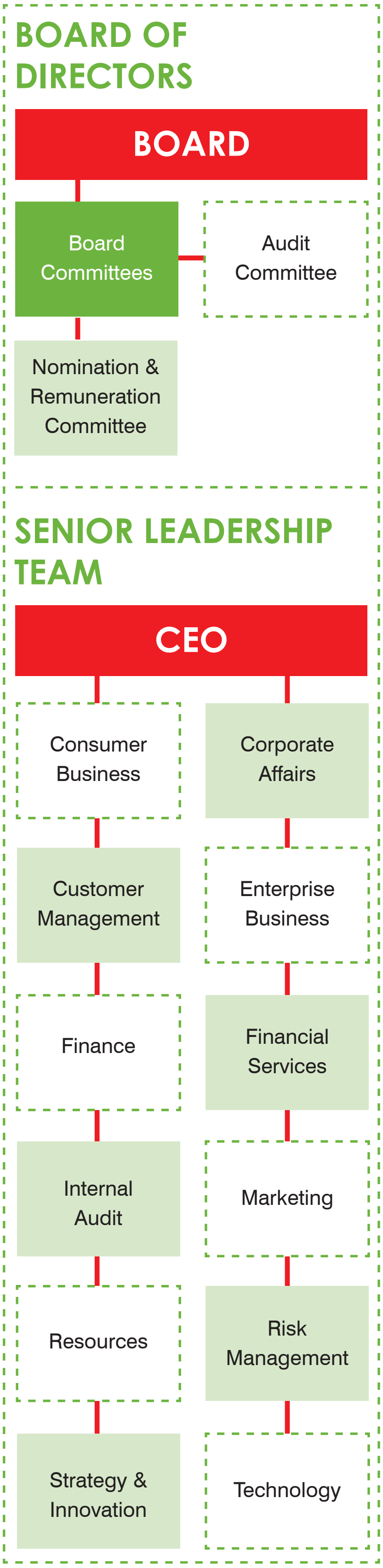
Our remuneration policy is aimed at attracting and retaining leaders of the highest calibre and making sure our executives are compensated according to their performance. This is measured against financial and strategic delivery and how faithfully they apply Safaricom's business principles of speed, simplicity and trust. This process determines:

- The annual pay increase awarded to executive directors in line with overall employee pay increases
- Share grant programmes for senior management

RISK MANAGEMENT

The company values Risk Management as an integral part of business operations. Risk is assessed as part of both strategic and operational decision making. The Risk Management Division provides advice and support to the business through its constituent specialists.

This encompasses the scrutiny and proactive oversight of a number of key elements of the Safaricom operations including Enterprise Risk Management, Ethics and Compliance, Physical Security, Revenue Assurance and the Money Laundering Reporting Office (MLRO).



WHO
GOVERNS US

Profiles of the Directors are on pages 130 to 131

From front left to right: **Esther Koimett** - Non-Executive Director and alternate to Henry Rotich, **Enid Muriuki** - Company Secretary **Nancy Macharia** - Non-Executive Director, **John Tombleson** - Executive Director and alternate to Robert Collymore, **Michael Joseph** - Non-Executive Director, **Sunil Sood** - Non-Executive Director, **John Otty** - Non-Executive Director, **Serpil Timuray** - Non-Executive Director, **Susan Mudhune** - Non-Executive Director, **Robert Collymore** - Executive Director & CEO, **Nicholas Nganga** - Chairman & Non-Executive Director.

WHO
LEADS US

Robert Collymore
Chief Executive Officer

John Tombleson
Chief Financial Officer

Peter Arina
General Manager, Consumer Business Unit

Roy Masamba
Director, Resources

Nicholas Mulila
Director, Risk Management

Sylvia Mulinge
General Manager, Enterprise Business Unit

Joseph Ogutu
Director, Strategy & Innovation

Rita Okuthe
Director, Marketing

Denish Osodo
Director, Internal Audit

Thibaud Rerolle
Director, Technology

Betty Mwangi-Thuo
General Manager, Financial Services

Nzioka Waita
Director, Corporate Affairs

Pauline Warui
Director, Customer Care

OUR OBJECTIVE IS TO ENSURE ETHICAL MANAGEMENT AND RESPONSIBLE CONTROL

Profiles of the Senior Leadership Team members are on pages 132 to 133

CORPORATE **GOVERNANCE STATEMENT**

The Safaricom Board of Directors is charged with ensuring the Company is managed in a sound manner that delivers shareholder value within an environment of good corporate governance. The Board is responsible for reviewing and approving the business strategic objectives and providing the necessary leadership and oversight to the management of the Company. In this regard, the Board is a key player in the company corporate governance system and is ultimately accountable for the performance of the business. The Board commits itself to adopting the principles of good corporate governance as part of its obligations to the Company.

BOARD ORGANISATION AND STRUCTURE

Duties and responsibilities of the Board

The Board's role is to ensure transparent accountability for the wellbeing and performance of the Company to the shareholders and stakeholders. In addition, the Board:

- Provides effective leadership in collaboration with the Executive management team
- Facilitates the setting up of appropriate corporate governance structures for the management of the business operations
- Establishes board committees, policies and procedures that facilitate the most effective discharge of the Board's roles and responsibilities
- Reviews and approves the Company's annual budget proposed by the Executive management team
- Facilitates Board accountability through effective Board evaluation and succession planning
- Evaluates and approves compensation of the CEO
- Plans for the succession to the position of the CEO
- Reviews and approves management's strategic and business plans, including developing a depth of knowledge of the Company'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 realised
- Reviews and approves the Company's financial objectives, plans and actions, including significant capital allocations and expenditures
- Ensures that the key strategic risks of the Company are identified and understood, and their ongoing status and management effectively monitored
- Ensures that appropriate and effective risk management and internal control processes are operating in the Company
- Monitors 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
- Ensures ethical behaviour and compliance with laws and regulations, auditing and accounting principles, and the Company's own governing documents
- Assesses its own effectiveness in fulfilling these and other Board responsibilities
- Performs other functions as prescribed by law or assigned to the Board in the Company's Articles
- Proposes payment of distributions to the shareholders to be approved by the shareholders
- Provides leadership and vision that will enhance shareholder value and ensure long term sustainability and growth of the Company

Activities of the Board

While the Board is solely responsible for its agenda, it is the responsibility of the Chairman and the Company Secretary to work closely together in planning the annual programme and agendas for meetings. The Board meets at least four times a year and the meetings are structured to allow for open discussion. All substantive agenda items have comprehensive briefing papers, which are circulated two weeks prior to the meeting. This may be waived should any urgent matters arise in this two-week period.

Directors must attend Board meetings regularly and effectively participate in conducting the business of the Board. The senior management team may be invited to attend meetings as may be deemed necessary. In certain cases, where 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. Directors are equally responsible for ensuring that the affairs of the company are managed properly.

The Non-Executive Directors have a particular responsibility of ensuring the business strategies proposed are fully discussed and critically reviewed, as they do not form part of the executive management team. This enables the Directors to promote the success of the Company for the benefit of its shareholders as a whole, with consideration 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 it operates as well as the environment.

The Non-Executive Directors are the custodians of the governance process, and oversee the operational performance of the business. To perform these tasks, they have full and timely access to all relevant information, with updates 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 in 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.

Division of responsibilities

A clear separation and division of roles have been established between the Chairman and the Chief Executive Officer. These roles have been assigned and agreed on by the Board to ensure that decision making is regulated and unbiased.

The Chairman's responsibility includes the operation, leadership and governance of the Board, ensuring its effectiveness and setting its agenda.

The Chief Executive Officer's role and responsibilities include 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 interactive discussions and to make appropriate, swift and astute decisions. The Board also forms ad hoc commitees from time to time to address specific Company matters that may not be within the ambit of the two established committees. The constitution of the Company's Board is dictated by the Company's Articles of association, and comprises nine members, of whom eight are Non-Executive Directors and one is executive. Safaricom's Non-Executive Directors (including the Chairman) demonstrate complete independence in character, judgment and action in fulfilling their duties.

BOARD EFFECTIVENESS

Appointments to the Board

The Board is responsible for recommending independent Directors for election by the shareholders. Nominated Directors undergo a formal screening process by the Nominations and Remuneration Committee before being formally appointed to the Board. The committee also considers Director nominees recommended by shareholders and uses the same criteria for screening candidates. Between AGMs, the Board may appoint Directors to serve until the next AGM. Any such appointment of an independent director must be ratified by the shareholders.

The Board believes there is opportunity to encourage succession planning within the Company through encouraging senior management (other than the CEO and CFO) to attend Board meetings by invitation.

Independent advice

The Board recognises that there may be occasions when one or more of the Directors consider it 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 establishes committees to enable it to carry out its governance roles and responsibilities effectively and efficiently. The Board currently has two committees, an Audit 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.

CORPORATE GOVERNANCE STATEMENT

BOARD EFFECTIVENESS (continued)

Board members meetings for 2013/2014

BOARD	13 MAY 2013	11 SEPT 2013	5 NOV 2013	27 FEB 2014
Nicholas Nganga Chairman	✓	✓	✓	✓
Robert Collymore Executive Director	✓	✓	✓	✓
Michael Joseph Non-Executive Director	✓	✓	✓	✓
Nicholas Read Non-Executive Director	✓	-	-	Resigned 15 Nov 2013
Sunil Sood Non-Executive Director	-	✓	✓	✓
Ahmed Essam Non-Executive Director	✓	Resigned 1 Aug 2013		
Nancy Macharia Non-Executive Director	✓	✓	✓	✓
Susan Mudhune Non-Executive Director	✓	✓	✓	✓
Esther Koimett Non-Executive Director	✓	✓	✓	✓
John Otty Non-Executive Director	✓	✓	✓	✓
Serpil Timuray Non-Executive Director			Appointed 15 Nov 2013	✓
Enid Muriuki Company Secretary	✓	✓	✓	✓

Audit committee

The Audit Committee consists of four Non-Executive Directors who report to the Board. The Chairperson is an independent and Non-Executive Director. At least one member has knowledge of financial matters and acts as the financial expert.

The mandate of the Audit Commitee includes:

- Reviewing and assessing the Company's risk management process and the adequacy of the overall control environment;
- Monitoring compliance with statutory and listing requirements for any exchange on which the Company's shares and debt instruments are quoted;
- Reviewing and discussing with management and the external auditor any significant events or transactions affecting the Company's financial reporting;
- Overseeing the activity of the Company's internal audit division, including the review of the Internal audit charter, code of ethics, plans, resource requirements and organizational structure;
- Approving the annual audit plan ensuring its consistency with the Company business plan;
- Reviewing internal audits reports from the Director of Internal Audit and the adequacy of actions to address weaknesses in controls;
- Receiving reports from the Director of Internal Audit, CFO or Director of Risk Management on any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls;
- Reviewing and discussing with management and auditors the preliminary results, interim information and annual financial statements;

- Reviewing the scope and extent of both audit and non-audit services provided to the company by the external auditors and any associated fees and terms of engagement, including the assessment of the non-impairment of the auditor's judgement and independence;
- Reviewing the independence, objectivity and effectiveness of the external auditor including their quality control procedures.

Audit Committee meetings for 2013/2014

AUDIT	10 MAY 2013	10 SEPT 2013	4 NOV 2013	27 FEB 2014
Susan Mudhune Non-Executive Director and Chairperson	✓	✓	✓	✓
Sunil Sood Non-Executive Director	-	✓	Resigned 5 Nov 2013	
Nancy Macharia Non-Executive Director	✓	✓	✓	✓
Esther Koimett Non-Executive Director	✓	✓	✓	✓
John Otty Non-Executive Director		Appointed 5 Nov 2013	✓	✓
Enid Muriuki Company Secretary	✓	✓	✓	✓

Nomination and Remuneration Committee

The role of the Committee is to review the balance and effectiveness of the Board and the remuneration of the Directors and senior management. It comprises four members. The mandate of the Nominations & Remuneration Committee includes:

- Monitoring the size and composition of the Board;
- Recommending individuals for nomination as members of the Board and its committees;
- Reviewing executive appointments, succession and development plans; and
- Reviewing and proposing the remuneration structures for Executive and Non-Executive members of the board.

Nomination and remuneration meetings for 2013/2014

REMCO	10 MAY 2013	10 SEPT 2013	4 NOV 2013	26 FEB 2014
Nicholas Nganga Chairman	✓	✓	✓	✓
Michael Joseph Non-Executive Director	✓	✓	✓	✓
Susan Mudhune Non-Executive Director	✓	✓	✓	✓
Esther Koimett Non-Executive Director	✓	✓	✓	✓
Enid Muriuki Company Secretary	✓	✓	✓	✓

CORPORATE GOVERNANCE STATEMENT

BOARD EFFECTIVENESS (continued)

Special Committees

The Board can form ad hoc or special committees to deal with specific matters for a defined term. The Board retains oversight authority over such committees and disbands them as is deemed necessary. Each committee Chair, in consultation with Committee members, determines the agenda, frequency and length of the meetings of each committee.

Company Secretary

The Company Secretary's roles and responsibilities include the following:

- Providing a central source of guidance and advice to the Board, and within the Company, on matters of ethics and good governance;
- Providing the Board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the Company;
- Facilitating the induction training for new directors and assisting with directors' professional development as required. This includes identifying and facilitating ongoing Board education;
- In consultation with the CEO and Chairperson, ensuring effective flow of information within the Board and its committees and between senior management and Non-Executive Directors. This includes the timely compilation and distribution of Board papers and minutes and communication of resolutions from Board meetings;
- Seeing to the proper development of Board meetings and providing Directors with clear advice and information.
- Advise the Board on the timeliness of Board meetings in congruity with the charter;
- Assisting the Chairperson in ensuring that regular assessments on the effectiveness of the Board and its committees, as well as the contribution of individual directors, are carried out;
- Guiding the Company in taking the initiative to not only disclose corporate governance matters as required by law, but also those of material importance to the decision-making of institutional investors, shareholders, customers and other stakeholders; and
- Keeping formal records of Board discussions and ensuring timely execution of actions agreed.

BOARD OF DIRECTORS' SHAREHOLDING

DIRECTOR	SHAREHOLDING
Nicholas Nganga	855,100
Robert Collymore	908,000
Michael Joseph	2,357,200
Henry Rotich	2,200
Esther Koimett	517,600
Nancy W Macharia	43,000
Susan Mudhune	51,200
John Tombleson	1,600,000
Serpil Timuray	0
Sunil Sood	0
John Otty	0

Ethics committee

The Ethics Committee is mandated to be the oversight body on behalf of Safaricom management in matters of ethics, integrity and those that touch on the company's Code of Conduct. Meeting frequency is quarterly

Ethics Committee Activities:

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

Ethics committee meetings for 2013/2014

ETHICS	POSITION	27 JUNE 2013	1 NOV 2013
Robert Collymore	CEO and Chairman	✓	✓
John Tombleson	CFO	✓	✓
Nicholas Mulila	Director, Risk Management	✓	✓
Nzioka Waita	Director, Corporate Affairs	✓	✓
Joseph Ogutu	Director, Strategy and Innovation	✓	-
Roy Masamba	Director, Resources	Nominated onto Ethics Committee on 27 June 2013	✓
Patrick Kinoti	HOD Ethics and Compliance	✓	✓

RISK MANAGEMENT

STRATEGIC RISKS

Regulations

The telecommunications environment in Kenya continues to be shaped significantly by the actions of Government and the Regulators, as it does in most other telecoms markets.

We continue to contribute to the discussion on emerging legislation and regulations as we prepare to comply with the same. An event to observe in the near term include the enactment of the National Payment Systems (NPS) regulation.

NPS provides that Mobile service providers may interoperate their mobile money transfer platforms. The regulation has called for the creation of a Payment System Management Body (PSMB) to run all payment systems and create rules for interchange and interoperability. While these provisions are not restrictive to our business, we are closely engaging with regulators in the development and implementation thereof.

We continue to engage with Communications Authority of Kenya (CAK) on the debate and development of a framework around sharing of infrastructure, following the renewal of our two licences. These engagements have included a push to review the methodology of carrying out quality of service measurements.

In addition, we launched the Best Network in Kenya initiative successfully and are currently embedding it in all our technology processes. Key to Quality of Service (QoS) and the deployment of new technologies is spectrum. We are pursuing negotiations with Government to acquire adequate spectrum to achieve desired QoS and deliver new technologies such as LTE.

Competition

We continually monitor the competitor market affecting our different segments. With the granting of Mobile Virtual Network Operators (MVNO) licences to three new operators, we see potential new competition in the financial services, voice and SMS arenas. The success of the three operators will be largely dependent on the tactics they employ and how they leverage on existing strengths such as brand, customer base and existing product offering.

We are mindful of the competition from global players such as Google and WhatsApp, who offer instant messaging and voice services. With the push by county governments to offer free WiFi, we expect to see such services becoming popular and eroding mobile data and SMS revenue. By creating SMS bundled offerings and data bundled offerings such as *'Chattitude'*, we are able to ensure we give customers what they need while simultaneously securing our revenue.

Our ability to offer a superior product offering and customer experience on fixed data continues to improve as we begin to reap the benefits of laying our own fibre, enabling us to compete effectively with others in the enterprise market. 770 km has been completed under our fibre roll-out programme with 640 km on-going in key metro areas in Kenya.

Financial Inclusion

Financial inclusion and the drive towards cashless payments is a key objective of the Government. With M-PESA and the launch of *Lipa na* M-PESA*,* a new frontier for growth has been opened which will augment person to person payments and enhance business to consumer payments.

Economic Growth prospects

Kenya has maintained a stable macroeconomic environment despite challenges of financing the new devolved system of governance and a rising wage bill. While the full economic impact of a devolved government is yet to be felt, there have been some changes in tax and levies both at a national and county government level. At a national level the VAT net was widened to include previously exempt items while at a county level we have had a few counties review fees and levies for the various approvals and services they provide. We continue to closely monitor and react proactively to macro-economic indicators ensuring both the business and our customers are cushioned from adverse effects.

OPERATIONAL RISKS

Security

Against the backdrop of general insecurity involving robbery with violence, kidnapping and poaching, last year brought with it an upsurge in terrorism attacks and attempts in the country. Our security operations have responded to this risk by proactively gathering intelligence, reinforcing our security measures countrywide for our staff, contractors and installations. In addition, we re-evaluated how we manage security at our public events and will continue to do so going forward.

To ensure we have the adequate resources to do so, we have invested in both personnel and equipment to support our efforts. With a view to ensuring our continued readiness to manage these risks, we will continue to invest in security training and awareness as well as maintenance and improvement of our security infrastructure and tools.

Ethics and compliance

Our ethics programme was enhanced to include a compliance function, which is charged with process and control improvement as well as ensuring compliance with Regulations, Laws and Safaricom policies. We are engaged with not only our staff, but also widening our scope to work with our suppliers, dealers and agents to embed a culture of enhanced compliance in the years to come.

In promoting the right ethical culture, we rolled out an intensive and interactive ethics awareness programme for our staff.

We adopted an ecosystem approach towards ethics management, which recognises that the promotion of the right ethical culture requires all stakeholders to have the same ethical picture, for example, dealers need to know what they can and cannot do while seeking business.

We conducted several awareness sessions with our M-PESA agents, dealers and suppliers throughout the year. During these sessions we advised them about the emerging security and fraud trends in the country as well as what they can do to secure their businesses better to manage the risks they face. In the coming year we plan to partner with them further in promoting the right culture.

In line with our ongoing commitment to delighting our customers, we collaborate with law enforcement authorities to tackle crime that affect our products and services, especially our mobile money services. This will assist in enhancing the efficiency and effectiveness of investigations involving such crimes. These efforts have led to a reduction of fraud and also increased awareness amongst staff in dealing with ethical dilemmas and reporting unethical conduct.

Information Security and Business Continuity

To ensure security and a world class standard in managing our operational risks in information security and business continuity, Safaricom was the first company in Africa to attain both ISO 22301 Business Continuity (voice, data, SMS and cloud services) and ISO 27001 Information Security (Cloud services) certification.

The ISO 27001 certification is an independent confirmation to our customers that we have implemented appropriate processes and controls relating to our Cloud services to protect their information.

The ISO 22301 certification is a benchmark of excellence for business continuity planning. Our attainment of this certification confirms our commitment to serving our customers with minimal interruption.

Crisis Management

A mature business continuity programme contains effective incident escalation processes and ensure that critical incidents are handled and managed appropriately as a crisis. We have a fully formed Crisis Management Team (CMT) at Safaricom, whose members participate in regular refresher training and awareness.

In addition, we test our business continuity readiness annually with scenario testing across cross-functional teams with CMT participation. These measures and enhancements enable us to proactively monitor and manage risks within Safaricom.

Throughout the year, significant internal audit effort was directed towards assurance on significant and ongoing company wide projects. This was with a view to supporting project efficiency, pre-implementation reviews and data migration assurance.

A continuous audit and control monitoring tool was implemented to support continuous assurance on operating effectiveness of key automated controls in Enterprise Resources Planning (ERP) and core network systems.

INTERNAL AUDIT

The Internal Audit function is mandated to provide assurance on the internal control environment and deepen good governance practices and support the organisation to achieve best in class controls through continuous engagement.

The objectivity of Internal Audit is enhanced through governance support from the Board Audit Committee to which the function directly reports. The Board Audit Committee's terms of reference were updated in the year and approved by the Board of Directors.

During the financial year under review, 32 planned audit reviews were conducted to appraise the adequacy, design and operating effectiveness of controls. In addition, three special reviews were completed at management's request.

An audit scoring system was developed and implemented in the year to provide an indication of the health of controls maturity by division, and to drive controls improvement.


STRATEGIC
REVIEW

DELIGHTING
OUR CUSTOMERS

At Safaricom we continually look for ways to delight our customers. We aim to do it better than anyone else, whether it's providing them with innovative technology, products and services, launching exciting new promotions, or offering them exceptional customer experiences.

OUR OFFERING

Growing our customer base

The result of this approach speaks for itself. Our customer base grew by 11% from 19.4 million last year to 21.6 million this year. This double digit growth was driven by our compelling voice, data and SMS propositions as well as our commitment to providing unmatched customer experience at all of our customer touch points.

Voice

Voice continues to be the backbone of our business. It grew by 12% last year and contributed to 60% of total revenue. This was mainly due to a growth in customer numbers, the continued improvement of Safaricom's network experience, a robust airtime distribution network with more than 98% availability in the market, as well as various innovative consumer propositions, which were rolled out during the year.

In the first quarter, we launched a top-up promotion, *'Tetemesha na Safaricom',* aimed at stimulating minutes of use (MOU). The promotion delivered a 6% increase in traffic. In addition, a revamp of our emergency top-up service, *'Okoa Jahazi',* resulted in a 37% growth in emergency access revenue. This saw the introduction of higher loan bands of Kshs 250, Kshs 500 and Kshs 1,000, which were positively received by our customers.

Looking ahead

In the year ahead we intend to focus on the following key areas:

- **Growing voice and SMS**
- **Increasing our loyalty offering to our customers**
- **Enhancing customer experience at all touch points**

Messaging

Our messaging service was a star performer this year with revenue growing by 34% to Kshs 13.62 billion. This was driven by more customers using short messaging, affordable bundles and promotions such as *'Bonyeza Ushinde',* which rewarded customers for their loyalty.

Roaming

Innovative East Africa region roaming bundles were introduced for our traveling customers. The bundles are flexible and valid on MTN and UTL in Uganda, Vodacom in Tanzania and MTN in Rwanda. Importantly, they have helped allay fears regarding roaming bill shocks as they give customers control over their roaming spend.

Rewarding loyal customers

With our customers' interests at the core of what we do, we constantly look for ways to reward them for their loyalty. Our *'Bonga'* Points loyalty scheme was introduced in 2007 with this in mind and Safaricom prepaid and postpaid subscribers earn one *'Bonga'* Point for every Kshs10 they spend. Accumulated *'Bonga'* Points can then be redeemed for talk-time (minutes), data, SMS and MMS bundles or merchandise items from our Retail centres countrywide. This year, *'Bonga'* Points was revamped to allow customers to use part cash and part loyalty points to purchase internet-capable devices.

In addition, third-party partnerships for loyalty points' redemption was introduced. This allows customers to redeem their points for Kenya Airways tickets and DSTV subscription services.

EXPANDING OUR DISTRIBUTION CHANNEL

Being accessible to our customers throughout Kenya is critical to ensuring their ongoing loyalty and happiness. Our customer reach has grown significantly over the past year, supported by an expanding dealership network, retailer footprint, M-PESA agent community and Safaricom retail shops.

RETAILER NETWORK

Our retailer base grew from 250,000 outlets to just over 270,000 retailers across the country. We continued to build loyalty through our annual retailer promotion, *'Changamka na Mauzo'*, which awarded over 248,000 retailers with various prizes. The promotion saw a 17% growth in airtime sales.

SAFARICOM RETAIL SHOPS

Four new Safaricom retail shops were rolled out this year, bringing the total number of shops to 43 (excluding Westgate shop). The new shops are Kericho, Thika Road Mall, Kisumu International Airport and Sarit Platinum shop. A number of shops were refurbished within the year and many more planned in the next year. The outlets provide customer care, Safaricom products and services and a wide range of complementary cellular devices and products.

DEALERSHIP NETWORK

Our dealership footprint grew from about 2,600 outlets last year to more than 3,000 outlets this year. Collectively, the dealerships employ more than 24,000 people directly and indirectly. This massive footprint ensures our customers can access Safaricom products and services anywhere in the country.

Several initiatives were rolled out in the year to support our dealerships:

- New incentives that recognise dealer branches and infrastructure such as the Dealer Operating Standards Assessment (DOSA), which is a periodic assessment of the dealer network to ensure it conforms to set standards
- Dealer training on data and data products
- Dealer distribution support. This year saw us assist our dealers in acquiring more than 600 motorcycles through partial funding
- Customer service training for dealer staff at the dealer outlets
- Dealer support on branding for vehicles and shops
- Rollout of 73 Safaricom care desks at selected dealers, which are manned by Safaricom staff and expected to provide the same level of service as our retail shops
- Our annual Dealer Of the Year Award (DOYA) recognises exemplary performance amongst our dealer network

M-PESA AGENT NETWORK

In line with our strategy to deepen financial inclusion and live up to our brand promise of "transforming lives", we grew our M-PESA agent footprint by 24% from 65,547 agents last year to 81,025 agents this year. M-PESA agents employ more than 140,000 people, who are directly involved in transforming lives every day. M-PESA continues to be the mobile money transfer service with the widest coverage in urban and rural Kenya.

The number of new M-PESA customers grew by over 2 million. This is a 12% growth on the previous year, bringing the total number of registered M-PESA customers to 19.3 million (90% penetration of our customer base) at year end.

Several initiatives were rolled out to support our agents, including:

- An agent loan bank facility to assist agents in purchasing float for their outlets on a daily basis. The amount given to agents as part of this scheme, via various banks, was over Kshs 600 million last year
- A float management system was launched to assist agents in managing their float levels and Safaricom staff in managing the agent network
- Regional agent awards were presented to the top agents in each region as a reward for business best practice and promoting the brand
- System enhancements were introduced such as agent self reversals, whereby agents can reverse funds deposited into the wrong number
- Customer experience training was conducted at top agent and dealer outlets

DELIGHTING OUR CUSTOMERS

OUR SERVICE

Providing unmatched customer service

Our desire to delight our more than 21 million customers is never far from our minds. With 63% of our staff directly involved in serving customers and a large dealer network interacting with customers on a daily basis, we are continually looking for ways to improve our systems, processes and interactions.

This determination to provide unmatched service saw us excel in the telecommunications sector with a three-point lead over our nearest competitor on the Net Promoter Score (NPS) for the past year.

Multiple channels

We use multiple channels to communicate with our customers and provide them with the best possible support. This includes voice, SMS, social media (Twitter and Facebook) and chat. With 'transforming lives' at the core of our direct and indirect interactions with customers, our key customer care systems were enhanced to make them more user-friendly for customers and enable us to deliver better service. Importantly, the systems give us a more complete view of our customers, which helps us to fully understand and meet their needs.

Skills development

Our people are our key asset and we value the contribution they make to our business. Throughout the year, we invested in skills development programmes aimed at growing and motivating our staff and giving them the necessary skills to serve our customers better.

Global benchmarking

We engaged the services of consultants, KPMG, to evaluate our processes and recommend areas for improvement, which we will work towards implementing in the new financial year. Our main aim was to benchmark ourselves against global companies. This evaluation has led to a successful Safaricom ISO recertification audit with no non - compliances noted.

Providing unmatched customer service

Accolades

Our commitment to our customers was recognised locally and globally and we garnered several industry awards:

Kenya Social Media Awards (SoMA):

- Best customer service on Twitter
- Best customer service on Facebook
- Overall corporate Twitter account of the year

Social bakers:

- Safaricom was placed first as "Most Socially Devoted Company" in Kenya and fourth worldwide

Improved customer service

Our Safaricom retail shops delivered a 9.3 customer service rating against a target of 8.5. This is an affirmation from our customers that our service had improved significantly. This improvement can be attributed to close follow-up with customers, faster service, exciting promotions, enhanced in-store ambience and improved ability to engage with customers in cross selling.

Looking ahead, we intend to:

- **Grow our shop footprint and refurbish existing shops**
- **Look for ways of encouraging customers to engage in self service**
- **Provide an enhanced in-store experience for our customers**

DEMOCRATISING **DATA**

Looking ahead

- We intend to increase smartphone and 3G device penetration through cost effective quality offers
- We will push harder on creating relevant content, social media and applications
- We will encourage developers to create relevant content and aggregate via our Safaricom Appstore

DATA FOR ALL

At Safaricom, we are committed to providing access to the internet for everyone in Kenya, no matter where they are. As at December 2013, internet penetration in Kenya was at 52%, of which 73% of users accessed the internet via the Safaricom network.

Exponential growth

Our mobile data revenue grew exponentially by 40.6% as a result of growth in our 30-day mobile data customer base to 9.6 million (34.1% growth), which is 44% of our total customer base. Data usage per customer grew by 16.1% while the average price per MB declined by 14.4%. This was supported by an increase in data-enabled phones on the network, of which 1.9 million are smartphones.

Internet sampling

To increase the number of customers using data, we offered free internet sampling to first time users. We launched *Vuma Online,* a WiFi service on more than 3,000 public service vehicles, which gave our younger customers a chance to experience our 3G internet, in many instances, for the first time.

Smartphones

We reduced the cost of smartphones to under $50 by engaging with mobile phone vendors. In addition, we entered into partnerships with open market smartphone vendors to bundle devices with Safaricom data.

We also leveraged on our loyalty programme, *Bonga,* to reduce the price barrier of acquiring a smart device for our customers. By the end of the financial year, over 3.1 million subscribers had 3G enabled devices.

Delivering relevant content

To drive the affordability agenda, we encouraged our customers to convert from Pay As You Go (PAYG) to in-bundle browsing via an education process. To stimulate and grow the customer Average Revenue Per User (ARPU), we delivered relevant content to the market through our Safaricom Appstore. To date, over three million Safaricom customers visited the Appstore with more than 500,000 downloads in the year. Our *MyMarket* product allows local sellers of products such as cars, property, jobs and mobile phones to meet potential buyers. In addition, we collaborated with global partners such as Google to deliver content to our customers.

INCREASED DATA USAGE

Through content usage stimulation we increased the total data usage among our customers by 74%. We also introduced value based pricing whereby we offer a combination of internet, SMS bundles and social media propositions.

BEST NETWORK
IN KENYA

BUILDING A WORLD CLASS NETWORK IN KENYA

To deliver world class telecommunications services and the most extensive coverage in Kenya, we invested Kshs 27.8 billion in improving the quality, capacity and coverage of our network. This resulted in 91% coverage of our population via 2G and 61% via 3G, which translates into a significantly enhanced customer experience in voice, mobile data, fixed data and value added services.

Independent assessment

In November 2013, an independent measurement and quality assessment of Safaricom's network by P3 Communications placed us as the leader in data and on a par with one of our competitors in delivering voice services.

Network Coverage

We continued to focus on the roll out of 2G and 3G sites across the country. With 2G, we focused on remote areas that had no coverage or those experiencing degraded signal strength due to the development of high rise buildings and other contributing factors.

While Safaricom has the widest 3G footprint in Kenya, there are areas that are yet to be covered. All major towns are covered and the focus is now on covering smaller urban centres and areas where coverage has shrunk as a result of increased usage density. Additional 2G and 3G sites were rolled out to provide extra capacity, especially in areas of high demand.

Best Network in Kenya certification

With a view to attaining Best Network in Kenya (BNK) certification by November 2014, we spent much of the financial year in pursuit of several well-defined and stringent Key Performance Indicators (KPI) thresholds. As a result of this, we celebrated several successes:

Best Network Consumer

- **Initiatives to curb grid power instability and inaccessibility:** Safaricom invested in back-up power solutions to avoid any loss of service during grid power interruptions. We also deployed solar and wind energy solutions at 68 sites and installed 70 'power cubes' (an extremely efficient hybrid energy system) in areas where grid power is not accessible. Other initiatives included free cooling, low voltage auto phase selectors and deep cycle batteries.
- **Network modernisation:** We modernised our network equipment – our radio, transmission and core network platform, in particular – to achieve desired Quality of Service (QoS) levels and to activate certain features and capabilities that would otherwise be unavailable. During the reporting period, a total of 267 base transmission stations (BTS) were modernised on Mombasa Island, the North and South Coasts, Kitale, Turkana, Kapenguria and Malaba. In addition, 500 microwave links for the transmission platform were modernised across the country.
- **Broadband capabilities:** Data performance is at the core of the BNK programme. Our customers require fast data speeds and a high quality data experience. We upgraded core elements of our 3G sites and transmission links to ensure high throughputs were achieved. As a result, over 95% of our sites are able to achieve data speeds of 21 Mbps.
- **Network capacity upgrades and optimisation:** We implemented capacity upgrades across the radio, transport and core platforms to ensure service accessibility, even during peak hours. For the radio platforms, upgrades on both the 2G and 3G technologies were carried out. At the transport level, upgrades allowed us to achieve the full benefits of the radio and core platforms.
- **Core and transport network resilience:** To ensure that Quality of Service (QoS) is maintained, we invested in redundancies in the core network and transport platform. In addition, we employed technology known as 'pooling' for core data and voice network elements. This is to ensure that any failure of a network element is supported by other network capabilities, without the customer experiencing any service loss. The resilience of the transport platform was also enhanced through the installation of more than one fibre cable for connectivity of any major service. To fully achieve automatic switching between multiple fibre cables, a technology known as Wavelength Switched Optical Networks was employed in six major hubs.
- **Measures to curb vandalism:** We continue to suffer losses of equipment and service through acts of vandalism, which impacts our customers through service disruptions. To mitigate these impacts, we invested in security mechanisms, LED lighting solutions and the caging of frequently vandalised items.

- We also continued to lobby for the development and implementation of regulations to protect telecommunications infrastructure.
- **Innovative solutions:** With the increase in data usage and smartphones, additional 3G capacity is required. To meet this need, while maintaining good Quality of Service (QoS), we successfully piloted an innovative solution whereby the 2G frequency band is used for 3G. 2G frequencies can propagate for longer distances than 3G frequencies, which allows more subscribers to be served.

Best Network M-PESA

- Our service availability for MPESA was 99.6%, which was ahead of our 99% target. The peak average was 260 transactions per second
- System upgrades on M-PESA and *M-Shwari* platforms resulted in improved performance on airtime top-up from 320 to 440 transactions per second

Best Network Enterprise

- Safaricom Digital City (SDC): 770 km of fibre was rolled out and is ready for service in Nairobi, with 70% of the target 385 sites connected. The benefits of this has been:
  - Service migration onto own fibre
  - Increased capacity for both consumer and enterprise services
  - Greater control of the fibre network
  - Cessation of leased links

- At the end of March 2014, through our fibre to the building programme we connected 119 buildings out of a target of 623 buildings in Nairobi. We aim to connect 934 buildings in Kenya by the end of March 2015
- Safaricom digital city commenced work in Mombasa, Nakuru and Kisumu, targeting an additional 640 km and 280 sites

ADDITIONAL 2G AND 3G SITES WERE ROLLED OUT TO PROVIDE EXTRA CAPACITY, ESPECIALLY IN AREAS OF HIGH DEMAND

STRATEGIC FOCUS FOR THE YEAR AHEAD

In the year ahead we will continue to focus on attaining Best Network in Kenya certification by November 2014. In pursuit of this, we launched a programme, BNK reloaded, with the focus on customer quality of experience and sustainability and increasing our population coverage to 93.5%.

The outcome will be a high performing data network with seamless data coverage in major cities, commencing with the rollout of LTE in five major cities and continuing our countrywide network modernisation programme. We will increase our indoor coverage of buildings in Nairobi by 50%. These initiatives will enable our network to support additional tablets and smartphones.

Our WiFi rollout is aimed at supporting youth initiatives, which will see data growth through rich content, gaming and music downloads. In addition, we will introduce a Dynamic discounting system (DDS) located in high youth density areas that will offer affordable options to young people.

We will continue to focus on driving a cashless and cash-lite economy by bringing M-PESA home by March 2015. This is a two-year programme to implement a new M-PESA system in Kenya, with multiple system redundancy options across geographies. We will continue to create added value for our Enterprise Business customers by delivering Managed wide area network services (WAN), Managed security services, Unified communications and additional services on our Cloud infrastructure.

DEEPEN FINANCIAL INCLUSION

TOWARDS A CASH-LITE ECONOMY

We are more determined than ever to continue deepening financial inclusion. Our original M-PESA send-money-home service, which was launched in 2007, has paved the way for numerous other innovative services, specifically created to meet our customers' varying needs.

M-PESA has over the past seven years evolved from a money transfer service to a robust payment platform and driver of financial inclusion for Kenyans. Since its inception, the service has grown to incorporate over 19 million customers, of which 13 million are active on a monthly basis and supported by a nationwide agent network of 81,025 outlets.

Our key M-PESA services include *Lipa na* M-PESA, *M-Shwari,* Bank to M-PESA, *Lipa Kodi,* salary disbursements, utility payments, airtime purchase and Cashless distribution for companies such as Coca Cola, Unilever, East African Breweries Ltd, British American Tobacco, Nation Media, Standard Group e.t.c.

BANK TO M-PESA AND SALARY DISBURSEMENTS

With 30 banks and 160 financial partners on board, M-PESA customers are now able to conduct mobile banking transactions instantly. This follows a system upgrade to the Application Programmable Interface (API) on 8 January 2014. The upgrade resulted in near real-time processing of transactions.

The new API has also helped streamline operations for businesses that disburse staff salaries through M-PESA, as well as those that receive payments through M-PESA and need to move cash to their bank accounts on a regular basis.

LIPA NA M-PESA

Lipa Na M-PESA promotes the use of M-PESA as a primary tool for merchant payments and is part of the broader M-PESA initiative to convert Kenya to a cash-lite economy (98% of payments are made by cash). The service was revamped in June 2013 to enable small and medium sized businesses (SMEs) to effortlessly collect and manage cashless payments from M-PESA's significant customer base. More than 122,000 merchants were registered on the service as at 31 March 2014.

In addition to providing merchants with an alternative electronic payments collection service, some of the other key benefits of *Lipa na* M-PESA include:

- Safety – eliminates the risks associated with handling cash money for both customers and merchants
- Reduced losses – it eliminates losses associated with receiving fake currency
- Enhanced record keeping – every transaction made is readily accessible via till statements
- Short and flexible settlement cycles – most small businesses want to use the funds collected on the same day
- Acceptance of low value transactions – as little as Kshs 10
- Lower costs – addresses the challenge of high cost of point of sale terminals

M-PESA INTERNATIONAL MONEY TRANSFER

M-PESA International Money Transfer (M-PESA IMT) is an international remittance service that allows the diaspora to send money to M-PESA subscribers via a Safaricom IMT partner. Initially launched in partnership with Western Union. The service has stretched out to bring seven additional partners on board through the IMT hub service thus increasing the remittance options that senders can use when sending money back home. Today, M-PESA subscribers can receive funds from over 100 countries worldwide at no fee.

LIPA KODI

Launched in August 2013, *Lipa Kodi* (Swahili for 'Pay Rent') offers convenience and cost efficiency to tenants, landlords and housing agents. Through the service, both landlords and tenants can easily monitor and access statements of rental payments for record keeping purposes. To date, we have brought on board 88 housing agents with more than 60,000 housing units accepting *Lipa Kodi*.

M-SHWARI

M-Shwari was launched in November 2012 as a savings account offered by CBA for Safaricom M-PESA customers. This account is opened and operated from the phone without having to visit a bank or completing forms and it allows customers to save as little as Kshs. 1 and borrow money through the phone. It provides M-PESA customers with the ability to move money between their M-PESA and *M-Shwari* account at no cost. Furthermore, they can easily access micro loans at a minimum of Kshs. 100 and the money is credited into the person's M-PESA account.

PARTNER OF CHOICE **FOR BUSINESS**

MAINTAINING MARKET LEADERSHIP

The enterprise ICT market grew by more than Kshs 2 billion in the year under review. This was largely driven by new IT consumption opportunities created by industry players in the fast growing IT adoption market.

Market snapshot

The fast-evolving landscape saw an increase in ICT spend by Government, growth in Small and Medium Enterprise (SME) adaptation to ICT services and an upsurge in m-commerce usage amongst corporate entities. The year was also characterised by market consolidation of players in this industry. We anticipate a robust industry in the coming year, with service delivery and customer support being the key differentiators.

Safaricom leads the way

We maintained our market leadership in the enterprise telecommunications industry through our ongoing efforts to evolve into an integrated service provider through the delivery of converged mobile and fixed connectivity; entry into managed services; and a host of advanced IP, data, voice, video collaboration and security solutions.

This resulted in an impressive Kshs 10.23 billion in revenue; a Kshs 2.70 billion growth by value or 35% growth compared to the previous financial year. This saw Safaricom Enterprise Business command a 42% share of the enterprise telecommunications market, up from 37% in March 2013. Key to this growth was the more than double digit percentage growth in enterprise data to Kshs 4.20 billion (28% growth); business related M-PESA revenue, which grew by 70% to Kshs 1.50 billion, voice revenue, which grew by 32% to Kshs 3.69 billion and other enterprise services that generated Kshs 0.84 billion.

Our nationwide reach in subscriber numbers and network coverage, coupled with our extensive M-PESA ecosystem, has made us the innovation and technology partner of choice for business. Notable achievements during the year include:

- Cashless distribution for corporates – aimed at increasing efficiency, reducing the cost of cash collection and minimising cash handling risk. It is currently being used by customers such as Coca Cola, Unilever, East African Breweries Ltd, British American Tobacco, Nation Media, Standard Group, with 1,294 tills driving Kshs 2.8 billion in volume per month.
- Cloud SAAS (Software as a Service) for SMEs – encompassing accounting, payroll and website services. These are aimed at transforming SMEs by giving them business identities, the opportunity to reach more customers online, as well as cost management and book keeping, which is critical for accessing loans from commercial banks.
- Safaricom OneConnect Business – providing corporates with high quality fixed voice with added channels and dedicated internet connection. Key customer benefits include internet and voice over one link as well as value added services such as caller-ring-back tone for customers.
- Government payments to elderly citizens – a programme in collaboration with National and County Governments to facilitate payments to elderly citizens who are 70 years and above. The service, which forms part of the Social Protection Programme for older people, is aimed at disbursing government funds to beneficiaries using M-PESA. Leveraging on our extensive M-PESA network across the country, we are able to provide services to people in the remotest parts of the country and facilitate access to funds for the elderly.

Focus on SME segment

As one of the key growth pillars of the business, the SME segment, which is estimated at more than 300,000 formal businesses, was given special focus. We leveraged *'Zidisha Biashara'*, our flagship SME product, encompassing an integrated bundled offering of voice, data and capacity building, cloud SAAS services for SME (payroll, accounting, domain and webhosting), *Lipa na* M-PESA and Unified Communications for SME, to bring an additional 11,500 SMEs on board. This brought the total number of SMEs using our business products and services to 30,500.

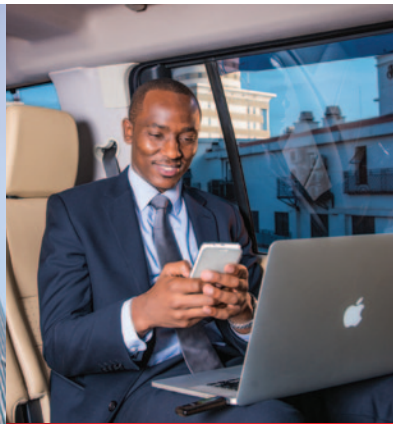
Industry recognition

- **We were awarded the CISCO Cloud Builder Partner of the Year for Africa award in 2013.**

Looking ahead

We will continue to grow Safaricom's business market share by leveraging our unrivalled assets in the coming years. In the year ahead our focus will be on the following key pillars:

- Win in SME – we aim to grow our customers to 64,000 from 30,500. This will be achieved through an acquisition team supported by dedicated retention and cross selling teams to drive Average Revenue Per Account (ARPA) growth. We will launch an SME club aimed at becoming the ultimate identity and retention tool for our SME customers;
- Differentiate through managed services – we will launch a managed service offering, which will be targeted at our high-value customers. We will focus on Managed wide area networks, Managed IT security, Unified communications and Cloud monetisation and enlist the support of our partners to drive this;
- Deepen wallet share – with 99% of corporates using some of Safaricom's services, we intend to leverage on Customer value management (CVM) systems so as to drive usage coupled with stimulation campaigns and product reselling, which will drive ARPA and revenue growth; and
- Unmatched customer experience – we will maintain our leading Net promoter score (NPS) position through our best enterprise network, dedicated call centre support, revamped loyalty scheme and automation of our systems, which will give us an end-to-end single view of enterprise customers



WE MAINTAINED OUR MARKET LEADERSHIP IN THE ENTERPRISE TELECOMMUNICATIONS INDUSTRY

WE ANTICIPATE A ROBUST INDUSTRY IN THE COMING YEAR, WITH SERVICE DELIVERY AND CUSTOMER SUPPORT BEING THE KEY DIFFERENTIATOR

THE SME SEGMENT, WHICH IS ESTIMATED AT MORE THAN 300,000 FORMAL BUSINESSES, WAS GIVEN SPECIAL FOCUS

STRATEGIC REVIEW

GROWING YOUTH APPEAL

OUR BRAND

Youthful Original Local Outstanding (YOLO)

Young people are on the cutting edge of "cool". They set the trends when it comes to music, fashion, gadgets and entertainment. They are open to innovation, adapt quickly and drive change in business. That is why engaging with Kenyan youth is so important for Safaricom.

Towards a more youthful brand

In the period under review, we focused on repositioning Safaricom's image to reflect a more youthful brand and increase relevance within the youth segment. The process involved evaluating the consumer's perception of Safaricom. As at September 2013, the brand had evolved and was perceived as a "middle-aged Kenyan businessman, who is creative, tech-savvy and street smart; relates easily to young and old; has no reservations interacting with people out of his social class; and is always trying to help."

As a brand we have made great strides on our journey towards youthfulness. We are now perceived as more inclusive. Our score on the "youthful" image attribute grew significantly from 69% at the beginning of the financial year to 83% at the close of the year. In addition, our brand equity score amongst the youth segment grew and is at par with our overall equity scores; from 82% at the start of the financial year to 85% at the end of the financial year.

STRATEGIC REVIEW

GROWING YOUTH APPEAL

TARGETED CAMPAIGNS

Some of our success in connecting with young Kenyans can be attributed to campaigns such as the *"Masgwembe"* data animations. This medium differentiated us from other telecommunication companies and allowed us to resonate with our customers in a unique way. We leveraged social media to engage with the youth in naming the three characters created for the campaign and came up with a series of 12 commercials, each selling a particular product, which were aired on television and via social media.

The animated format was a strategic move away from traditional campaigns and resonated well with the youth segment.

MUSIC ASSETS

Music is a popular way to engage with our target segments, especially the youth.

- **Music concerts**
  As in previous years, the youth centric "Niko na Safaricom Live" was used as a platform to sponsor music concerts in various metropolitan areas across the country.

- **Safaricom International Jazz Festival**
  The Safaricom International Jazz Festival 2014 was a week-long event that featured the best of local and emerging Kenyan talent as well as musicians from Belgium, Ethiopia and Israel. Proceeds from the festival were used to purchase music instruments for Ghetto Classics, a community programme for more than 300 children in Korogocho, one of Kenya's largest slums and home to about 300,000 urban poor. Ghetto Classics uses music to create opportunities for the youth to uplift themselves and their communities.

YOUNG PEOPLE ARE ON THE CUTTING EDGE OF "COOL"

WE SPONSORED 15 LONG DISTANCE RACES TO THE TUNE OF KSHS 47.5 MILLION

WE WERE SECOND ONLY TO GOVERNMENT IN SPONSORING SPORTING EVENTS

SPORT ASSETS

Engaging with Kenyans means getting involved in events and activities they enjoy. This is why we were second only to the Kenyan government in supporting sports and nurturing Kenyan talent.

- **Safaricom Rugby Sevens Series**
  With our involvement over the years popularity of rugby has grown in leaps and bounds. Safaricom was title sponsor for the entire Safaricom Sevens circuit. The event has grown to be the largest and most anticipated sporting event in Kenya and includes the Kabeberi Sevens, Dala Sevens, Driftwood Sevens, Christies Sevens, Prinsloo Sevens and the final Safaricom Sevens event.

  Our sponsorship elevated the experience for rugby fans and raised the standard of the event on several levels. In addition to providing a media centre, we managed the hospitality services for Safaricom Village.

- **Safaricom Athletics Series**
  Safaricom has sponsored various marathons and road races as stand-alone events over the years. These events have been invaluable to national governing body, Athletics Kenya, as they serve as pre-qualifiers for selecting athletes to represent Kenya internationally.

  Safaricom previously sponsored various athletics events as stand-alone events. In the period under review, we stepped up our involvement in athletics by consolidating all the events under one umbrella, namely The Safaricom Athletics Series, and raising the profile of the events significantly. We sponsored 15 long distance races to the tune of Kshs 47.5 million. These included marathons, half marathons, road races and cross country as well as special needs categories such as the Henry Wanyoike Hope for the Future Run and the Deaf Athletics Association of Kenya (DAAK) Marathon held in Kisumu.

- **Safaricom Stadium, Kasarani**
  In a deal worth more than Kshs 210 million, Safaricom competitively bid for and won the branding and naming rights to the Kasarani Stadium and Kasarani Indoor Gymnasium. These were subsequently renamed Safaricom Stadium, Kasarani and Safaricom Indoor Arena. This investment allowed us to work with the Government to refurbish the stadium, dubbed the 'Home of Heroes', to its former glory and give our sports champions a platform to showcase their athletic ability. The branding of the stadium sets the benchmark for other private and public sector companies to play a role in raising the profile of Kenya as an internationally renowned sports destination.

STRATEGIC REVIEW

STAYING AHEAD **OF THE CURVE**

HIGH PERFORMING INNOVATIVE ORGANISATION

Innovation is fundamental to everything we do at Safaricom. Many of our products and services are industry firsts and have set the benchmark for telecommunication innovation in Africa and beyond. We were the first to introduce our ground-breaking mobile banking solution, M-PESA, in 2007, which transformed the lives of millions of Kenyans. In addition, we created the airtime sharing service, *'Sambaza'*, emergency top-up service, *'Okoa Jahazi'*, and micro savings and credit service, *'M-Shwari'*, amongst others.

We never stop thinking about how to improve, enhance and transform the lives of Kenyans and this year was no different. We introduced several new services and products with our customers' needs in mind.

Vuma Online

Vuma Online was launched in June 2013 to create 3G WiFi hot spots in public transport vehicles, commonly known as *matatus*. This service has enabled the youth, who are unable to afford internet costs, to conduct academic research while travelling. It has also helped business owners on the programme differentiate themselves. Every day 24.5 GB worth of data is consumed in the *matatus.*

Safaricom Mymarket

Safaricom *Mymarket* is an online merchandising platform introduced in December 2013, which offers free auction services through mobile phones. The service, which can be accessed via USSD, currently includes jobs, classifieds, automobiles, property, mobile phones and electronics.

Google Free Zones

This was a 60-day Google campaign launched in March 2013 to give Safaricom mobile users free access to Google+, Gmail and Google Search without incurring data charges. Customers were warned about data charges if they attempted links that redirected outside the Free Zone. The service saw 100,000 customers convert to users over the two month period.

Bonga part payment and tablet offers

'Jisort na Bonga' gives customers the option of using part cash and part loyalty points to purchase internet-capable devices. This campaign contributed to over 1 million devices being sold since the launch in 2012. The campaign has since been extended to include tablets.

Cashless FMCG distribution using M-PESA

In another pioneering move, Safaricom partnered with Fast Moving Consumer Goods (FMCG) companies in Kenya to introduce cashless payments via M-PESA. The cashless offering has benefited distributors and M-PESA agents alike with FMCG companies cutting their cash handling costs dramatically.

Chattitude and 10+10 for 10

10 +10 for 10 is a daily internet bundle that offers more value to the customers by integrating data and SMS. At a cost of only Kshs 10 daily, our customers access 10MB of data for their internet browsing and 10 on-net SMS.

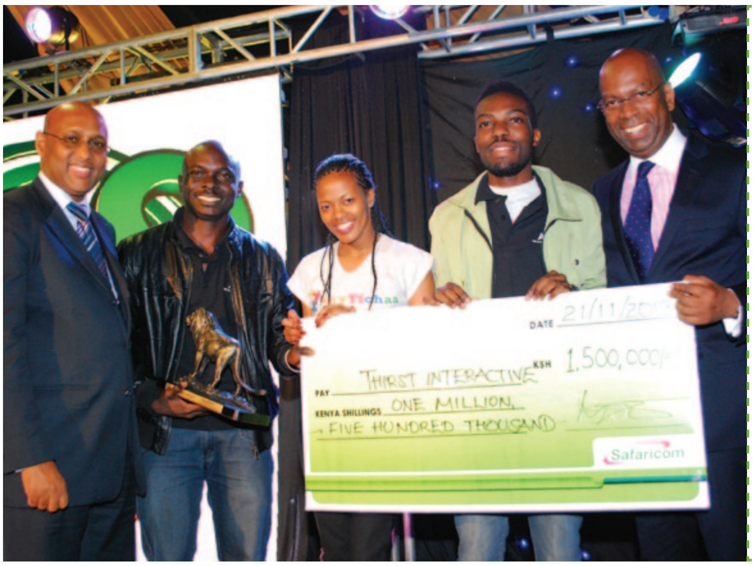
The Safaricom Appstore

In another innovation aimed at giving our customers a compelling reason to use data, we collaborated with Vodafone to introduce the Safaricom Appstore, which allows customers to download apps on their smart or feature phones. Safaricom subscribers are encouraged to visit the Safaricom Media store at www.safaricom.com, browse through its more than 5,000 applications, view information and reviews and download and install them on their devices. The appstore also gives Kenyan applications developers the opportunity to upload and monetise their apps.

The Safaricom Appwiz competition

This is an annual programme focused on building and nurturing local startups that are using mobile technology as an enabler. The objective is to support skill set and capacity building of tech developers in Kenya in providing world class solutions. It also provides a platform which enables Safaricom to leverage on external innovation through commercial partnerships with promising startups to enrich our offering to our customers.

WE NEVER STOP THINKING ABOUT HOW TO IMPROVE, ENHANCE AND TRANSFORM THE LIVES OF OUR CUSTOMERS



THE SAFARICOM APPSTAR COMPETITION

We launched the Safaricom Appstar Challenge in partnership with Vodafone, a challenge that is designed to enable developers across the Vodafone emerging markets showcase their talents in software and application development at both a local and international platform. For the developers, this will provide visibility to their applications in the participating countries including South Africa, Kenya, India and Tanzania through the Appstore. This helps spark developers into building better solutions through mobile application development. Kenya has won Season 1 and Season 2 of the Appstar challenge.

STAYING AHEAD OF THE CURVE

EMPLOYER OF CHOICE

Transforming the lives of our employees is inextricably linked with transforming the lives of our people and communities. As a world class employer of choice, we have gone to great lengths to ensure that the needs of our workers are well taken care of. We have focused on adopting various best practices to create a friendly work environment and encourage a work-life balance.

Employee Facilities

This year Safaricom invested in a second crèche to support working parents. The state-of-the-art day care facility is fully equipped and run by child care professionals. A hygienic and private room has been provided for working mothers to attend to their babies. In addition, there are two medical clinics on-site, which offer consultations to employees and their families.

In the interest of promoting a healthy workforce, employees have access to fully equipped gymnasiums. This is coupled with a games room to help employees unwind and socialise. Those who are unable to access the company-owned gymnasiums due to their work locations have been given access to third party gymnasiums.

People Survey

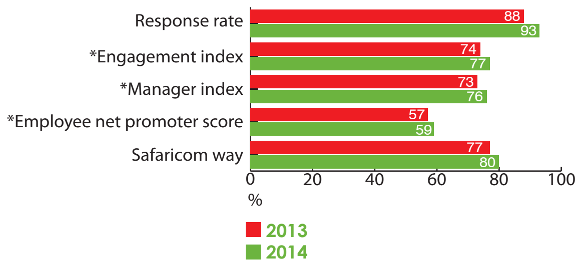
The Safaricom people survey is an opportunity for employees to make a difference to how the organisation is run. By listening to our employees, we receive information that allows us to review and improve the way we do things.

This year, the survey was completed online and looked at the following trends:

- Themes arising from the previous year's survey feedback;
- The organisation climate as measured through the engagement index and manager index;
- Leadership capacity as measured by the manager index; and
- Safaricom's position against global high performing organisations.

People Survey Results

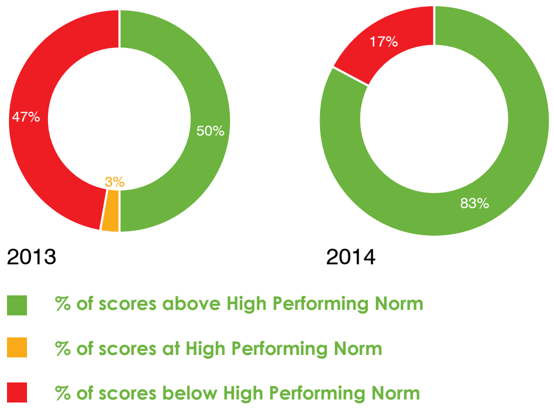
Compared to last year's people survey, all indices improved as shown below:



* **The Engagement index** measures each employee's pride, motivation, overall workplace rating and intention to stay with Safaricom
* **The Manager index** examines people management and the aspects of team climate that are within a manager's control
* **Employee Net Promoter Score** measures the overall willingness of employees to recommend Safaricom's products and services to other people

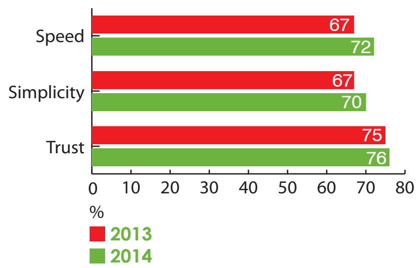
High Performing (HP) organisations

Our comparison to High Performing (HP) organisations improved significantly as shown below:



Safaricom Way Values

There was a statistically significant improvement in Speed and Simplicity. Trust improved marginally.



SAFARICOM WAY HEROES PROGRAMME

To sustain our Safaricom way culture, we launched the Safaricom way heroes programme. At the launch, nine individuals and six teams were recognised for demonstrating the values of Speed, Simplicity and Trust. Going forward, we will nominate and recognise people and teams on a quarterly basis. This will culminate in an annual recognition gala.


Gideon Kago
SIMPLICITY


Fridah Mwai
SIMPLICITY


Frankline Okata
SIMPLICITY


John Kabuga
SIMPLICITY


Martin Muiruri
SIMPLICITY


Edwin Odhiambo
SIMPLICITY


Clement Miano
SIMPLICITY


Data Cleansing – Retail Stock Management
SIMPLICITY


Core API Initiative
SIMPLICITY


Lipa na M-PESA Innovation
SIMPLICITY


Martin Muriithi
SIMPLICITY


Monte Carlo Initiative
SPEED


Zungeza Initiative
TRUST


Rehema Mumtaz
TRUST

Teams and individuals are recognised for exhibiting the values of speed, simplicity and trust

STAYING AHEAD OF THE CURVE

DIVERSITY AND INCLUSION

Our diversity and inclusion agenda saw us improve our facilities to more adequately accommodate physically challenged members of staff and customers. Some of the initiatives include sign language training for our care desk staff, which allows them to better serve hearing impaired customers.

For our employees, large screens for the visually impaired, specialised chairs and ramps to make it easier for the physically challenged to access the facilities and a firemans lift at the Jambo contact centre for safe evacuation in cases of emergency.

In October 2013, we transformed the lives of previous non-employees by creating 1,200 employment opportunities in the organisation. The tables below show the headcount statistics:

Headcount statistics	FY 2012/13	FY 2013/14
No. of employees	2,666	4,022
No. of non-employees	588	47
Total employees	3,254	4,069

Gender Ratio	FY 2012/13	FY 2013/14
Male: Female (Total employees)	1:1	1:1
Male: Female (Senior Leadership Team)	2:1	3:2
Male: Female (Heads of Department)	1:1	3:2

BUILDING CAPABILITY

We invested significantly in the development of our employees, equipping them with the skills and competencies needed to succeed in our highly competitive and ever changing industry. We have fostered an environment that promotes self-learning and recognises achievements at an annual Safaricom graduation ceremony. This year, we awarded 5,682 certificates to 2,789 staff members.

In addition, we developed three signature programmes to develop personal effectiveness, managerial and leadership competencies in the year. This training is tailored for entry level, mid-level and senior level employees. In summary:

- Over 500 employees have been trained in the Safaricom Employee and Safaricom Manager programs;
- Continued focus on both commercial and technical capability for data products and services offering;
- Data capability and other certifications for 128 employees.

Safaricom CEO, Robert Collymore conferring various certificates to E-class Graduates at the Safaricom Kasarani Stadium

ACCOLADES

We were named the tax payer of the year by the Kenya Revenue Authority for the sixth consecutive year. We are extremely proud of this recognition as it is only through the transparent and diligent payment of taxes that the country is able to develop to meet the growing demands of its people. Since inception Safaricom has contributed Kshs 305 billion in taxes, duties, spectrum fees and dividends to the Government of Kenya.

Health and Safety

The health, safety and wellbeing of our employees and business partners is key to our operations. To this end, we have identified five risk areas to help us ensure nobody gets hurt when working or interacting with us. They are:

- Driving while at work;
- Working at height;
- Electrical work;
- Contractor management; and
- Legacy infrastructure.

We established seven absolute rules, which all our employees, contractors and service providers must comply with to ensure that the above risks are proactively managed.

This focus has seen our health and safety performance for the year improve significantly compared to last year, with one fatality recorded this year compared to six in the prior year.

The implementation of a fleet management system (FMS) has fostered positive employee road traffic behaviour as evidenced by the reduction of road traffic fatalities to zero compared to four before the implementation of FMS.

While it is everybody's responsibility to ensure they remain safe and healthy, the CEO and his team take direct ownership of health and safety across the business. This has resulted in the entrenchment of a safe working environment across our business operations.

THE HEALTH, SAFETY AND WELL-BEING OF OUR EMPLOYEES AND BUSINESS PARTNERS IS KEY TO OUR OPERATIONS

SOCIAL **IMPACT**

Transforming Lives is at the heart of Safaricom. It is the reason we get out of bed every day. Every new product, service or innovation we consider must have the potential to transform lives. If it does not, we will not introduce it.

In addition to creating products and services that help Kenyans communicate, bank and conduct business, we get involved in many other initiatives that make a difference to our people and their immediate communities.

SAFARICOM AND M-PESA FOUNDATIONS

Our two foundations, the Safaricom Foundation and the M-PESA Foundation, complement each other. While the Safaricom Foundation focuses on multiple small to medium size projects with a wide footprint, the M-PESA Foundation implements fewer, large scale projects.

Together, the foundations work in partnership with Kenyan Non-Governmental Organisations (NGOs), Community Based Organisations (CBOs) and Charitable institutions to improve the quality of life for Kenyans countrywide. Both foundations are aligned with Kenya's vision 2030 and the UN Millennium Development Goals.

m-pesa FOUNDATION

The M-PESA Foundation registered as a charitable trust in 2010 with the focus on large-scale, long-term projects in education, environment and health. 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 related developments in mobile communications technology.

The M-PESA Foundation funded and implemented the following projects in the year:

- Construction of eight classrooms and dormitories for the Starehe Girls Centre at a cost of Kshs 100 million;
- Funding the fencing and conservation of the Nairobi National Park through the Nairobi Green Line at Kshs 45 million; and
- Purchase of 650 handsets for World Vision for the *'Jamii Smart'* project to be used by 650 community health workers as part of an integrated system that will provide mHealth support to women as well as pre-pregnancy and post-pregnancy care in Kilifi, Siaya and Kibwezi counties.

The following projects are currently underway:

- The implementation of a comprehensive Maternal Health Programme, in partnership with Pharmaccess Foundation and AMREF, to improve access to maternal health outcomes in Samburu County;
- Construction and rehabilitation of a waste and water treatment plant and construction of a sports field for Starehe Girls Centre;
- The development of a mHealth and m-Learning solution to enhance training and upskilling of community health workers in Kenya. This is in partnership with Accenture and AMREF;
- Construction of a large scale integrated water and food security programme, which entails the construction of a dam, the establishment of a drip irrigated farm and nutrition and health education for the community in Nyalani in Kwale; and
- The fencing and bio-diversity conservation of the Mau Eburu Forest in Nakuru County.

CASE STUDY

Massive upgrade propels Starehe girls to the next level

Students at the Starehe Girls Centre can look forward to a vastly improved learning experience, thanks to funding of more than Kshs 100 million from the M-PESA Foundation for the construction and upgrading of seven fully equipped classrooms, an ICT centre, a boarding block for 80 learners, ablution facilities, a water treatment plant, teachers workrooms and sports fields.

While tuition fees for primary and secondary schools have been waived, there are many other costs that can place secondary education beyond the reach of Kenyan families, including text books, stationery and uniforms. This is partly why only one percent of the children who start primary school make it through to University. Young girls are particularly vulnerable to being excluded because they can sometimes be considered worth more for their '*mahari*' (dowry or 'bride price') and the value of their labour on the farm.

Starehe Girls Centre is committed to addressing the situation by offering a free secondary education to financially disadvantaged girls from all over Kenya. One of the best performing schools in the country, the institution is committed to developing a new generation of educated and ethical Kenyan women leaders. There are currently 440 ambitious and talented girls at the school, which is heavily reliant on financial support and donations.

Before the upgrade commenced, the Centre had insufficient classrooms to accommodate all the students and classes had to be conducted in turns with some students studying outside and others in a large tent. Apart from leaking when it rained and being unbearably hot when it was sunny, the tent had to be positioned on flat ground near the school kitchen, which meant smoke and food smells would drift inside, often distracting the students. Even though the two 'classes' inside the tent faced opposite directions, there was, inevitably, plenty of disruption.

Other students had to study outside under a large *Mugumo (*Fig) tree, if the weather permitted, or squeeze into whatever space they could find, usually without adequate space to write or work on their tasks.

It wasn't just classrooms that were in short supply. Lack of sufficient space in the existing dormitories meant that some of the girls had to sleep on the floor between the bunk beds. The Centre did not have a water treatment plant and was using a small pit as a septic tank instead. Unable to cope with the demands placed on it, the pit was leaking and producing an unbearable odour.

M-PESA Foundation executive director, Les Baillie, says young girls from poor backgrounds face tremendous challenges in their quest for education. "Their dowries are considered an important source of income and there is a perceived cost or loss if they are not working in the family home. We believe that offering education opportunities to girls doesn't just benefit them, it benefits their families, communities and the entire nation."

It is a sentiment shared by the Chairman of the M-PESA Foundation, Michael Joseph. "Despite its minimal infrastructure, Starehe Girls Centre has produced solid academic results and built an excellent reputation for itself, but we realised that the progress and growth of the school and its students was being constrained by inadequate facilities, hence our involvement. It is our hope that this timely investment will help propel Starehe Girls to the next level."

SOCIAL IMPACT

THE SAFARICOM FOUNDATION

The Safaricom Foundation marked its 10th Anniversary in August 2013. This was a moment for reflection and acknowledging the innovation and goodwill of communities, the strength of partnerships and immense contributions made by Safaricom staff.

The highlight of the celebrations was a gala dinner and partner exhibition to showcase their work with the Safaricom Foundation.

Over the past decade, the Safaricom Foundation has disbursed about Kshs 2 billion to more than 700 community development projects, in partnership with over 500 organisations. Our achievements during the 2008-2013 strategic plan period include:

01 Over 830,000 people received specialised health services through mobile medical camps

02 Over 180 classrooms and dormitories were built countrywide, focusing on schools in marginalised or pastoral areas

03 50 special units were built to cater for the special learning needs of children with disabilities

04 Over 680,000 children are now learning in quality classrooms

05 Over 5.6 million trees were planted in community nurseries and in large scale conservation projects

06 Over 1.2 million people were assisted through various disaster response initiatives (emergency food distribution, provision of shelter for the displaced)

07 Over 230,000 people were economically empowered through community based income generation projects

02 Over 172,000 people now have access to clean and safe water for domestic use through community water projects

Education

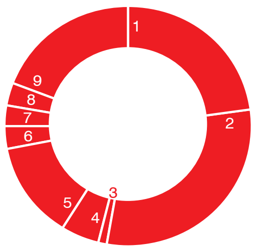
Educational support worth Kshs 95.7 million was spent in four main areas: infrastructure development; provision of learning and laboratory equipment; income generating activities; and health and hygiene. In the year under review, Safaricom Foundation funded 67 education projects. Of these, 14 were special needs schools and 11 were schools in marginalised areas such North Eastern Kenya, Pokot and Turkana Counties.

Economic empowerment

Economic empowerment was driven through partnerships in income generation, food security, vocational training and employment creation to promote self-sufficiency amongst communities. During the year, the Foundation funded 13 small scale agriculture, skills development and micro-finance projects. This included support for the Samburu Handicap Education and Rehabilitation Programme, the Kianda Foundation (upgrading a hall for skills development training) and the Nakuru Hospice (an income generation initiative).

Safaricom Foundation Disbursements

April 2013 - March 2014



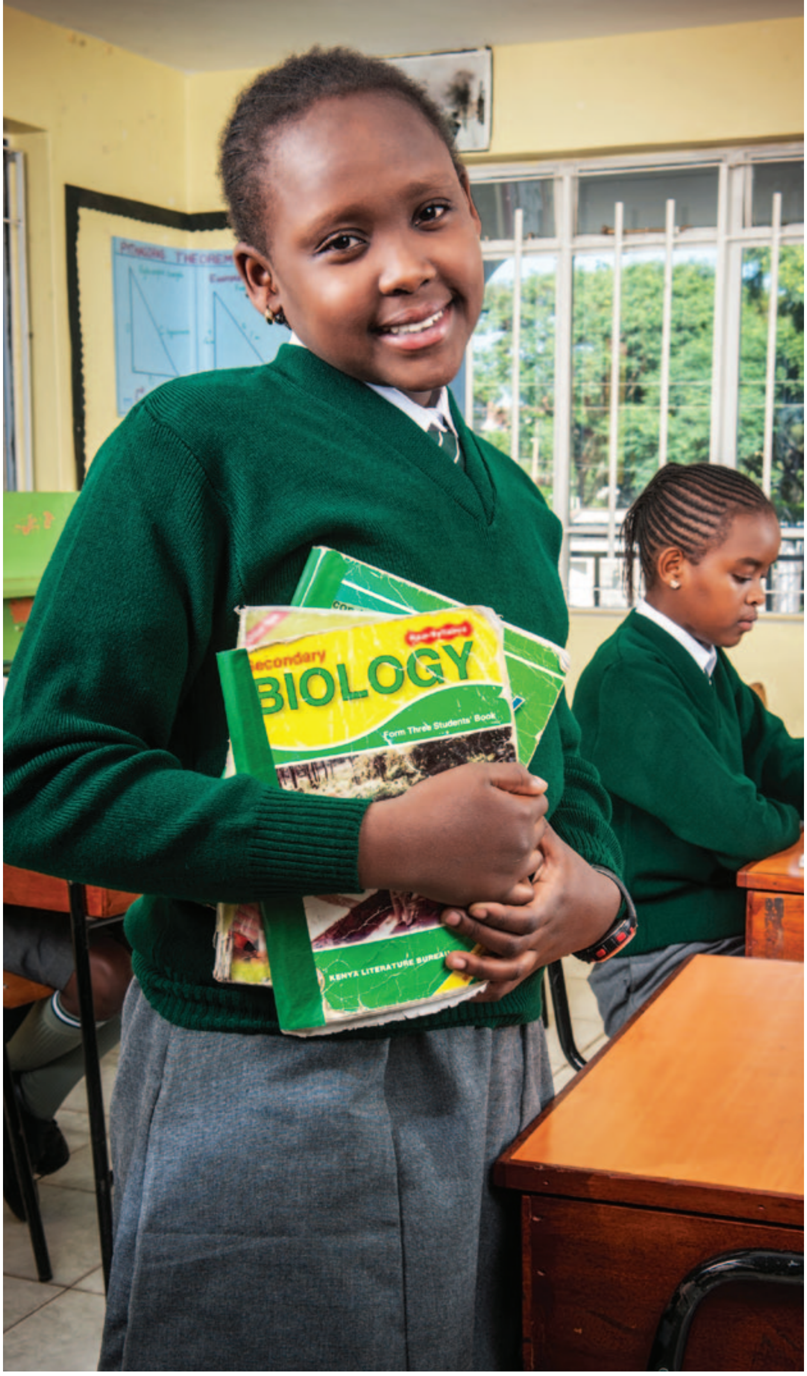
1 Health 23% (Kshs 73.7m)
2 Education 30% (Kshs 95.7m)
3 Environment 1% (Kshs 2.6m)
4 Economic empowerment 5% (Kshs 16.4m)
5 Disaster relief 13% (Kshs 40m)
6 World of difference 3% (Kshs 10.9m)
7 Water 3% (Kshs 8.2m)
8 Know & grow education programme 3% (Kshs 8.6m)
9 Other (Subcommittees, pass on grants and project management) 19% (Kshs 59.7m)

Health

The Foundation invested Kshs 73.7 million in 31 projects aimed at improving access to quality and affordable health care for Kenyans. These included:

- The construction and equipping of health facilities in Isecha and Anjego maternity clinic in Kisii and Migori Counties;
- The construction of an optical workshop at Sabatia Eye Hospital;
- The donation of dialysis machines to Nakuru Hospital;
- The expansion of the renal unit at the Coast General Hospital;
- The provision of an ambulance to Muthale hospital in Makueni; and
- The delivery of healthcare to communities through countrywide mobile medical camps in Machakos, Eldoret and Samburu.

In addition, the Foundation committed Kshs 50 million to the renovation of the New Born Unit at the Kenyatta National Teaching and Referral Hospital, and a further Kshs 50 million to renovating selected wards and offices at the Mathari National Teaching and Referral Hospital. These two projects will be implemented as part of Safaricom Foundation's commemoration of 50 years of Kenyan independence.



Water and environmental conservation

The Foundation continued to support initiatives that provide sustainable support for the preservation of Kenya's environment and natural resources through partnerships to grow forests, conserve biodiversity, mitigate against human-wildlife conflict and promote the use of the renewable energy sources.

On water, the emphasis was on improving access to clean and safe water for domestic use and risk reduction in agriculture and livestock rearing as part of the *Maji ni Uhai* (water is life) initiative.

The Foundation supported Ndili and Kamunyu water projects by upgrading their borehole system from a hand pump technique to solar powered technology.

In addition, the rock catchment was desilted, gabions rehabilitated and the retaining wall raised in Kamunyu. The water, which will be used for domestic and agricultural needs, will benefit 14,000 residents living in Kamunyu, Ndili and Mwenzwa villages in Kitui County, who have been vulnerable to water borne diseases for a long time.

Disaster response

The long partnership between the Safaricom Limited and Kenya Red Cross has centred on the delivery of humanitarian services to vulnerable persons. Following the unfortunate Westgate Shopping Mall terror attack Safaricom launched a nationwide mobile money transfer through M-PESA line 848484 that enabled the public to raise funds for victims.

Kenyans and well-wishers from all walks of life raised a total of Kshs 102 million under the *We are One* initiative.

This included Kshs 72 million raised via the M-PESA Paybill No 848484, Kshs 410,157 contributed by Kenyans and other well-wishers living in the diaspora and a further Kshs 30 million from the Safaricom and the M-PESA Foundations.

Out of the cash raised, Kshs 50 million was allocated for medical bills, Kshs 15 million for trauma counselling, Kshs 20 million for ambulance services and Kshs 15 million for strengthening the capacity of the blood transfusion facility at Kenyatta National Hospital.

SOCIAL IMPACT

SOCIAL INNOVATION

Mobile technology has the potential to transform lives and societies. That is why we are committed to developing innovative products and services that help our customers realise this potential and enjoy improved access to essential services. In this respect, our social innovation unit has developed several products that add value to the lives of Kenyans in the agricultural, health and education sectors.

Kilimo Salama (Seed Replanting Guarantee)

Each year, an estimated 17% of Kenyan farmers' crops fail due to unpredictable weather or poor seed quality, leaving them economically vulnerable. In a partnership between Safaricom, *'Kilimo Salama'* and UAP Insurance, a micro-financed seed insurance solution was provided to reduce the risks associated with farming.

At start of the planting season, specially packaged *'Kilimo Salama'*-insured seeds were sold to farmers and insurance services activated. Each farm was monitored through Location Based Services (LBS) satellite imagery. In instances where germination failed after 21 days as a result of a lack of rain, farmers were automatically paid out for the sum assured via M-PESA so they could replant and harvest during the same season.

In the planting season between February and April 2014, over 9,000 bags of *'Kilimo Salama'* seed were sold and 700 farmers were compensated in locations such as Machakos, Embu, Migori, Meru, Kajiado and Muranga.

Shupavu 291

Access to quality, up-to-date and affordable revision content is an enormous challenge for students. Safaricom partnered with Eneza Education to develop *'Shupavu 291'*, a mobile Short Messaging Service (SMS) study tool, which enables Standard 5, 6, 7 and 8 students to access Kenya Certificate of Primary Education (KCPE)-aligned content tutorials and quizzes, with an "Ask a Teacher Service" and Wikipedia. The product is affordably priced at Kshs 10 per week. To date, over 60,000 students have actively used the platform.

Text for Life

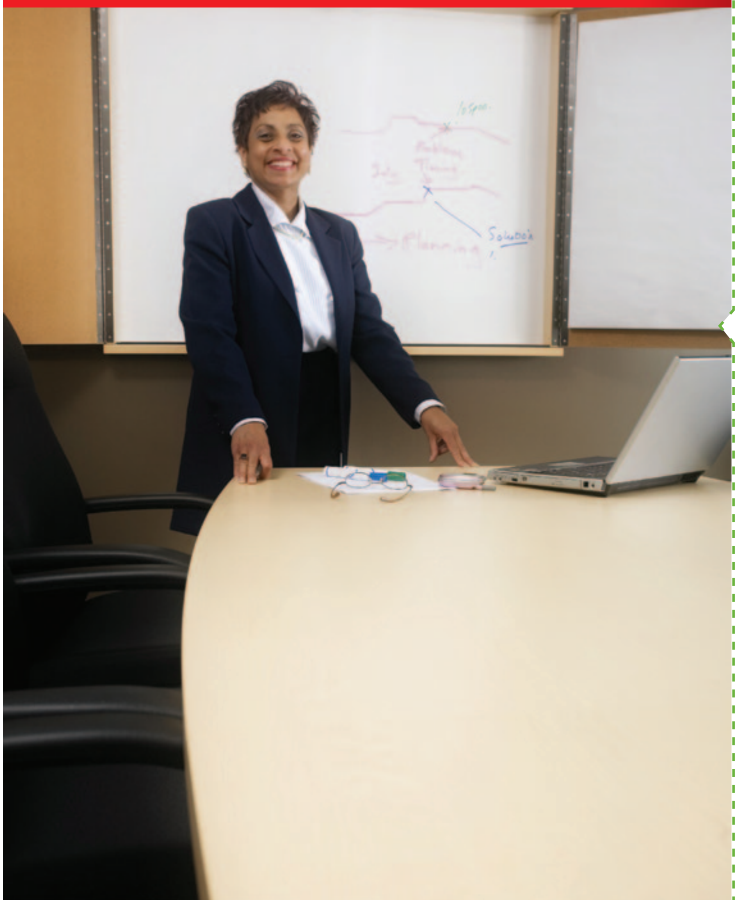
'Text for Life' is a blood donor SMS communication initiative by Safaricom and CDC (Centres for Disease Control) Foundation through their local representatives, mHealth Kenya. The initiative is in support of the National Blood Transfusion Service (NBTS) and aimed at improving HIV/AIDS knowledge, encouraging voluntary counselling and testing, and promoting blood donation. Messages providing information and creating awareness were sent to subscribers through a robust messaging platform. The partnership created a platform for blood donation, which hit a peak during the tragic Westgate terror incident. Through messages sent on the platform, donors and potential donors were mobilised to give blood in support of the emergency response.

Linda Jamii

Launched in February 2014, *'Linda Jamii'* is a micro-health insurance product developed by Safaricom, Britam and Changamka aimed at providing affordable health insurance for families.

Statistics reveal that less than 3% of the Kenyan population has any form of health insurance. Most Kenyans pay out of pocket for their health services, or are simply not able to seek health care or cover even the minimal cost share requirements of the public health system. *Linda-Jamii* is a paperless, automated health insurance system, powered by M-PESA, with Kshs 200,000 in-patient benefits, Kshs 50,000 outpatient benefits as well as dental, optical, maternity care and funeral benefits. Families can secure medical cover with an annual premium payment of Kshs 12,000, paid via M-PESA.

WE ARE PASSIONATE ABOUT ADVANCING WOMEN IN TECHNOLOGY-FROM THE CLASSROOM TO THE BOARDROOM



ENCOURAGING GIRLS TO CONSIDER TECHNOLOGY RELATED CAREERS

WOMEN IN TECHNOLOGY

Safaricom women in technology (WIT) is a network of women working in Safaricom's technical division, who are passionate about advancing women in technology from the classroom to the boardroom. They have introduced four major initiatives:

Kidz Go Tech

This is a project aimed at nurturing creativity and innovation in children between the ages of 6 and 18. University engineering students guide children through fun and practical science and technology activities to nurture these skills.

High School Outreach

- A 'See-and-Believe' programme is aimed at reaching out to about 47 high schools for girls in 47 counties around Kenya with a view to de-mystifying technology for girls and encouraging them to consider technology-related careers.
- Technovation Challenge - Safaricom WIT partnered with Akili Dada to launch the Kenya chapter of the Technovation Challenge, which is a worldwide technology entrepreneurship programme and competition for young women. Through an intensive three-month, 50-hour curriculum, teams of young women under 23 years work together to imagine, design and develop mobile apps. The teams aim to pitch their 'startup' businesses to investors.

Campus Outreach

- A programme for the female engineering students in higher institutions of learning, aimed at challenging and supporting them academically, socially and professionally.
- WIT Academy - A three-month internship programme that targets young women taking technology-based courses. The first intake was in February 2014 for 33 female interns.

WIT Networking Forum

These are monthly cocktail power talk sessions aimed at advancing professional women in technology from entry level to the boardroom, whilst bringing these women together from across all the industries in Kenya for an opportunity to build their social capital.

FINANCIAL REVIEW

TABLE OF **CONTENTS**

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2014

The directors submit their report together with the audited financial statements for the year ended 31 March 2014, 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 provision of telecommunication services, providing a comprehensive range of integrated telecommunication services including mobile and fixed voice, SMS, data, internet and M-PESA.

RESULTS AND DIVIDEND

The net profit for the year of Shs 23,017,540,000 (2013: Shs 17,539,810,000) has been added to retained earnings. No interim dividend was paid during the year (2013: nil). The directors recommend the approval of a final dividend of Shs 18,830,751,000 (2013: Shs 12,400,000,000).

DIRECTORS

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

N Nganga	Chairman
R Collymore	Chief Executive Officer
N Macharia	
S Mudhune	
M Joseph	
S Sood	
J Otty	(Appointed 1 August 2013)
H Rotich	(Appointed 5 November 2013)
S Timuray	(Appointed 15 November 2013)
J Tombleson	(Alternate to R Collymore)
E Koimett	(Alternate to H Rotich)
A Essam	(Resigned 1 August 2013)
J Kinyua	(Resigned 5 November 2013)
N Read	(Resigned 15 November 2013)

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

12 May 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 MARCH 2014

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

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

(i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error:

(ii) Selecting and applying appropriate accounting policies; and

(iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the Group and Company as at 31 March 2014 and of the Group and Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the Board of Directors on 12 May 2014 and signed on its behalf by:

Nicholas Nganga

Chairman and
Non-executive Director

Robert Collymore

Managing Director
and Chief Executive Officer

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), as set out on pages 68 to 123. These financial statements comprise the consolidated statement of financial position at 31 March 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the 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 2014 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 about whether 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 Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 March 2014 and of the financial performance 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

As required by the Kenyan Companies Act we report to you, based on our audit, 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 and statement of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Anne Eriksson – P/772.

pwc

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

12 May 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2014 Shs'000	2013 (Restated) Shs'000
		Year ended 31 March	
Revenue	5	144,672,477	124,287,856
Other income	6	126,625	197,888
Direct costs	7 (a)	(51,963,714)	(47,173,851)
Other expenses	7 (b)	(31,892,090)	(28,072,654)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		60,943,298	49,239,239
Depreciation of property, plant and equipment	17	(21,281,441)	(19,951,597)
Impairment of property, plant and equipment	17	(4,083,905)	(1,280,789)
Amortisation – Licenses	18	(153,890)	(672,940)
Amortisation – Indefeasible Rights of Use (IRUs)	20	(267,995)	(233,719)
Operating profit		35,156,067	27,100,194
Finance costs	8	(1,882,358)	(2,839,249)
Finance income	8	1,695,412	1,199,298
Share of profit / (loss) of Associate	19 (b)	15,309	(9,678)
Profit before income tax		34,984,430	25,450,565
Income tax expense	11	(11,966,890)	(7,910,755)
Profit for the year (of which Shs 22,852,333,000(2013: Shs 17,320,185,000) has been dealt with in the accounts of the Company)		23,017,540	17,539,810
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		23,017,540	17,539,810
Profit and total comprehensive income attributable to:			
Owners of parent		23,017,540	17,539,810
Non-controlling interest		-	-
		23,017,540	17,539,810
Earnings per share			
- Basic and diluted (Shs per share)	12	0.57	0.44

CONSOLIDATED STATEMENT
OF FINANCIAL POSITION

	Notes	At 31 March 2014 Shs'000	2013 Shs'000
Equity attributable to owners			
Share capital	13	2,003,271	2,000,000
Share premium	13	2,200,040	1,850,000
Retained earnings		68,201,917	64,015,128
Proposed dividend	14	18,830,751	12,400,000
Total equity		91,235,979	80,265,128
Non-current liabilities			
Borrowings	15	5,102,380	12,000,000
Total non-current liabilities		5,102,380	12,000,000
Total equity and non-current liabilities		96,338,359	92,265,128
Non-current assets			
Deferred income tax	16 (a)	2,750,879	2,553,665
Property, plant and equipment	17 (a)	97,710,542	95,296,398
Intangible assets – Licenses	18 (a)	726,422	1,422,011
Intangible assets – Goodwill	18 (a)	219,151	219,151
Investment in associate	19 (b)	15,860	-
Indefeasible rights of use	20	4,855,097	4,006,681
Prepaid operating lease rentals	23	1,527	2,227
		106,279,478	103,500,133
Current assets			
Inventories	21	2,955,967	2,234,294
Receivables and prepayments	22	7,746,617	8,124,808
Cash and cash equivalents	24	17,618,884	14,996,922
		28,321,468	25,356,024
Current liabilities			
Payables and accrued expenses	25	29,473,060	27,825,322
Current income tax		1,276,527	537,749
Borrowings	15	7,513,000	8,227,958
		38,262,587	36,591,029
Net current liabilities		(9,941,119)	(11,235,005)
		96,338,359	92,265,128

The financial statements on pages 68 to 123 were approved for issue by the Board of Directors on 12 May 2014 and signed on its behalf by:

Nicholas Nganga
Director

Robert Collymore
Director

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2014 Shs'000	2013 Shs'000
		At 31 March	
Equity			
Share capital	13	2,003,271	2,000,000
Share premium	13	2,200,040	1,850,000
Retained earnings		69,475,332	65,453,750
Proposed dividend	14	18,830,751	12,400,000
Total equity		92,509,394	81,703,750
Non-current liabilities			
Borrowings	15	5,102,380	12,000,000
Total non-current liabilities		5,102,380	12,000,000
Total equity and non-current liabilities		97,611,774	93,703,750
Non-current assets			
Deferred income tax	16 (b)	2,737,839	2,540,625
Property, plant and equipment	17 (b)	97,618,163	95,183,211
Intangible assets – Licences	18 (b)	714,931	1,409,334
Investment in subsidiaries	19 (a)	745,891	745,891
Investment in associate	19 (b)	15,860	-
Indefeasible rights of use	20	4,855,097	4,006,681
Loan to related party	27 (x)	707,906	850,000
Prepaid operating lease rentals	23	1,527	2,227
		107,397,214	104,737,969
Current assets			
Inventories	21	2,955,967	2,234,294
Receivables and prepayments	22	7,709,309	8,094,793
Cash and cash equivalents	24	17,585,006	14,963,243
		28,250,282	25,292,330
Current liabilities			
Payables and accrued expenses	25	29,245,744	27,560,389
Current income tax		1,276,978	538,202
Borrowings	15	7,513,000	8,227,958
		38,035,722	36,326,549
Net current liabilities		(9,785,440)	(11,034,219)
		97,611,774	93,703,750

The financial statements on pages 68 to 123 were approved for issue by the Board of Directors on 12 May 2014 and signed on its behalf by:

Nicholas Nganga
Director

Robert Collymore
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
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
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
Profit and total comprehensive income for the year		-	-	17,539,810	-	-	17,539,810
Purchase of 49% ownership of subsidiary	19 (a)	-	-	(1,065,266)	-	508,886	(556,380)
Transactions with owners:							
Dividends:							
- Final for 2012		-	-	-	(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
Year ended 31 March 2014							
At start of year		2,000,000	1,850,000	64,015,128	12,400,000	-	80,265,128
Profit and total comprehensive income for the year		-	-	23,017,540	-	-	23,017,540
Issue of new shares	13	3,271	350,040	-	-	-	353,311
Transactions with owners:							
Dividends:							
- Final for 2013	14	-	-	-	(12,400,000)	-	(12,400,000)
- Proposed final for 2014	14	-	-	(18,830,751)	18,830,751	-	-
Total transactions with owners		-	-	(18,830,751)	6,430,751	-	(12,400,000)
At end of year		2,003,271	2,200,040	68,201,917	18,830,751	-	91,235,979

The notes on pages on pages 74 to 123 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 March 2013						
At start of year		2,000,000	1,850,000	60,533,565	8,800,000	73,183,565
Profit and total comprehensive income for the year		-	-	17,320,185	-	17,320,185
Transactions with owners:						
Dividends:						
- Final for 2012		-	-	-	(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
Year ended 31 March 2014						
At start of year		2,000,000	1,850,000	65,453,750	12,400,000	81,703,750
Profit and total comprehensive income for the year		-	-	22,852,333	-	22,852,333
Issue of new shares	13	3,271	350,040	-	-	353,311
Transactions with owners:						
Dividends:						
- Final for 2013	14	-	-	-	(12,400,000)	(12,400,000)
- Proposed final for 2014	14	-	-	(18,830,751)	18,830,751	-
Total transactions with owners		-	-	(18,830,751)	6,430,751	(12,400,000)
At end of year		2,003,271	2,200,040	69,475,332	18,830,751	92,509,394

The notes on pages 74 to 123 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT
OF CASH FLOWS

	Notes	Year ended 31 March 2014 Shs'000	 2013 Shs'000
Cash flows from operating activities			
Cash generated from operations	26	62,913,283	46,486,321
Interest received	8	1,140,069	740,395
Interest paid	8	(1,494,836)	(2,192,078)
Income tax paid		(11,425,327)	(5,903,893)
Net cash generated from operating activities		51,133,189	39,130,745
Cash flows from investing activities			
Purchase of property, plant and equipment	17 (a)	(27,780,723)	(24,875,965)
Acquisition of One Communications Limited	19 (a)	-	(556,380)
Investment in indefeasible rights of use	20	(1,116,411)	-
Proceeds from disposal of property, plant and equipment		45,725	71,041
Acquisition of additional equity in associate	19 (b)	(551)	-
Net cash used in investing activities		(28,851,960)	(25,361,304)
Cash flows from financing activities			
Proceeds from issue of shares	13	353,311	-
Dividends paid	14	(12,400,000)	(8,800,000)
Proceeds from long-term borrowings		615,380	4,227,958
Repayments on long-term borrowings		(8,227,958)	(3,008,535)
Net cash used in financing activities		(19,659,267)	(7,580,577)
Net increase in cash and cash equivalents		2,621,962	6,188,864
Movement in cash and cash equivalents			
At start of year		14,996,922	8,808,058
Increase		2,621,962	6,188,864
At end of year	24	17,618,884	14,996,922

The notes on pages 74 to 123 are an integral part of these consolidated financial statements.

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

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors 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.

Change in the presentation of SoCI to reflect EBITDA

The group changed the presentation of expenses on the statement of comprehensive income from function to nature method and introduced a performance measure, earnings before interest, taxes, depreciation and amortisation (EBITDA).

This presents more relevant information on the operational performance of the group to the users of the financial statements. EBITDA presentation is the presentation preferred in the market the group operates in. It is the presentation management uses to communicate performance to the investors, who are the largest users of the group financial statements. The change in presentation does not have any impact on the opening balances; resultantly, no third statement of financial position has been presented.

Management define EBITDA as the trading revenue less direct and operating costs. Direct costs are the cost of services and merchandise consumed to generate proportionate revenues. Operating costs include expenses incurred to support the business operations on a day to day basis, and excludes estimates of use for wasting assets and financing activities. The impact of the change in presentation is analysed in Note 30.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the group

The following standards are effective for the financial year beginning on or after 1 April 2013. Management has assessed them and none has had a material impact on these consolidated financial statements.

Amendment to IAS 1, 'Financial statement presentation' 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).

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the group (continued)

IAS 19, 'Employee benefits'. The changes on the group's accounting policies has been as follows: to immediately recognise all past service costs; and to

replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offseting. 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.

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

IFRS 13, 'Fair value measurement', 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.

(ii) New standards and interpretations not yet effective and not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 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 statement of profit or loss, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

NOTES (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations not yet effective and not yet adopted (continued)

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The interpretation is effective for periods beginning on or after 1 January 2014.

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

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured and special purpose entities) over which the Group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that 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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(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 interest are also recorded in equity.

2 Summary of significant accounting policies (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.

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 is reclassified to profit or loss as appropriate.

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.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising from investments in associates are recognised in the statement of profit or loss.

(v) Separate financial statements

In the separate financial statements, investments in subsidiaries and associates 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.

NOTES (continued)

2 Summary of significant accounting policies (continued)

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income and cumulated in 'available-for-sale financial assets reserve'.

(d) Segment reporting

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

The SLT 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 received or 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 provision of telecommunication services. The business is transforming itself to a Total Telecommunication Solution provider. Airtime, Mobile phone handsets, starter packs and other accessories are sold through dealers and own-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 and withdraw money or pay for goods and services (Lipa na M-PESA) 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 November 2012. M-Shwari is a first of its kind service.

2 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

in the world. M-Shwari is essentially a bank service that allows M-PESA customers to save, earn interest and borrow money using their mobile phones. M-Shwari customers can save as little as Shs 1 (USD 0.012) and get loans from as little as Shs 100 (USD 1.16). This has enabled more subscribers to get access to mobile banking services that they did not have before. 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 account 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 Voice tariff is called Uwezo at on-net rate of Shs 4 during the day and Shs 2 from 10pm to 8am and Shs 4 off-net. The headline tariff is applicable to both PrePay and PostPay customers. PostPay tariff plans 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 for Shs 1 on both on-net and off-net. There are also attractive SMS bundles which offer an effective price per SMS lower than Shs 1.

On data a wide range of propositions is 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 Shs 10 spent on voice calls, short messages service (SMS), data and M-PESA services. These points can be redeemed for free airtime, SMS or merchandise such as phones, modems and tablets.

Management defers revenue for every point accumulated and recognises the revenue relating to the point earned only on redemption. The position in March 2014 was that 84% of the points redeemed were for non-merchandise items (airtime, voice minutes, data bytes and SMS) while 16% 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.

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
Fibre	25 years
Leasehold improvements	Shorter of life of lease or useful life of the asset

NOTES (continued)

2 Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Fibre is a new category of property, plant and equipment that relates to self-constructed optical cable for long-distance telecommunication and high-speed data connection.

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 become available for use upon commissioning.

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.

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) Licenses

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.

2 Summary of significant accounting policies (continued)

(g) Intangible assets (continued)

(ii) Licenses (continued)

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 licenses:

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

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

These licences are deemed to have been issued in June 1999 for a 15 year term ending 30 June 2014. The directors are confident that the ongoing renewal proceedings with the Communications Commission of Kenya will be concluded satisfactorily.

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.

The following licenses are also in place;

- Local Loop Operator License (LLO) issued to Comtec Training and Management Services Limited in March 2006;
- Internet Service Provider (ISP) issued to Flexible Bandwidth Limited in March 2006;
- Digital Carrier Network Operation (DCNO) issued to Comtec Integration Systems Limited in March 2006;
- Public Data Communications Network Operator Licence (PDCNO) transferred to Safaricom Limited in September 2011 (held by PacketStream
- 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 License (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 the remaining 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.

There are annual network licenses fees associated to these licenses which are expensed each year.

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

(h) Derivative financial instruments

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 re-measured at their fair value. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in profit or loss. These derivatives are trading derivatives and are classified as a current asset or liability.

NOTES (continued)

2 Summary of significant accounting policies (continued)

(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) Financial assets

(i) Classification

The Group and Company classify financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. The directors determine the classification of the financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if expected to be realised within 12 months; otherwise, they are classified as non-current.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or the directors intend to dispose of the investment within 12 months of the end of the reporting period.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the entity commits to purchase or sell the asset. Investments are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets, carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the entity has transferred substantially all risks and rewards of ownership.

2 Summary of significant accounting policies (continued)

(k) Financial assets (continued)

(ii) Recognition and measurement (continued)

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(iv) Impairment of financial assets

Assets carried at amortised cost

The Group and Company assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets classified as available-for-sale

The Group and Company assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the entity's right to receive payments is established.

(l) 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

NOTES (continued)

2 Summary of significant accounting policies (continued)

(m) 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 applicable variable selling expenses.

Provisions for inventories other than network spares are made based on aged listing for items older than 180 days and damaged stocks.

Network spares are used to refurbish the network. A provision for impairment of the spares is established when there is objective evidence that the spares cannot be used within the network.

(n) 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.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. 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 carrying amount of all balances older than 180 days or less where there is evidence that a specific debt will not be collected and is recognised in the statement of comprehensive income.

(o) 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).

(p) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value (Shs 0.05) 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.

2 Summary of significant accounting policies (continued)

(p) Share capital (continued)

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.

(q) 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.

(r) Employee benefits

(i) Retirement benefit obligations

The Group and Company have defined contribution plan for its employees. The Group and Company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

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 obligations 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. A defined benefit plan is a pension plan that is not a defined contribution plan.

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.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(s) Share-based payments

The Group operates a Share Grant Option Plan under which senior management are entitled to acquire a predetermined number of shares at a predetermined price, subject to fulfilment of the vesting conditions.

Until 26 February 2014, the Group had an Employee Share Ownership Plan (ESOP) under which, subject to the vesting conditions, eligible employees were entitled to acquire units in a separately administered Trust, each unit in the trust representing one share in the company. The direct cost to the Group of fulfilling its obligations under the above schemes is charged to the statement profit or loss when incurred.

The cost of issued share options is recognised in the statement of profit or loss over the vesting period, measured at the fair value of the option. On allocation of shares to the trust, appropriate adjustments are made to increase share capital and the corresponding adjustments are made to the trust account. On vesting, the trust allocates the shares to the eligible individuals with adjustments made to the ESOP liability.

When the options are exercised, the entity issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

NOTES (continued)

2 Summary of significant accounting policies (continued)

(t) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from 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 or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the group is unable to control the reversal of the temporary difference for associates except where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(u) 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.

2 Summary of significant accounting policies (continued)

(v) 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.

(w) 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. 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.

(x) Comparatives

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current period as detailed under Note 2 (a). See Note 30 for details of the change in presentation of the Statement of Comprehensive Income.

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.

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 airtime or merchandise.

NOTES (continued)

3 Critical accounting estimates and judgements (continued)

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

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

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

(iii) Critical judgement on going concern

The Group's current liabilities exceed its current assets by Shs 9,941,119,000 (2013: Shs 11,235,005,000) at the statement of financial position date.

This net current liability position is expected to remain in the near future. A significant portion of creditors relate to network infrastructure investments rather than on-going trading, hence net working capital is typically a negative amount. This is typical to telecommunication companies due to intense network spend.

Other significant portion of current liabilities relates to deferred income on both airtime and the loyalty points programme (Bonga points). Airtime is deferred when sold and loyalty points are deferred when awarded and are recognised as income on usage of airtime and redemption of the loyalty points respectively. See details of the amounts under note 25.

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.

Loans and receivables have been disclosed at their carrying values. Financial liabilities have been carried at amortised cost.

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, SDR and the Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities using spot and forward contracts, but has not designated any derivative instruments as hedging instruments. 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 2014, if the Shilling had weakened/ strengthened by 10% against the US dollar with all other variables held constant, consolidated post tax profit for the year would have been Shs 130 million (2013: Shs 462 million) higher/lower, mainly as a result of US dollar denominated cash and bank balances, receivables and payables.

Profit is less sensitive to movement in Shs/US dollar exchange rates in 2014 than 2013 because of the decreased amount of US dollar-denominated cash balances.

At 31 March 2014, 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 Shs 75 million (2013: Shs 35 million) lower/higher, mainly as a result of Euro denominated cash and bank balances.

4 Financial risk management (continued)

Market risk (continued)

(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 2014, an increase/decrease of 100 basis points (2013: 100 basis points) would have resulted in a decrease/increase in consolidated post tax profit of Shs 163 million (2013: Shs 16 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 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.

Credit risk
Cash at bank and short term bank deposits

	Group		Company	
	2014 Shs'000	**2013 Shs'000**	**2014 Shs'000**	**2013 Shs'000**
Category 1	3,643,005	4,242,997	3,643,005	4,242,997
Category 2	6,255,295	7,526,908	6,234,601	7,506,199
Category 3	7,715,397	3,067,548	7,702,214	3,054,578
Others	4,818	152,026	4,818	152,026
	17,618,515	14,989,479	17,584,638	14,955,800

NOTES (continued)

4 Financial risk management (continued)

Credit risk (continued)

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.

Post–pay debtors have a 15 day credit period after which individual customers must pay within 10 days after due date, while business accounts have up to 30 days. Post-pay debtors comprise of individuals as well as corporate customers.

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

The Group currently has 495 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.

4 Financial risk management (continued)

Credit risk (continued)

	Group		Company	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
Past due but not impaired:				
- by up to 30 days	436,039	762,118	436,039	762,118
- by more than 30 days	300,308	786,274	279,126	782,082
Total past due but not impaired	736,347	1,548,392	715,165	1,544,200
Receivables individually determined to be impaired	1,074,966	1,686,207	1,061,463	1,672,704

(a) Group	**Neither past due nor impaired Shs'000**	**Past due but not impaired Shs'000**	**Impaired Shs'000**	**Total Shs'000**
At 31 March 2014				
Dealers	940,761	138,827	-	1,079,588
Post-pay	762,279	198,556	252,795	1,213,630
Roaming and interconnect	591,336	83,829	380,533	1,055,698
Amounts due from related parties	1,519,267	13,436	15,375	1,548,078
Other receivables	1,384,918	293,954	426,263	2,105,135
Total	5,198,561	728,602	1,074,966	7,002,129
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	1,578,177
Other receivables	1,176,906	245,412	167,145	1,589,463
Total	4,814,616	1,548,392	1,686,207	8,049,215

NOTES (continued)

4 Financial risk management (continued)

Credit risk (continued)

(b) Company	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
At 31 March 2014				
Dealers	940,761	138,827	-	1,079,588
Post-pay	762,279	198,556	252,795	1,213,630
Roaming and interconnect	591,336	83,829	380,533	1,055,698
Amounts due from related parties	1,740,430	13,436	15,375	1,769,241
Other receivables	1,157,845	293,953	412,760	1,864,558
Loan to related parties	707,906	-	-	707,906
Total	5,900,557	728,601	1,061,463	7,690,621
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	1,620,604	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

Dealers' debt is fully secured by bank guarantees. The Group has bank guarantees of Shs 1,179 million and Shs 1,430 million as at March 2014 and March 2013 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.

In determination of the impaired balances above, management considered the age of the debt and financial position of the debtor.

4 Financial risk management (continued)

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

(a) Group

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Total Shs'000
At 31 March 2014:				
- borrowings	48,320	663,699	-	712,019
- corporate bonds	8,480,612	4,753,763	-	13,234,375
- trade and other payables	23,493,266	-	-	23,493,266
Total financial liabilities	32,022,198	5,417,462	-	37,439,660

NOTES (continued)

4 Financial risk management (continued)

Liquidity risk (continued)

(a) Group (continued)	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Total Shs'000
At 31 March 2013:				
- 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	21,957,505	-	-	21,957,505
Total financial liabilities	32,063,428	8,484,332	4,754,860	45,302,621

(b) Company				
At 31 March 2014:				
- borrowings	48,320	663,699	-	712,019
- corporate bonds	8,480,612	4,753,763	-	13,234,375
- trade and other payables	23,265,949	-	-	23,265,949
Total financial liabilities	31,794,881	5,417,462	-	37,212,343
At 31 March 2013:				
- borrowings	8,827,499	-	-	8,827,499
- corporate bonds	1,278,424	8,484,332	4,754,860	14,517,616
- trade and other payables	21,692,573	-	-	21,692,573
Total financial liabilities	31,798,496	8,484,332	4,754,860	45,037,688

Guarantees amounting to Shs 88 million (2013: Shs 66 million) have been issued against credit cards for use of senior staff and to various customers for services provided by the company as detailed under Note 28.

Excluded from the trade and other payables is deferred revenues arising from unused airtime and unredeemed "Bonga points" under Loyalty Management System (LMS) amounting to Shs 5,778 million (2013: Shs 5,707 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 2014.

	Group		Company	
	2014 Shs'000	**2013 Shs'000**	**2014 Shs'000**	**2013 Shs'000**
Total borrowings	12,615,380	20,227,958	12,615,380	20,227,958
Less: cash and cash equivalents	(17,618,884)	(14,996,922)	(17,585,006)	(14,963,243)
Net debt	(5,003,504)	5,231,036	(4,969,626)	5,264,715
Total equity	91,235,979	80,265,128	92,509,394	81,703,750
Total capital	86,232,475	85,496,164	87,539,768	86,968,465
Gearing ratio	-	6%	-	6%

NOTES (continued)

4 Financial risk management (continued)

Fair value estimation

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

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

The 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 Senior Leadership Team (SLT) that makes strategic decisions.

Management has determined the operating segment based on the reports reviewed by the Senior Leadership Team for the purpose of allocating resources and assessing performance.

The SLT considers the business as one operating segment for purpose of financial performance. However, revenue targets are split between the three business units namely Consumer, Enterprise and Financial services units. Currently the SLT reviews the results of the segment on a monthly basis in a formal session where the Chief Financial Officer takes the SLT 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 services to its customers.

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

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

The segment information provided to the SLT for the reportable segment for the years ended 31 March 2014 and 2013 is as follows:

	31 March 2014 Shs'000	**31 March 2013 Shs'000**
Total equity and non-current liabilities	96,338,359	92,265,128
Non-current assets	106,279,478	103,500,133
Current assets	28,321,468	25,356,024
Current liabilities	38,262,587	36,591,029
Net current liabilities	(9,941,119)	(11,235,005)
	96,338,359	92,265,128

NOTES (continued)

5 Segment information (continued)

The amounts reported to the 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 data products through the dealer network or through the Company's 40 retail outlets across the country.

Breakdown of the revenue from all services is as follows:

Analysis of revenue by category

	2014 Shs' 000	2013 Shs' 000
Voice revenue	86,295,556	77,336,898
Messaging revenue	13,619,377	10,147,295
Mobile data revenue	9,313,532	6,610,580
Fixed service revenue	2,570,901	2,112,552
M-PESA revenue	26,561,297	21,844,032
Service revenue	138,360,663	118,051,357
Handset revenue	4,947,057	4,932,011
Acquisition and other revenue	1,364,757	1,304,488
Total Revenue	144,672,477	124,287,856

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 by 16% to Shs 144.7 billion through focusing on providing quality services that resulted in to double digit growth across all service revenue streams.

Voice revenue grew to Shs 86.3 billion and accounted for 60% of our total revenue (down from 62% in the previous year). This growth was supported by our loyal customer base attracted by a superior network experience, convenient airtime distribution and attractive consumer propositions and promotions such as the *'Tetemesha'* campaign.

Messaging revenue once again posted an impressive performance having increased by 34% to Shs 13.6 billion which represents 10% of our service revenue. This was driven by increased usage from affordable SMS bundles and SMS based promotions such as *'Bonyeza Ushinde'*

M-PESA revenue increased by 22% driven by a 15% increase in 30 day active M-PESA customers to 12.2 million as well as an increase in the average number of transactions per customer. In the year, we expanded our M-PESA agent outlets to 81,025 and launched Lipa na M-PESA service that enables cashless merchant payments for goods and services.

Mobile data revenue grew at an impressive 41% driven by an increased uptake of affordable data bundles and a 34% growth in active customers to 9.6 million. Fixed data revenues increased by 22% to Shs 2.6 billion on the back of 4% growth in fixed data customers.

6 Other income

	Group	
	2014 Shs' 000	2013 Shs' 000
Gain on disposal of property, plant and equipment	44,492	64,643
Shareholder loan write off (Note 27 (v))	-	104,554
Miscellaneous income	82,133	28,691
	126,625	197,888

7(a) Direct costs

	Group	
	2014 Shs' 000	2013 (Restated) Shs' 000
M-PESA commissions	10,684,973	8,595,421
Airtime commissions	9,562,518	8,799,401
License fees (spectrum, M-PESA and link leases)	7,961,745	7,378,470
Interconnect and roaming costs	6,462,237	6,698,204
Handset costs	5,395,430	5,311,942
Acquisition and retention	5,362,188	5,367,521
Value Added Services costs (Voice & SMS)	5,570,244	3,117,043
Other direct costs	964,379	1,905,849
	51,963,714	47,173,851

NOTES (continued)

7(b) Other expenses

	Group	
	2014 Shs' 000	2013 Shs' 000
Repairs and maintenance expenditure on property, plant and equipment	127,875	138,185
Operating lease rentals - buildings	604,024	543,779
Operating lease rentals - sites	954,094	634,491
Warehousing costs	213,802	214,979
Employee benefits expense (Note 9)	10,089,811	8,395,630
Auditor's remuneration	34,834	29,291
Sales and advertising	4,523,811	3,744,383
Consultancy including legal fees	412,791	465,556
Site/facilities costs	9,257,598	8,550,067
Travel and accommodation	528,801	449,705
Computer maintenance	1,141,052	641,310
Office upkeep	522,520	309,921
Bad debts	142,742	448,808
Net foreign exchange losses, other than on borrowings and cash and cash equivalents	190,896	342,378
Other operating expenses	3,147,439	3,164,171
	31,892,090	28,072,654

8 Net finance costs

	Group	
	2014 Shs' 000	2013 Shs' 000
Finance costs:		
Interest expense	1,494,836	2,192,078
Foreign exchange losses on cash and borrowings	387,522	647,171
	1,882,358	2,839,249
Finance income:		
Interest income	(1,140,069)	(740,395)
Foreign exchange gain on cash and borrowings	(555,343)	(458,903)
	(1,695,412)	(1,199,298)
Net finance costs	186,945	1,639,951

9 Employee benefits expense

	Group	
	2014 Shs' 000	**2013 Shs' 000**
The following items are included within employee benefits expense:		
Salaries and wages	6,072,059	5,119,845
Employee Share Grant Option Plan (ESOP)	390,432	96,017
Retirement benefits costs:		
- Defined contribution scheme	333,482	303,393
- National Social Security Fund	8,798	6,586
	6,804,771	5,525,841

10 Employee share option

(a) *Employee Share Ownership Plan*

The Group set up an Employee Share Ownership Plan (ESOP) in March 2010 where 101 million shares were allotted. Subject to vesting conditions, eligible employees were entitled to purchase units in a separately administered trust, each unit in the trust representing one share in the Company.

A total of 66,976,000 of the initially granted options vested on 26 February 2013. Of these options, only 65,428,000 (2013: nil) were exercised by 26 February 2014 when the exercise period lapsed.

Shares representing the exercised options have been issued from the Company's authorized unissued share capital. The proceeds received were credited to share capital (nominal value) and share premium.

To be eligible for the scheme one must have been a permanent employee of the Company who had completed probation period or had been confirmed.

(b) *Employee Share Grant Option Plan*

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

The process of outright grant includes the Company purchasing shares from the market and then issuing the same to the eligible employees after a 3 year vesting period at no cost. The shares are purchased through a trust and held by the same until the end of the vesting period. During the year 33.2 million shares at a cost of Shs 389.8 million were issued to the scheme, to bring the total shares issued to the scheme to 46.8 million shares at a total cost of 446.3 million (2013: 13.6 million shares at a cost of Shs 56.5 million).

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

NOTES (continued)

11 Income tax expense

	Group	
	2014 **Shs' 000**	**2013** **Shs' 000**
Current income tax	12,164,104	7,984,357
Deferred income tax (Note 16)	(197,214)	(73,602)
Income tax expense	11,966,890	7,910,755

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:

	2014 **Shs' 000**	**2013** **Shs' 000**
Profit before income tax	34,984,430	25,450,565
Tax calculated at the applicable income tax rate of 30% (2013: 30%)	10,495,329	7,635,170
Tax effect of:		
- Income not subject to tax	(6,237)	(1,332)
- Expenses not deductible for tax purposes	440,218	259,783
- (Over) / under provision of deferred tax in prior year	(59,419)	17,134
- Under provision of current tax in prior years	1,096,999	-
Income tax expense	11,966,890	7,910,755

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.

	2014	**2013**
Profit attributable to equity holders of the Company (Shs thousands)	23,017,530	17,539,810
Weighted average number of ordinary shares in issue (thousands)	40,065,428	40,000,000
Basic earnings per share (Shs)	0.57	0.44
Diluted earnings per share (Shs)	0.57	0.44

13 Share capital and share premium

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000	Total Shs'000
At 1 April 2012 and March 2013	40,000,000	2,000,000	1,850,000	3,850,000
New shares issued for the employee share option scheme	65,428	3,271	350,040	353,311
At 31 March 2014	40,065,428	2,003,271	2,200,040	4,203,311

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

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

The new shares relates to the Employee Share Option Plan. See details of this plan in Note 10.

The issued share capital comprises 40,065,428,000 (2013: 40,000,000,000) ordinary shares with a par value of Shs 0.05 each and 5 non-voting non-participating redeemable preference shares of Shs 4 each. All issued shares are fully paid.

14 Dividend per share

No interim dividend was paid during the year (2013: Nil). At the annual general meeting to be held on 16 September 2014, a final dividend in respect of the year ended 31 March 2014 of Shs 0.47 (2013: Shs 0.31) per share amounting to a total of Shs 18,830,751,000 (2013: Shs 12,400,000,000) is to be proposed.

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

15 Borrowings

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

Tranche 1 which matures in November 2014 has a fixed portion of Shs 7,049,600,000 at a fixed rate of 12.25% and a floating portion of Shs 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 Shs 4,287,000,000 at a fixed rate of 7.75% and a floating portion of Shs 200,000,000 at a floating rate of 182-day treasury bill rate plus 1.85% margin.

The Group has a 2 year term loan facility with CfC Stanbic Bank Limited for a maximum of Shs 615,379,600 for purchase of assets. The group made a draw-down of Shs 615,379,600 on 4 March 2014. Interest on this facility is paid quarterly at the rate of 1.0% below 91 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.

NOTES (continued)

15 Borrowings (continued)

Borrowings are made up as follows:

	Group		Company	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
Non-current:				
Bank borrowings	615,380	-	615,380	-
Corporate bond	4,487,000	12,000,000	4,487,000	12,000,000
	5,102,380	12,000,000	5,102,380	12,000,000
Current:				
Bank borrowings	-	8,227,958	-	8,227,958
Corporate bond	7,513,000	-	7,513,000	-
	7,513,000	8,227,958	7,513,000	8,227,958
Total borrowings	12,615,380	20,227,958	12,615,380	20,227,958

16 Deferred income tax

(a) Group

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Group	
	2014 Shs'000	2013 Shs'000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	(1,883,369)	(1,894,794)
– Deferred tax asset to be recovered within 12 months	(867,580)	(738,137)
	(2,750,949)	(2,632,931)
Deferred tax liabilities:		
– Deferred tax liability to be recovered within 12 months	70	79,266
	(2,750,879)	(2,553,665)
Deferred income tax is calculated using the enacted income tax rate of 30% (2013: 30%).		
At start of year	(2,553,665)	(2,480,063)
Credit to statement of comprehensive income (Note 11)	(197,214)	(73,602)
At end of year	(2,750,879)	(2,553,665)

16 Deferred income tax (continued)

(a) Group (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:

	1.4.2013 Shs'000	Charged/ (credited) to SOCI Shs'000	31.03.2014 Shs'000
Year ended 31 March 2014			
Deferred income tax liabilities			
Unrealised exchange gains	79,266	(79,196)	70
Deferred income tax assets			
Property, plant and equipment	(1,863,706)	146,827	(1,716,879)
Unrealised exchange loss	(252,096)	221,063	(31,033)
Provisions	(504,089)	(485,908)	(989,997)
Arising from fair value adjustment on acquisition of subsidiary	(13,040)	-	(13,040)
	(2,632,931)	(118,018)	(2,750,949)
Net deferred income tax asset	(2,553,665)	(197,214)	(2,750,879)

	1.4.2012 Shs'000	Charged/ (credited) to SOCI Shs'000	31.03.2013 Shs'000
Year ended 31 March 2013			
Deferred income tax liabilities			
Unrealised exchange gains	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)

NOTES (continued)

16 Deferred income tax (continued)

(a) Group (continued)

An amount of Shs 204 million (2013: Shs 320 million) worth of deferred tax assets relating to One Communications Limited has not been recognised in the financial statements. Although the Directors are confident that taxable profits will be realised in One Communications Limited within the foreseeable future, the amounts are time barred and are awaiting an extension of the statutory utilisation period from the Kenya Revenue Authority.

(b) Company

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

	2014 Shs'000	2013 Shs'000
Deferred income tax liabilities		
Unrealised exchange gains	70	79,266
Total deferred income tax liabilities	70	79,266
Deferred income tax assets		
Property, plant and equipment	(1,716,879)	(1,863,706)
Unrealised exchange loss	(31,033)	(252,096)
Provisions	(989,997)	(504,089)
Total deferred income tax assets	(2,737,909)	(2,619,891)
Net deferred income tax asset	(2,737,839)	(2,540,625)

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 Shs'000	Capital work in progress* Shs'000	Leasehold improvement Shs'000	Vehicles & equipment Shs'000	Fibre Shs'000	Total Shs'000
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**	-	24,875,965	-	-	-	24,875,965
Reclassification	9,096	-	-	(9,096)	-	-
Transfers from capital work in progress	21,055,296	(25,724,166)	331,528	4,337,342	-	-
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
Year ended 31 March 2014						
Opening net book amount	74,577,900	13,831,177	1,203,243	5,684,078	-	95,296,398
Additions**	-	27,780,723	-	-	-	27,780,723
Reclassification	6,360	-	-	-	(6,360)	-
Transfers from capital work in progress	17,961,027	(26,757,772)	455,100	3,888,857	4,452,788	-
Disposal	(53)	-	-	(51,474)	-	(51,527)
Depreciation charge	(17,127,730)	-	(454,642)	(3,655,158)	(43,911)	(21,281,441)
Impairment of assets***	(4,083,905)	-	-	-	-	(4,083,905)
Depreciation on disposal	53	-	-	50,241	-	50,294
Closing net book amount	71,333,652	14,854,128	1,203,701	5,916,544	4,402,517	97,710,542
At 31 March 2014						
Cost	179,656,346	14,854,128	4,324,520	22,483,580	4,452,788	225,771,362
Accumulated depreciation	(108,322,694)	-	(3,120,819)	(16,567,036)	(50,271)	(128,060,820)
Net book amount	71,333,652	14,854,128	1,203,701	5,916,544	4,402,517	97,710,542

NOTES (continued)

17 Property, plant and equipment (continued)

(b) Company

	Network infrastructure Shs'000	Capital work in progress* Shs'000	Leasehold improvement Shs'000	Vehicles & equipment Shs'000	Fibre Shs'000	Total Shs'000
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**	-	24,875,965	-	-	-	24,875,965
Reclassification	9,096	-	-	(9,096)	-	-
Transfers from capital work in progress	21,055,296	(25,724,166)	331,528	4,337,342	-	-
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 disposal	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
Year ended 31 March 2014						
Opening net book amount	74,510,640	13,809,178	1,203,244	5,660,149	-	95,183,211
Additions**	-	27,780,723	-	-	-	27,780,723
Reclassification	6,360	-	-	-	(6,360)	-
Transfers from capital work in progress	17,961,027	(26,757,772)	455,100	3,888,857	4,452,788	-
Disposal	(53)	-	-	(51,474)	-	(51,527)
Depreciation charge	(17,115,225)	-	(454,642)	(3,646,855)	(43,911)	(21,260,633)
Impairment of assets***	(4,083,905)	-	-	-	-	(4,083,905)
Depreciation on disposal	53	-	-	50,241	-	50,294
Closing net book amount	71,278,897	14,832,129	1,203,702	5,900,918	4,402,517	97,618,163
At 31 March 2014						
Cost	179,519,003	14,832,129	4,324,518	22,400,830	4,446,428	225,522,908
Accumulated depreciation	(108,240,106)	-	(3,120,816)	(16,499,912)	(43,911)	(127,904,745)
Net book amount	71,278,897	14,832,129	1,203,702	5,900,918	4,402,517	97,618,163

17 Property, plant and equipment (continued)

* The closing balance of capital working-in-progress largely relates to self-constructed assets not yet completed. These mostly include network infrastructure and fibre that had not been brought into use at year end.

** The group capitalised staff costs directly attributable to the construction of network infrastructure amounting to Shs 1,087 million (2013: Shs 1,026 million) that meet the recognition criteria of IAS 16.

*** Impairments amounting to Shs 4,084 million (2013: Shs 1,281 million), being the carrying value of the assets identified as impaired as a result of the ongoing modernisation programme prompted by evolution of technology, have been included in the consolidated Statement of Comprehensive Income.

18 Intangible assets

(a) Group

	Goodwill	License fees	Total
Year ended 31 March 2013			
Opening net book amount	219,151	2,094,951	2,314,102
Amortisation charge for the year	-	(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
Year ended 31 March 2014			
Opening net book amount	219,151	1,422,011	1,641,162
Amortisation charge for the year*	-	(695,589)	(695,589)
Closing net book amount	219,151	726,422	945,573
At 31 March 2014			
Cost	219,151	6,772,768	6,991,919
Accumulated amortisation	-	(6,046,346)	(6,046,346)
Net book amount	219,151	726,422	945,573

* During the year, the group received two credit notes from Communications Commission of Kenya (CCK) being rebate on 3G license fees totaling to Shs 542 million net of related costs. This has been netted off against the current period licenses amortisation charge of Shs 696 million. As a result the net amount of Shs 154 million has been presented on the consolidated Statement of Comprehensive Income.

NOTES (continued)

18 Intangible assets (continued)

(a) Group (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.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating unit (CGU) identified according to operating segment level.

On an annual basis, the goodwill is tested for impairment. Goodwill is monitored by the management at the operating segment level. For the purposes of assessment of impairment of goodwill, One Communications business is viewed as an operating segment.

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 5% (2013: 10%) in the first year followed by 3% (2013: 7%) in the second and 2.5% (2013: 5%) for the third and fourth and 2% (2013: 5%) for the fifth year had been used. A discount rate of 9.85% (2013: 11.3%), being the Company's cost of capital has been used.
The recoverable amount calculated based on value in use exceeded carrying value by Shs 157 million. A fall in the average annual revenue growth rate of 0.5% or a rise in discount rate of 5.7% would remove the remaining headroom.

From the assessment carried out at the end of the year, no impairment charge was accounted for as at 31 March 2014 (2013: Nil).

(b) Company

License Fees	2014 Shs'000	2013 Shs'000
Opening net book amount	1,409,334	2,081,078
Amortisation charge	(694,403)	(671,744)
Closing net book amount	714,931	1,409,334
Cost	6,751,309	6,751,309
Accumulated amortisation	(6,036,378)	(5,341,975)
Net book amount	714,931	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	
	2014 Shs'000	2013 Shs'000
At start of year	745,891	189,511
Additional investment: One Communications Limited	-	556,380
At end of year	745,891	745,891

The transaction in 2013 related to acquisition of the remaining 49% equity in One Communications Limited and was settled in cash. The net effect on parent's equity was a reduction of Shs 556 million.

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

			Company	
	Year End	% interest Held	2014 Shs'000	2013 Shs'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	741,941
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	745,891

The investments in subsidiaries are carried at cost. These investments were assessed for impairment indicators as required as at 31 March 2014 and the directors concluded that the investments are not impaired.

(b) Investment in associate

The movement in investment in associate is as follows:

	Group	
	2014 Shs'000	2013 Shs'000
At start of year	-	9,678
Share of profit / (loss) (before tax) – before 10% acquisition in 2014	3,814	(9,678)
Share of profit (before tax) – after 10% acquisition	11,495	-
Acquisition of additional 10% shareholding	551	-
At end of year	15,860	-

NOTES (continued)

19 Investments (continued)

(b) Investment in associate (continued)

The investment in associate at 31 March 2014 represents the investment of 32.5% of the ordinary shares of The East African Marines Systems Limited (TEAMS). TEAMS is a private company and there is no quoted market price available for its shares.TEAMS's place of business and country of incorporation is Kenya. There are no contingent liabilities relating to the group's interest in the associate.

The Group acquired an additional 10% of the issued share capital of TEAMS on 29 July 2013 at cost of Shs 550,620 bringing the total group's ownership to 32.5%. The group has no control over TEAMS. The other significant shareholders of TEAMS are the Government of Kenya (20%) and Telkom Orange Kenya Limited (20%).

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 to the Group's financial statements as at 31 March 2014.

Set out below are the summarised financial information for TEAMS as at 31 March 2014 which is accounted for using the equity method;

Summarised statement of financial position	2014 Shs'000	2013 Shs'000
Current		
Cash and cash equivalents	108,042	107,246
Other current assets (excluding cash)	264,318	704,712
Total current assets	372,360	811,958
Other current liabilities (including trade payables)	(342,572)	(7,332)
Total current liabilities	(342,572)	(7,332)
Non-current		
Assets	35,086	27,700
Liabilities	-	(17,027)
Net assets	64,874	815,299

Summarised statement of comprehensive income		
Revenue	382,270	331,648
Depreciation	(906)	(880)
Other expenses	(339,158)	(317,783)
Profit before tax	42,206	12,985
Income tax expense	(12,662)	(3,896)
Post tax profit	29,544	9,089

The information above reflects the amounts presented in the financial statements of the associate (and not Safaricom Limited's share of those amounts) adjusted for differences in accounting policies between the group and the associate.

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

	TEAMS Shs'000	SEACOM Shs'000	KPLC Shs'000	ETISALAT Shs'000	TATA Shs'000	Total Shs'000
Year ended 31 March 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	4,575,97
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
Year ended 31 March 2014						
Opening net book amount	1,864,843	1,164,949	713,912	98,978	163,999	4,006,681
Additions	986,812	129,599	-	-	-	1,116,411
Amortisation charge	(136,360)	(71,129)	(40,825)	(7,419)	(12,262)	(267,995)
Closing net book amount	2,715,295	1,223,419	673,087	91,559	151,737	4,855,097
At 31 March 2014						
Cost	3,049,467	1,531,226	816,494	111,280	183,914	5,692,381
Accumulated amortisation	(334,172)	(307,807)	(143,407)	(19,721)	(32,177)	(837,284)
	2,715,295	1,223,419	673,087	91,559	151,737	4,855,097

21 Inventories – Group and Company

	2014 Shs'000	2013 Shs'000
Network spare parts	1,722,904	1,718,311
Less: Provision for impairment losses	(832,141)	(764,320)
	890,763	953,991
Handsets and accessories	1,902,532	1,120,669
Scratch cards	68,730	109,922
Starter packs	234,531	273,872
Stationery and other stocks	6,116	58,070
Less: Provision for impairment / obsolesce losses	(146,705)	(282,230)
	2,955,967	2,234,294

The cost of inventories recognised as an expense and included in the direct costs amounted to Shs 8,579 million (2013: Shs 9,143 million).

NOTES (continued)

22 Trade and other receivables

	Group		Company	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
Current:				
Trade receivables	3,668,991	5,052,895	3,541,902	5,017,659
Less: Provision for impairment losses	(632,968)	(1,509,065)	(633,328)	(1,509,065)
	3,036,023	3,543,830	2,908,574	3,508,594
Receivable from related parties				
(Note 27 (viii))	1,548,078	1,578,177	1,769,241	1,688,259
Less: Provision for impairment losses	(15,375)	(9,997)	(15,375)	(9,997)
	1,532,703	1,568,180	1,753,866	1,678,262
Prepayments	1,819,456	1,761,799	1,788,059	1,690,653
Other receivables	1,785,058	1,418,144	1,671,570	1,370,925
Less: Provision for impairment losses	(426,623)	(167,145)	(412,760)	(153,641)
	1,358,435	1,250,999	1,258,810	1,217,284
	7,746,617	8,124,808	7,709,309	8,094,793

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

	Group		Company	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
At start of year	1,686,207	1,523,769	1,672,704	1,511,984
Provisions made in the year:				
– trade and other receivables	317,515	438,811	317,515	437,093
– related parties	5,378	9,997	5,378	9,997
Reduction in prior year provisions for trade and other receivables	(180,151)	-	(180,151)	-
Receivables written off during the year as uncollectible	(753,983)	(286,370)	(753,983)	(286,370)
	1,074,966	1,686,207	1,061,463	1,672,704

The carrying amounts of the above receivables approximate their fair values

23 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:

	2014 Shs'000	2013 Shs'000
At start of year	259,401	297,078
Additions	676,279	563,654
Amortisation charge for the year	(634,598)	(601,331)
At end of year	301,082	259,401
Current portion reflected in prepayments	(299,555)	(257,174)
Non-current portion	1,527	2,227

24 Cash and cash equivalents

Cash and cash equivalents comprise the following for the purpose of the statement of cash flows:

	Group		Company	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
Cash at bank and in hand	9,701,197	10,361,506	9,667,318	10,339,243
Short term bank deposits	7,917,687	4,635,416	7,917,688	4,624,000
	17,618,884	14,996,922	17,585,006	14,963,243

NOTES (continued)

25 Trade and other payables

	Group		Company	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
Trade payables	3,330,326	1,896,458	3,063,068	1,870,391
Amounts due to related companies (Note 27(ix))	2,315,697	2,073,648	2,416,483	2,076,120
Accrued liabilities				
- Network infrastructure	5,664,994	7,998,813	5,662,170	7,998,813
- Customer loyalty credits	3,496,324	3,211,496	3,496,324	3,211,496
- Deferred revenue	2,282,136	2,495,503	2,282,136	2,495,503
- Inventory	1,003,934	85,528	1,003,934	85,528
- Other expenses	7,758,176	6,824,128	7,619,344	6,782,732
Other payables	3,621,473	3,239,748	3,702,285	3,039,806
Current portion	29,473,060	27,825,322	29,245,744	27,560,389

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 Shs 3,496 million (2013: Shs 3,211 million) is expected to be recognised into revenue as customers redeem their points.

Deferred revenue Shs 2,282 million (2013: Shs 2,496million) 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	
	2014 Shs'000	2013 Shs'000
Profit before income tax	34,984,430	25,450,565
Adjustments for:		
Interest income (Note 8)	(1,140,069)	(740,395)
Interest expense (Note 8)	1,494,836	2,192,078
Exchange gain on loans	-	2,992
Changes in fair value of derivative financial instruments	-	(147,000)
Depreciation on property, plant and equipment (Note 17)	21,281,441	19,951,597
Impairment charge on property, plant and equipment (Note 17)	4,083,905	1,280,789
Movement in non-current prepaid operating lease rentals (Note 23)	700	(206)
Amortisation of intangible assets (Note 18)	695,589	672,940
Amortisation of IRUs (Note 20)	267,995	233,719
Profit on sale of property, plant and equipment (Note 6)	(44,491)	(64,642)
Share of loss/ (profit) from associate (Note 19 (b))	(15,309)	9,678
One Communications Limited shareholder loan write off (Note 27 (v))	-	(104,554)
Changes in working capital		
– receivables and prepayments	378,191	65,490
– inventories	(721,673)	418,831
– payables and accrued expenses	1,647,738	(2,735,561)
Cash generated from operations	62,913,283	46,486,321

NOTES (continued)

27 Related party transactions

Vodafone Kenya Limited incorporated in Kenya, whose ultimate parent is Vodafone Group Plc, incorporated in the United Kingdom, is the largest single shareholder of the Company. 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.

(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 money transfer transactions pay for goods and services by use of 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 31st 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 relationships exist within the group:

Related parties	Held by	Percentage of interest held as at 31 March	
		2014	2013
Ultimate holding parent			
Vodafone Group Plc			
Domestic holding company			
Vodafone Kenya Limited	Vodafone Group Plc	40%	40%
Subsidiaries			
One Communications Limited	Safaricom Limited	100%	100%
Instaconnect Limited	Safaricom Limited	100%	100%
Packet Stream Data Networks Limited	Safaricom Limited	100%	100%
IGO Wireless Limited	Safaricom Limited	100%	100%
Flexible Bandwidth Services Limited	One Communications Limited	100%	100%
Comtec Training and Management Services Limited	One Communications Limited	100%	100%
Comtec Integration Systems Limited	One Communications Limited	100%	100%
Associate			
The East African Marines Systems Limited (TEAMS)	Safaricom Limited	32.5%	22.5%

The following transactions were carried out with related parties:

i) Sale of goods and services	Group	
	2014 Shs'000	2013 Shs'000
Vodafone (UK) Limited	78,478	121,180
Vodacom Tanzania Limited	155,984	314,520
Other Vodafone affiliates	90,262	118,205
M-PESA Holding Company Limited	26,493,408	21,844,032
	26,818,132	22,397,937

NOTES (continued)

27 Related party transactions (continued)

ii) Purchase of goods and services	Group 2014 Shs'000	2013 Shs'000
Vodafone Sales and Services Limited	4,194,671	3,536,858
Vodafone Group Services Limited	463,096	368,172
Vodafone (UK) Limited	42,004	45,311
Other Vodafone affiliates	98,223	198,544
Vodacom Tanzania Limited	368,008	578,997
M-PESA Holding Company Limited	10,684,877	8,595,421
	15,850,879	13,323,303

iii) Directors' remuneration		
Fees for services as director	14,125	11,995
Other emoluments	211,799	154,090
Emoluments in relation to past service	-	221,570
Total remuneration of directors of the Company	225,924	387,655

iv) Key management compensation		
Salaries and other short-term employment benefits	542,227	425,024
Employee Share Benefit Plan	50,097	16,836
Pension contribution	12,392	11,999
Termination benefits	13,377	16,561
	618,093	470,420

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.

v) Loans from shareholders

In 2013, the non-controlling interest in One Communications Limited discharged the subsidiary of an obligation of Shs 104,554,000.

vi) Loans to directors of the Company

There are no loans to directors of the Company at 31 March 2014 and 31 March 2013.

vii) Donations to Safaricom Foundation

Donations made during the year amounted to Shs 302 million (2013: Shs 210 million).

27 Related party transactions (continued)

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

	Group		Company	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
Current:				
Vodafone (UK) Limited	49,309	21,792	49,309	21,792
Vodafone Group Enterprises	76,843	5,925	76,843	5,925
M-PESA Holding Company Limited	1,379,749	1,482,148	1,379,749	1,482,148
Other Vodafone affiliates	28,811	54,445	28,811	54,445
Vodacom Tanzania	13,366	13,867	13,366	13,867
One Communications Limited	-	-	134,115	23,034
Packet Stream Data Networks Limited	-	-	76,642	76,642
IGO Wireless Limited	-	-	10,406	10,406
	1,548,078	1,578,177	1,769,241	1,688,259
Non-current:				
Loan to One Communications Limited	-	-	707,906	850,000
	1,548,078	1,578,177	2,477,147	2,538,259

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

	Group		Company	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
Vodafone Sales and Services Limited	1,027,138	932,917	1,027,138	932,917
Vodafone Group Services Limited	104,353	178,293	104,353	178,293
Vodafone (UK) Limited	3,420	2,250	3,420	2,250
M-PESA Holding Company Limited	1,072,629	798,373	1,072,629	798,373
Other Vodafone affiliates	43,527	130,227	43,527	130,227
Vodacom Tanzania	64,630	31,588	64,630	31,588
One Communications Limited	-	-	98,314	-
IGO Wireless Limited	-	-	2,472	2,472
Packet Stream Limited	-	-	-	-
	2,315,697	2,073,648	2,416,483	2,076,120

The receivables arise mainly from trading, are unsecured and bear no interest. A provision of Shs 15.4 million (2013: Shs 9.9 million) (Note 22) is held against receivables from related parties. The payables to related parties arise mainly from purchase transactions. The payables bear no interest. Settlement of obligations between related parties is done in cash.

NOTES (continued)

27 Related party transactions (continued)

x) Loan to related party

	Group		Company	
Non-current:	**2014 Shs'000**	**2013 Shs'000**	**2014 Shs'000**	**2013 Shs'000**
Loan to related party	-	-	707,906	850,000

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.

28 Contingent liabilities

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

At 31 March 2014, a guarantee of Shs 20,000,000 (2013: Shs15,000,000) had been given to Barclays Bank of Kenya against credit cards for the use of senior staff during travel and a guarantee of Shs 67,853,424 (2013: Shs 50,998,579) to various customers for services regularly provided by the Company.

The company has outstanding matters with Kenya Revenue Authority (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	
	2014 Shs'000	**2013 Shs'000**	**2014 Shs'000**	**2013 Shs'000**
Property, plant and equipment	6,799,338	4,141,534	6,799,338	4,141,534
Operating lease commitments				
Not later than 1 year	890,325	801,703	890,325	797,406
Between 1 year and 5 years	3,192,480	2,509,613	3,192,480	2,507,909
Later than 5 years	1,717,608	1,774,169	1,717,608	1,774,169
	5,800,413	5,085,485	5,800,413	5,079,484

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 Change in presentation of the consolidated Statement of Comprehensive Income (SoCI)

The presentation of the consolidated Statement of Comprehensive Income (SoCI) has been changed during the current year to provide additional information on the nature of expenses. The SoCI now includes an EBITDA amount and expenses by function (cost of sales and operating/ administration expenses) are not disclosed. Per IAS 1, 'Presentation of Financial Statements' this is a change in accounting policy and the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors are applicable. The Directors are of the view that this presents better information about the activities of the group. The comparative information has been restated to reflect the changed presentation.

The effect of the raised presentation is as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Year ended 31 March 2013 Shs'000
As previously reported:	
Revenue	124,287,856
Cost of sales	(56,544,436)
Gross profit	67,743,420
Other income	197,888
Distribution costs	(4,680,665)
Administrative expenses	(8,440,194)
Other expenses	(27,720,255)
Operating profit	27,100,194
As restated:	
Revenue	124,287,856
Other income	197,888
Direct costs	(47,173,851)
Other expenses	(28,072,654)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	49,239,239
Depreciation of property, plant and equipment	(19,951,597)
Impairment of property, plant and equipment	(1,280,789)
Amortisation - licenses	(672,940)
Amortisation – indefeasible rights of use	(233,719)
Operating profit	27,100,194

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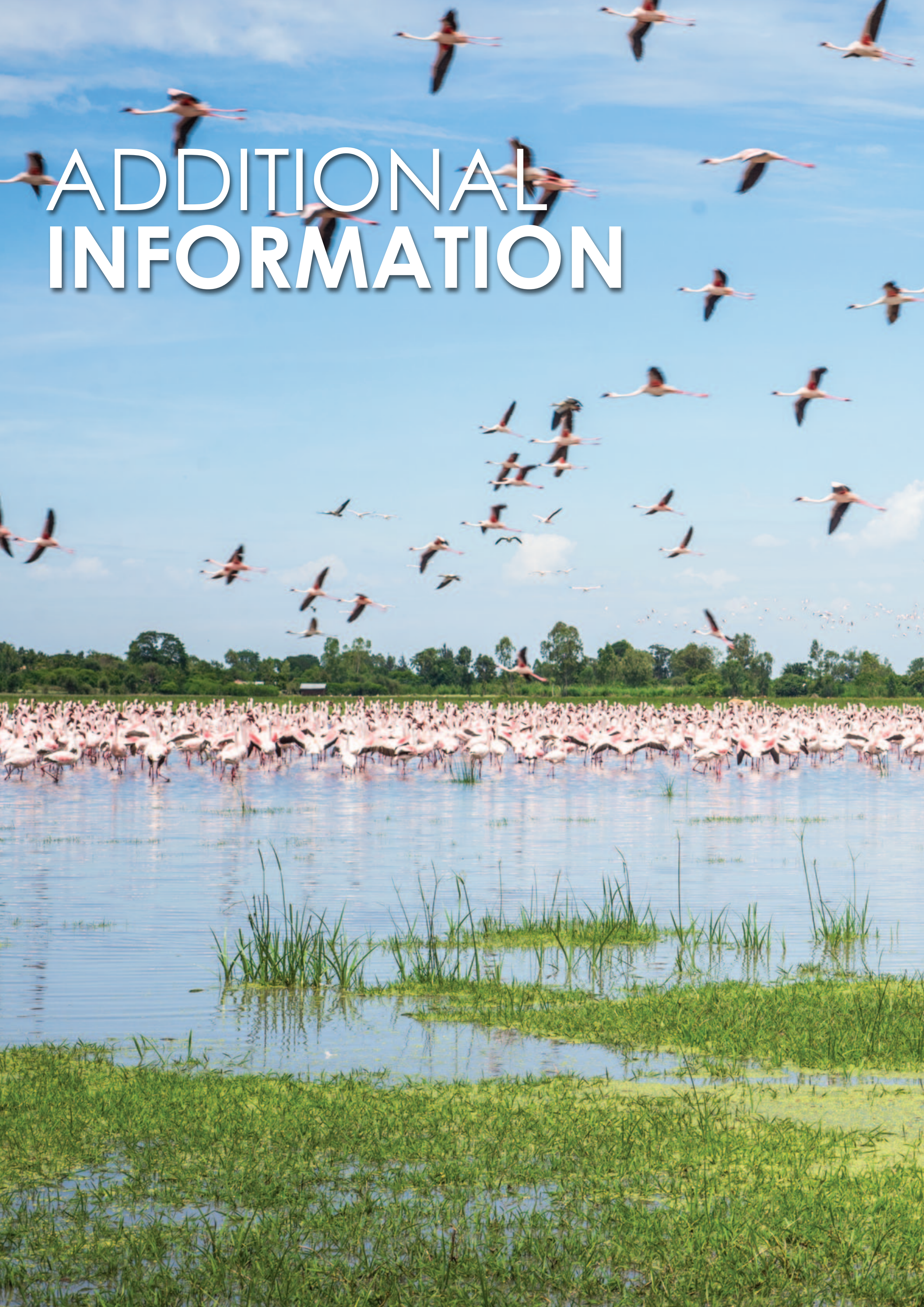
Principal shareholders

The ten largest shareholdings in the Company (ordinary shares only) and the respective number of shares held as at 31 March 2014 are as follows:

Name of shareholder	Number of shares
1 VODAFONE KENYA LIMITED	16,000,000,000
2 CABINET SECRETARY — THE TREASURY	14,022,572,580
3 STANDARD CHARTERED NOMINEES NON-RESIDENT AC 9069	434,327,606
4 STANDARD CHARTERED NOMINEES NON-RESIDENT AC 9835	343,552,231
5 STANDARD CHARTERED NOMINEES A/C KE11916	253,590,700
6 STANDARD CHARTERED NOMINEES A/C KE14353	227,000,133
7 STANDARD CHARTERED NOMINEES NON RESIDENT A/C 9318	202,437,740
8 STANDARD CHARTERED NOMINEES NON-RESIDENT A/C 9054	184,765,000
9 STANDARD CHARTERED NOMINEES NON-RESIDENT A/C KE10085	182,542,500
10 STANDARD CHARTERED NOMINEES A/C 9230	128,560,200
11 OTHERS	8,086,079,310
Total	**40,065,428,000**

Distribution of shareholders	Number of shareholders	Number of shares	% Shareholding
1 to 1000	413,181	251,288,911	0.63%
1001– 10,000	216,779	631,799,251	1.58%
10,001 – 100,000	27,351	690,785,805	1.72%
100,001 – 1,000,000	2,420	639,189,711	1.60%
1,000,001 – 10,000,000	375	1,229,719,697	3.07%
10,000,001 – 100,000,000	156	4,421,644,550	11.04%
100,000,001 – 1,000,000,000	10	2,178,427,495	5.44%
1,000,000,001 – 100,000,000,000	2	30,022,572,580	74.93%
Total	**660,274**	**40,065,428,000**	**100.00%**

ADDITIONAL **INFORMATION**



NOTICE OF THE ANNUAL GENERAL MEETING

TO ALL SHAREHOLDERS

NOTICE is hereby given that the Annual General Meeting of the Company for the year 2014 will be held in the Safaricom Indoor Arena, Kasarani Stadium, Thika Road, Nairobi on Tuesday, 16 September 2014 at 11.00 a.m. to conduct the following business:

1. To receive, consider and adopt the audited Financial Statements for the year ended 31 March 2014 together with the Chairman's, Directors' and Auditors' reports thereon.

2. To declare a first and final dividend of Kshs 0.47 per every share for the financial year ended 31 March 2014 as recommended by the Directors. The Dividend will be payable on or before 15 December 2014 to the Shareholders on the Register of Members as at the close of business on 16 September 2014.

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 the Auditors' remuneration for the ensuing financial year.

SPECIAL BUSINESS

5. Acquisition of 100% shareholding in East Africa Tower Company Limited, a wholly owned subsidiary of Essar Telecom Kenya Limited.

   To consider, and if thought fit, to pass the following resolution as a Special Resolution:-

   "That subject to the fulfilment of several conditions, including receipt of all required regulatory approvals, the acquisition of East Africa Tower Company Limited, a wholly owned subsidiary of Essar Telecom Kenya Limited, as a wholly owned subsidiary of Safaricom Limited be and is hereby approved and the Directors be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient for the purpose of, and in connection with the acquisition of East Africa Tower Company Limited."

6. Any other business of which due notice has been given.

BY ORDER OF THE BOARD

ENID MURIUKI (MRS)
COMPANY SECRETARY

Date: 21 AUGUST 2014

NOTICE OF THE
ANNUAL GENERAL MEETING (continued)

NOTES:

(i) 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.

(ii) In the case of a member being a corporate, the proxy form must be completed under its Common seal or under the hand of an officer or attorney duly authorised in writing.

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

(iv) 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 2014 has been published in two daily newspapers with nationwide circulation.

(v) Registration of members and proxies attending the Annual General Meeting will commence at 7.00 a.m. on 16 September 2014. Production of a National Identity Card, a passport, a current Central Depository Statement of Account for shares held in the Company, or other acceptable means of identification will be required.

(vi) The preferred method of paying dividends which are below Kshs 70,000/- is through M-PESA. Shareholders who wish to receive their dividend through M-PESA and who have not registered for this mode of payment should contact Image Registrars (Tel: +254 20 2230330/ +254 20 2212065/ +254 20 2246449 Mobile: +254 724 699667/ +254 735565666/ +254 770 052116, Email: info@image.co.ke,) or Safaricom Limited's Investor Relations Team (Tel: +254 427 4233/4260 Mobile: +254 722 004233/4260, Email: investorrelations@safaricom.co.ke).

(vii) Transport will be provided to Shareholders on the day of the meeting from the Kenyatta International Conference Centre (KICC) parking bay to the Safaricom Indoor Arena, Kasarani Stadium from 7.00 a.m. to 10.00 a.m. and back to KICC parking bay after the close of the meeting.

DIRECTORS AND SENIOR LEADERSHIP TEAM

BOARD OF DIRECTORS

Nicholas Nganga
Chairman and Non-Executive Director
Nicholas Nganga (75) joined the Safaricom board on 6 May 2004 and was elected Chairman on 16 January 2007. He holds a BA degree from Makerere University and served as the Permanent Secretary for the Ministries of Finance, Foreign Affairs and Health. In addition, he chaired the Tea Board of Kenya and the National Bank of Kenya. He is currently Chairman of G4S Security and Car & General Kenya and a member of the Board of Kakuzi Limited.

Robert Collymore
Executive Director and CEO
Bob Collymore (56) has fulfilled the role of Safaricom CEO since 1 November 2010. Prior to joining the Company, he was Chief Officer for Corporate Affairs of the Vodacom Group, South Africa, responsible for the Group's Corporate Communication, Ethics and Compliance, Legal, External Relationships and Corporate Social Responsibility. In addition, he held the position of Vodafone's Governance Director for Africa, where he was responsible for developing and driving Vodafone's strategy for its investments in Africa and also represented Vodafone as a key direct foreign investor in a number of African countries. Collymore has more than 30 years of commercial experience working in senior executive roles in the telecommunications sector. He is also a trustee of holding companies in Kenya and Tanzania for M-PESA and was recently appointed a member of the UN Global Compact Board.

Michael Joseph
Non-Executive Director
Michael Joseph (68) joined the board on 8 September 2008. He is employed by the Vodafone Group Services Limited as Director of Mobile Money. He is also Vodafone's Strategic Advisor, appointed to the Boards of Vodacom Group South Africa, Vodacom Tanzania and Vodacom Mozambique. Prior to this, Joseph was 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. In addition, Joseph 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.

Esther Koimett
Non-Executive Director and Alternate to Henry Rotich
Esther Koimett (57) joined the Safaricom board on 24 May 2005. She had previously served on the Board between 11 April 2001 and 5 September 2002. She holds Bachelor of Commerce and MBA from the University of Nairobi and is currently the Investment Secretary in the Treasury. Esther has also served as Permanent Secretary in the Ministry of Tourism and Information and as Managing Director for Kenya Post Office Savings Bank.

Nancy Wambaire Macharia
Non-Executive Director
Nancy Wambaire Macharia (48), who joined the Safaricom Board on 16 January 2007, is a member of the Board Audit Committee. She joined Jomo Kenyatta University of Agriculture and Technology (JKUAT) in 2004 as a lecturer and was appointed Deputy Director for the School of Computing and Information Technology between 2005 and 2013. She is a recognised research consultant and educator in the design and implementation of Interactive Computer Systems, Information Systems Security, Innovation and Technology Transfer for Business Development and Usability Engineering. In addition, Macharia holds a Master's degree in Computer Based Information Systems from Sunderland University (UK) and a Post Graduate Diploma in Project Management from Catholic University of Eastern Africa. She is currently completing her PhD in Social and Mobile Media Risk management strategies.

Susan Mudhune
Non-Executive Director
Susan Mudhane (64) holds a Bachelor of Arts degree and MBA from Nairobi University. She is a Fellow of the Institute of Bankers and the Kenya Institute of Management. She is a director at Eveready East Africa, Pan Africa Insurance Holding and the Centre for Corporate Governance. In addition, she is a trustee of the Management University of Africa and the Kenya Girl Guide Association.

John Otty
Non-Executive Director
John Otty (49) is the Vodafone CFO for the Africa, Middle East and Asia Pacific region. He joined Vodafone in December 1992 and has held a number of senior executive positions in Vodafone including that of Group Technology Financial Director, interim CFO of Vodafone India and Vodafone PLC Group Internal Audit Director. He was appointed to the Safaricom Board in August 2013.

Henry Rotich
Non-Executive Director
Henry Rotich (44) is the Cabinet Secretary for the National Treasury. Prior to this, he was Head of Macroeconomics at the Treasury, Ministry of Finance, where he was involved in the formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending, aimed at achieving Government's development priorities. In addition, he was involved in the preparation of key budget documents including the Budget Statements as well as providing strategic coordination of structural reforms in the fiscal and financial sector. Prior to joining the Ministry, Rotich worked in the Central Bank of Kenya's research department from 1994 to 2001. Between 2001 and 2004, he was attached to the International Monetary Fund's local office in Nairobi where he worked as an economist. Rotich holds a Masters Degree in Public Administration from the Harvard Kennedy School, Harvard University, and a Masters and Bachelors Degree in Economics from the University of Nairobi.

Sunil Sood
Non-Executive Director
Sunil Sood (53) joined the board on 31 October 2012. He is currently Chief Operating Officer for Vodafone India where he is responsible for the day to day operations and P&L management for all circles in the country. He also spearheads the organisation's mobile commerce new business development initiatives. Sood is a telecoms veteran, who has been in the industry for over 12 years. In addition, he is on the board of Indus Towers India, the largest tower company in the world. Prior to joining the telecoms industry, Sood had a long career with Pepsi in various roles within India and abroad, his last assignment being CEO of Pepsi in Bangladesh. He also spent four years in Nigeria where he was working to establish a market for Nestle milk and infant formulae in the country. Sood completed his Engineering in B. Tech at IIT - Delhi and MBA at IIM - Kolkata.

Serpil Timuray
Non-Executive Director
Serpil Timuray (44) was appointed Executive Committee member of Vodafone Group and Regional CEO for Africa, Middle East, Asia and Pacific in January 2014. Prior to this, she was CEO of Vodafone Turkey from January 2009. Timuray also serves as a non-executive Board Member of Vodacom Group, a leading African telecoms group headquartered in South Africa. She was appointed to the Boards of Vodafone India, Vodafone Hutchison Australia and Safaricom Kenya in November 2013 and Vodafone Egypt in January 2014. Prior to this she was the General Manager of Danone Turkey from 2002 to 2008.

Timuray is currently Chairperson of the International Investors Association (YASED) board, Vice-Chairperson of the Turkish-British Business Council of Foreign Economic Relations (EIK-TIIK) board, a Member of the Young Entrepreneurs Council of Turkish Union of Chambers and Commodity Exchanges (TOBB-GGK) and sits on the Board of Trustees at Koç University. Timuray was ranked 79th among the "World's 125 Women of Impact" by Newsweek in 2013 and selected as a "Young Global Leader" by World Economic Forum in 2009. She was elected as "The Professional of the Year" in Turkey for 2013, 2011 and 2010 by the Turkish Economist.

John Tombleson
Executive Director and Chief Financial Officer
John Tombleson (51) joined Safaricom as the Finance Director in November 2011. Prior to this, he fulfilled the roles of Acting Chief Executive Officer and Chief Financial Officer for Vodafone Qatar. He was an original member of the Qatar start-up team, which was founded in 2008 and built a population market share of 48% within two years. Tombleson first joined Vodafone in New Zealand in 2003, and has since held various senior financial roles in both mobile and fixed telecommunications operations. He was previously a board member of Vodafone Qatar and Vodafone Fiji. Prior to joining Vodafone, Tombleson was a management consultant with clients across a variety of industries. He has a Bachelor of Management Studies with majors in marketing and accounting.

Enid Muriuki
Company Secretary
Enid Muriuki (39) is a Certified Public Secretary with over 14 years of industry and consulting experience in matters of corporate governance and statutory compliance. She is a holder of a Bachelor of Science degree from Jomo Kenyatta University of Agriculture and Technology and a Diploma in Business Management from Kenya Institute of Management.
She is a member of The Institute of Certified Public Secretaries (Kenya).

DIRECTORS AND SENIOR LEADERSHIP TEAM (continued)

SENIOR LEADERSHIP TEAM

Robert Collymore
Chief Executive Officer *(see profile on page 130)*

John Tombleson
Chief Financial Officer *(see profile on page 131)*

Peter Arina
General Manager, Consumer Business Unit
Peter Arina is responsible for the consumer sales business, which includes dealer and M-PESA agents' management and retail sales with a current footprint of 43 Safaricom retail shops across the country. He is also charged with consumer propositions and growing internet and data content. Arina joined Safaricom in November 2004 as Chief commercial officer and was appointed to his current role following the business' structural reorganisation. He is a seasoned professional, having joined Safaricom from Unilever Kenya in October 2004 as customer development director (sales director) reporting to the chief executive officer (East Africa). Arina holds a Bachelor of Commerce (Marketing) degree from the University of Nairobi.

Roy Masamba
Director, Resources
Roy 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 in various countries in Europe, the US, Africa and the Middle East. Before joining Safaricom, Masamba worked with the Vodafone group for three years. He was Regional HR executive for Central Europe, Africa, the Middle East and Asia Pacific before taking up the role of Vice President Human Resources for Verizon Vodafone Enterprise Services, based in London. In addition, Masamba headed the Human Resource function in other multinational companies such as the Zain group of companies and British American Tobacco. He has a BSc Honours degree in Electrical Engineering from the University of Zimbabwe and an MBA in general management from Cranfield School of Management in the United Kingdom.

Nicholas Mulila
Director, Risk Management
Nicholas Mulila is responsible for the Risk Management functions of the Company, including Enterprise Risk Management, Ethics and Compliance, Revenue Assurance, Security and Anti-Money Laundering. He joined Safaricom in 2001 and has risen through the ranks to become a member of Senior Leadership Team. He has held 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 Programme Management Officer. Prior to joining Safaricom, Mulila worked for General Motors (EA) and Eastern Produce (K) Ltd, where he held various positions in finance. 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).

Sylvia Wairimu Mulinge
General Manager, Enterprise Business Unit
Sylvia Wairimu Mulinge is General Manager of Safaricom's Enterprise Business Unit. Under her leadership, the business unit has tripled its revenue, largely driven by her focus on the Small and Medium Enterprise (SME) and Government sectors.
As a member of the Safaricom Sustainability team, she successfully led an initiative to embed sustainability in the organisation and is spearheading an ambitious plan to recruit additional members for the United Nations Global Compact office in Kenya. In addition, she is an active member of Make A Difference (MAD) and sits on the board of The Partnership for Maternal Newborn & Child Health (PMNCH), a global health initiative hosted by the World Health Organisation in Geneva. Sylvia was named one of Kenya's Top 40 Women Under 40 in 2014 and is passionate about developing women leaders across the region. In this respect, she is Executive Sponsor of the Safaricom Women In Technology (WIT) initiative. She holds a BA (Hons) of Science degree from the University of Nairobi and is pursuing an Executive MBA through the University of Cape Town in South Africa.

Joseph Ogutu
Director, Strategy & Innovation
Joseph Ogutu joined Safaricom as Chief Corporate Affairs Officer in May 2005 from Telkom Kenya where he was the Principal Assistant to the Managing Director and Chief Strategy & Regulatory Officer. He then served as Chief Human Resource Officer from 2008 before taking on the role of Director, Resources Division following the March 2011 company reorganisation. In October 2012, Ogutu was appointed as Director, Strategy & Innovation division. In addition, he serves as the Chairman of Safaricom Foundation and sits on the Board of TEAMS Limited. Ogutu has more than 25 years in the telecommunications industry, 12 at the executive committee level. During this period, he has played an instrumental role 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).

DIRECTORS AND
SENIOR LEADERSHIP TEAM (continued)

Rita Okuthe
Director, Marketing
Rita Okuthe was appointed Director, Marketing at Safaricom in May 2013. She joined the Company in August 2009 as Head of Consumer Segments. Her deep understanding of local consumer behaviour has helped drive voice revenue. Prior to joining Safaricom, she held several marketing roles, including Head of Marketing at MTN Uganda. Okuthe has gained substantial work experience in advertising and brand management over the years and has successfully managed brands at all stages; from infancy to maturity in monopolistic and highly competitive environments. She holds a Bachelor's degree in Economics and a Master's degree in Marketing.

Denish Osodo
Director, Internal Audit
Denish Osodo is the Director, Internal Audit, a role he has held since October 2013. He is a seasoned professional with 14 years' experience in Audit and Risk Advisory Services. He previously worked at PricewaterhouseCoopers (PwC) for several years, offering audit and business advisory services to companies in different industries during stints at PwCs' Kenya and United Kingdom offices. He left PwC as a Director in the Risk Assurance Services team focused on the provision of Internal Audit and Business Controls Advisory Services to large businesses in the region. Osodo graduated with a Bachelor of Commerce from the University of Nairobi and is a practicing member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Thibaud Rerolle
Director, Technical
Thibaud Rerolle was appointed Director,Technical at Safaricom in January 2012. Prior to this he was the Chief Technology Officer at Orange Dominicana in the Dominican Republic. He has a wealth of experience in telecommunications, having worked for the France Telecom Group for 17 years in various senior managerial roles spanning networks, management, international assignments and customer services in six countries in Europe and South America. Rerolle has a Bachelor of Sciences Degree in Telecommunications Engineering, specialising in Networks, from the prestigious Telecom ParisTech (ENST) and is fluent in six languages.

Betty Mwangi-Thuo
General Manager, Financial Services
Betty Mwangi-Thuo is General Manager Financial Services, responsible for overseeing the strategic growth, profitability and development of M-PESA. She joined Safaricom in December 2007 as head of New Products Division, which comprised the M-PESA business and GSMA projects. She was promoted to Chief Officer New Products Division in October 2008, responsible for Safaricom's Value Added Service. Prior to joining Safaricom Mwangi was Chief Marketing Officer at Afsat Communications. In addition, she also worked at GlaxoSmithKline for five years where she was responsible for the East African business and interoperability for Africa and the Middle East. In 2010 she was featured by Mobile Communications International as one of the top 10 most influential women in mobile globally and in August 2011 and 2013, she was recognised as one of the TOP 20 most powerful African Women in ICT by the ITNewsAfrica. In December 2011, she was recognised 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). Mwangi has a B. Eng. (Hons) in Electrical and Electronic Engineering from the Victoria University of Manchester and an MBA from the University of Leicester. She is Chartered Marketer and a member of the Chartered Institute of Marketing.

Nzioka Waita
Director, Corporate Affairs
Nzioka Waita joined Safaricom in 2001 as a Legal Officer responsible for Site Acquisition. He rose through the ranks to serve the company in various roles including Legal Services Manager between 2002 and 2007 and Head of Legal & Regulatory Affairs between 2007and 2010 followed by a brief stint as Head of Strategy & New Business, responsible for driving the company's mergers and acquisitions agenda. He held this position until April 2011 when he stepped into his current position.
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. Waita is also a founding Trustee of the Safaricom Foundation, a role he has held since August 2003.

Pauline Warui
Director, Customer Care
Pauline Warui is Director Customer Care, responsible for delivering unmatched customer care to Safaricom's over 21 million customers. She joined Safaricom Limited in January 2008 as the Head of the Call Centre in the Commercial Division and was later promoted to Chief Customer Care Officer, a role she fulfilled until assuming her current position. Warui is recognized for her skills in customer care and youth leadership and is credited with spearheading the growth of Safaricom's customer support service to its current platform. She honed her skills in customer service at Chevron Corporation where she worked as the Area Customer Service Coordinator for East Africa and Egypt for two years. Prior to that, she had worked for Celtel (K) Ltd now Airtel (K) Ltd as a Customer Service Manager where she gained extensive experience and training in Customer Service and Contact Centre Operations. She holds a BA (Hons) degree from the University of Nairobi and a certificate in Advanced Management from the Strathmore Business School.

CORPORATE **INFORMATION**

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Tel: +254 719 039 000 / 020 4230 000

PROXY
FORM

I/WE ____

OF____

Being a member of the above Company, hereby appoint:

____

OF____

failing whom, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Tuesday, 16 September 2014 and at any adjournment thereof.

As witness my/our hand this_________________________ day of_________________________2014.

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.

NOTES

WWW.SAFARICOM.CO.KE