Annual Report & Group Accounts

For the Year ended 31st March 2011

Safaricom

"Safaricom is the leading provider of converged communication solutions in Kenya. In addition to providing a broad range of first-class products and services for Telephony, Broadband Internet and Financial services. Safaricom seeks to uplift the welfare of Kenyans in direct ways through value added services and support for community projects.

The Safaricom foundation, now in its 7th year of operation, has since inception disbursed 1.3 billion shillings in different initiatives that provide sustainable and community based solutions and contributing towards Kenya's development agenda, and the Millennium Development Goals."

Shareholder's Diary

Financial year ends 31st March
Annual General Meeting : Thursday 8th September 2011

Dividends

Declared dividend: 20 cents per share Payable on or before 8th November 2011

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

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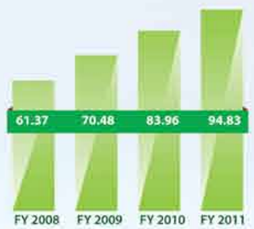
For more information please visit our website www.safaricom.co.ke

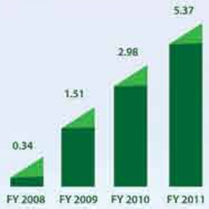
Performance at a glance

Revenue
Ksh. Billion

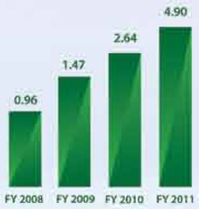


Subscribers
Million

Mobile & Fixed Data Revenue
Billion

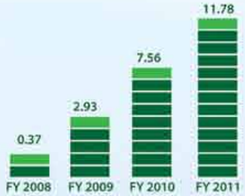


Data Subscribers
Million



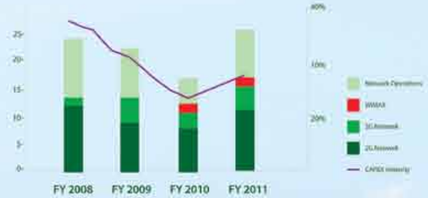
Revenue Growth

MPESA Revenue
Ksh. Billion



MPESA users
Million

Capital Investments



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Dividends

Chairman's Commentary

- Impressive company performance despite challenging operating conditions characterized by increased operating costs, heightened regulatory activity and renewed price competition.
- The Group remains on track in its performance with a 12.9 % growth in revenues and an 8.8 % increase in subscriber numbers.
- Mobile data and M-PESA continue to perform extremely well with increased contribution to revenues and growth in customers.
- Data revenue stream now accounts for a quarter of Group revenues.
- Reinforced focus on data as evidenced by infrastructural investments, strategic partnerships and acquisitions.
- Commitment to continue being market leader, expanding our network coverage and quality as well as providing innovative products and services.

a 12.9% increase in revenues.

CEO'S Commentary

- Over 17 million customers now linked to our network and we are still the number 1 mobile network operator in the country.
- Voice continues to be our mainstay accounting for 67% of revenue. Continued investment in CAPEX in order to increase voice capacity to cater for the increase in traffic.
- Data forms the cornerstone of future growth for the group with distinct mobile data customers now totaling 4.5 million and mobile data revenue up by 77% to Kshs. 5.26 billion.
- Intensified price competition and prevailing poor economic conditions headlined as the main challenges for the year.
- Launch of Safaricom 2.0 which endeavors to provide an unmatched experience to our customers at all touch points as well as an organizational restructuring geared at improving agility in responding to customer needs.
- Launch of Mavuno 2.0; our cost re-engineering initiative whose aim is to fundamentally redesign the way we operate and generate cost efficiency.
- Re-defining our market leadership not just in terms of customer satisfaction and providing superior shareholder returns but in creating constructive value for all our stakeholders.

Voice is our mainstay accounting for 67% of revenue.

Key Regulatory Highlights

- Fair Competition and Tariff Regulations introduced in May 2010 were amended to match international standards and create specific tests for abuse of dominance and market segmentation.
- Mobile Termination Rates (MTRs) reduced in August 2010 by 50% by the Communications Commission of Kenya (CCK) leading to an industry wide reduction in voice retail prices by an average of 70%.
- Universal Service Fund (USF) effected in January 2011 by the CCK where all operators were directed to commence payment of the Universal Services Fund levy at a rate of 0.5% of gross turnover.
- Acquisition of Additional GSM 1800 Spectrum: CCK's spectrum allocation policy that all mobile operators have equal allocation of spectrum results in the lack of sufficient GSM 1800 spectrum for Safaricom which is a major hindrance in providing quality service.
- Mobile Number Portability commenced in 1st April 2011 allowing subscribers to change networks while retaining their original mobile number.

Business Highlights

Safaricom's history of strong growth through product diversification and innovation placed it in good stead to defend its market leader position and stay poised for growth in the future.
Reduced retail voice prices spurred an increase in usage as the average monthly minutes of use (MOU) per subscriber grew by 72% from 50 to 86 minutes.

Significant reductions in international calling rates to flagship destinations like the US, China, India and Canada resulted in an average 130% increase on international traffic. "Skiza", the caller ringback tone service continues to grow steadily with over 22% of our total subscriber base using the service. Improvement of our SMS offering with the introduction of SMS bundles, an unlimited SMS service with Twitter and Facebook SMS as SMS revenues grew by 47%.

Mobile and Fixed Data

Safaricom commands a 92% share of the internet subscriptions market through 3G & Edge connetions and offers connections tion speeds of up to 7.2 Mbps.

The revamped Safaricom Applications Store which allows customers to access applications on their mobile phones and also application aggregators to upload applications onto the Safaricom portal.

The Safaricom Business unit has introduced compelling service propositions that include;

- Virtual meeting solutions: Telepresence and Video Conference services
- Data centre services: Disaster Recovery, Co-location services
- Media services: Plug & Play Broadcasting, Digital Media Signage, remote media broadcasting.

M-PESA

M-PESA now forms a core part of the lives of Kenyans with 13.8 million Safaricom subscribers and supported by a nationwide agent network of over 24,000 outlets.

M-PESA recognized once again at the 2010 Mobile Money Transfer Awards with three awards – 'Most inventive Marketing Campaign', for 'Achievement in Financial Inclusion' and 'Outstanding Personal Contribution to Mobile Money Development'.

Extension of the International Money Transfer services in partnership with Western Union allowing users across 46 countries worldwide to send money directly to M-PESA accounts.

Additions to M-PESA's stable of products to include the 'Nunua na M-PESA' service, M-PESA PrePay Visa Card, 'Lipa Karo na M-PESA' and M-Ticketing.

Safaricom 2.0

The new strategic direction necessitated by the changed operating environment which will see Safaricom into 10 more years of success. Safaricom 2.0 is about putting the customer at the centre of everything we do whilst at the same time building constructive value to all our stakeholders.

Safaricom 2.0 demands a change in our structure, our culture and our mindsets towards the stake-holders who make up our business ecosystem. The new company structure facilitates agility in customer service and focuses on delivering superior customer service to all our customers.

Sustainability Path

Safaricom understands that all our activities contribute to a cumulative effect; hence addressing climate change is an integral part of our strategy.

We are implementing technological solutions that replace the traditional carbon intensive methods of doing business and have pledged to undertake a carbon footprint analysis and report on the same as part of our Corporate Policy.

We are committed to designing carbon reduction programs that will assist Safaricom achieve its carbon neutrality goals.

This is a Quick Response (QR) code that will allow you to find out more on Safaricom 2.0

Most phones with a camera have a QR code reader already installed or available for download.

Scan the code for more information on Safaricom 2.0

The Community Around Us

The Safaricom Foundation continues to partner with communities, Community Based Organisations and Non-Governmental Organizations to implement development projects in a partnership model that involves the active participation of Safaricom staff. The Foundation disbursed Kshs. 245 million towards 108 initiatives that are geared towards achieving Kenya's development agenda, and the Millennium Development Goals.

Through corporate sponsorships, the company continues to build bonds with the communities with which it interacts with and has maintained its top ranking as the company perceived by Kenyans to have done the most for society (Synovate 2010).

Chairman's Commentary

Still Standing Tall

It is my pleasure to present to you our annual report and accounts for the financial year ended 31st March 2011. The 2011 financial year has been characterized by heightened regulatory activity and a revival of intense pricing competition. Operating costs have risen largely as a result of the global increase in oil prices while inflationary pressure has seen consumer spending power undermined. Safaricom however, produced good results despite the challenging market conditions and again displayed why it is truly one of Africa's leading companies.

Increasing inflation has had a negative impact on the disposable incomes of our customers particularly with increasing food prices. A weakening shilling has added to the already challenging situation as import costs continue to rise. However, the most significant occurrence in the year that changed the dynamics of the industry was the unprecedented increase in regulatory scrutiny with Subscriber Identity Registration, Mobile Number Portability and the decline in Mobile Termination Rates.

Whilst operating in a market with one of the lowest voice tariffs globally and increased pricing pressure for voice, the company has delivered strong financial results with a 12.9 % growth in revenues reinforced by an 8.8 % increase in customer numbers that secured our market leader position. This is a testimony of the Board's, management's and employees' commitment towards continued creation of shareholder value.

Data and in particular mobile data has experienced strong growth as penetration levels continue to rise, awareness of the internet among the Kenyan population increases and the level of application development targeted at this growing market becomes sophisticated. M-PESA is now a global financial system and has established its position as the market leader in mobile money transfer services.

While taking steps to ensure continued revenue growth, we are also focused on further implementing cost- efficiency programmes that will see the company remain profitable into the future.

Corporate Governance

The Board of Directors of Safaricom Ltd is responsible for the governance of the corporation and is accountable to stakeholders for ensuring that the Corporation complies with all relevant laws and the highest standards of business ethics and corporate governance. Accordingly the members of my Board and I attach very high importance to, and have embraced the internationally recognized principles and code of best practice of good corporate governance.

The Board's role remains that of overseeing and guiding the execution of the Group's business and has the final responsibility for the management, direction and performance of the company and its businesses. The Board remains accountable to shareholders for the proper conduct of the business and reporting to the same shareholders. The Board has established an audit committee which assists the board in discharging its duties relating to the safeguarding of assets, the operation of adequate financial systems and control processes, and the preparation of financial statements and related financial reporting in compliance with all applicable legal requirements and accounting standards. The Board also has a nomination committee whose responsibilities include the review of the remuneration and incentives for the Board and Senior Management. The terms of reference for this committee satisfy the requirements of the Capital Markets Authority.

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

Mr. Nicholas Read and Ms. Karen Witts were appointed to the board as non-executive members while the former CEO, Mr. Michael Joseph, now sits on the board in the capacity of a non-executive director. All three were nominated by Vodafone Kenya Ltd under the terms of the Articles of Association of the Company.

The following board members resigned during the year

- Mr. James McLaughlin
- Mr. Les Baillie (Alternate to Morten Lundal)
- Mr. Morten Lundal

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

Regulatory Highlights

We place great emphasis on maintaining a constructive working relationship with the relevant regulatory bodies. In the 2011 financial year, the Communications Commission of Kenya (CCK) proposed and/or introduced several new regulations outlined below.

Fair Competition and Tariff Regulations 2010

In May 2010 the Minister for Information & Communications promulgated fourteen new CCK driven Regulations including the Fair Competition and Tariff Regulations 2010. After industry-wide consultations, the Fair Competition and Tariff Regulations were amended to match international standards and create specific tests for abuse of dominance and market segmentation.

Mobile Termination Rates

In August 2010 the Communications Commission of Kenya (CCK) cut the prevailing Mobile Termination Rates (MTRs) by 50%. The reduction glide-path adopted by CCK for Voice and SMS services is as shown below:-

Glide Path – Mobile Voice and SMS Termination Rates

Effective Date	1st Jul 2011	1st Jul 2012	1st Jul 2013	1st Jul 2014
Mobile Voice KES/minute	2.21	1.44	1.15	0.99
SMS – KES per SMS	0.20	0.10	0.05	-

As a consequence of the low MTR environment and competitor activities, the industry has undergone an overall 70% reduction in voice retail prices with Safaricom's retail prices falling by an average of 68%. It is anticipated that if CCK implements the reduction glide-path, retail prices are likely to remain under pressure.

Universal Service Fund (USF)

Starting in January 2011 CCK has directed Safaricom and all other operators to commence payment of the Universal Services Fund levy at a rate of 0.5% of gross turnover.

Safaricom has been working with the Ministry of Information and Communications and the Kenya ICT Board to set up digital villages, which will assist the Ministry's efforts towards achieving universal access objective of reaching underserved areas. As at 30th March 2011, Safaricom in conjunction with other partners has built approximately 1,000 digital villages and has committed to setting up 5,000 others during the 2012 financial year.

Acquisition of Additional GSM 1800 Spectrum

The lack of sufficient GSM 1800 spectrum has been a major hindrance in achieving our goal of providing the very best quality services. CCK's spectrum allocation policy is that all mobile operators must have equal allocation of spectrum. This has been a challenge for Safaricom given our large subscriber base and the amount of traffic carried on our network. The reduction in voice rates has also added significant traffic volume to our network.

Mobile Number Portability

Having announced its commitment to introduce Mobile Number Portability (MNP) (the facility that allows a subscriber to change networks while retaining their original number) in Kenya, CCK in July 2010 appointed Porting XS Kenya Limited to implement MNP. Safaricom, CCK and other operators executed the necessary Service Agreement and Guidelines which provide the regulatory framework for its implementation. MNP was launched on 1st April 2011.

Future Outlook

Despite operating in an increasingly challenging market, the company has proven more than capable to navigate through the major obstacles it faces in order to maintain its dominance in customer market share, revenue share, network coverage and innovation. This would not be possible were it not for the tremendous effort put in by the management team and employees to whom I want to express my sincere gratitude for making the 2011 financial year a success.

Safaricom is poised to benefit from a growing economy that is fast becoming internet dependant and propelled by the ever evolving cyber space. As demonstrated earlier, Safaricom has the technical muscle, knowledge and expertise to tap into this vast opportunity in support of the country's Vision 2030 blue print in which ICT is a key driver of development. Safaricom will continue with infrastructural investments and strategic partnerships to solidify our No. 1 position.

Maoni ya Mwenyekiti

Ni furaha yangu kuwasilisha kwenu taarifa hii ya matokeo ya kifedha katika mwaka unaomalizikia tarehe 31 Machi 2011. Mwaka wa kifedha wa 2011 umekuwa na sifa ya kuongezeka kwa uthibiti wa sheria na kufufuka tena kwa ushindani mkubwa wa bei. Gharama ya shughuli imeongezeka sana haswa kutokana na kupanda kwa bei ya mafuta duniani huku shinikizo la kupanda kwa gharama ya maisha likidhoofisha uwezo wa watu kununua bidhaa. Hata hivyo Safaricom, iliweza kutoa matokeo mazuri licha ya kuweko kwa changamoto katika soko na kwa mara nyingine tena kuonyesha kwa yakini sababu yake ya kuwa moja ya Kampuni zinazoongoza kote Afrika.

Kupanda kwa gharama za maisha kumeathiri pakubwa uwezo wa wateja wetu wa kununua bidhaa hususan kuongezeka kunakoendelea kwa bei za vyakula. Kuendelea kupungua kwa thamani ya shilingi kumezidisha kwenye hali ambayo tayari ina changamoto huku gharama za kuagiza bidhaa kutoka nje zikipanda. Hata hivyo, tukio kubwa zaidi mwakani lililogeuza kabisa hali ya biashara hii ni kuzidi kwa uchunguzwaji wa kanuni ambao haujawahi kuoenekana tena pamoja na sheria za Usajili wa Utambulisho wa Wateja, Kuhamisha Namabari ya simu na kupunguzwa kwa ada ya Kutamatisha simu kutoka mtandao mwingine.

Licha ya kuendesha biashara yetu katika soko lenye moja ya bei ya kupiga simu iliyo chini zaidi kote duniani na bado kuendelea kwa shinikizo la kupunguza bei ya kupiga simu, kampuni imewasilisha matokeo thabiti ya kifedha kukiwa na ukuaji wa 12.9 % wa faida unaoimarishwa zaidi na ongezeko la 8.8 % la idadi ya wateja ambalo lilifanya tuhifadhi nafasi yetu ya kuongoza katika soko. Huu ni uthibitisho wa kujitolea kwa Halmashauri, wasimamizi na wafanyikazi kujitahidi kuendelea kuongezea faida kwa mmiliki hisa.

Mrengo wa Data na hasa data ya simu za mkononi imepata usitawi thabiti huku viwango vya kuenea kwake vikiendelea kupanda, kuendelea kwa watu wengi wa Kenya kufahamu matumizi ya internet na kubuniwa kwa viwango mbali mbali vya programu-tumivu zinazolenga soko hili linalozidi kusitawi na kuwa la kisasa. M-PESA hivi sasa imekuwa mfumo wa kifedha wa ulimwengu na imethibitisha nafasi yake ya kuwa kiongozi katika sekta ya huduma ya kuhawilisha pesa kwa njia ya simu.

Huku tukiendelea kuchukua hatua zinazotuhakikishia usitawi wa faida kuwa unaendelea kuimarika, vile vile tunatilia mkazo utekelezaji wa mikakati ya kuthibiti gharama ambayo itaiwezesha kampuni hii kuendelea kupata faida hata katika siku zijazo.

Yalo muhimu katika kanuni mpya

Tunatilia mkazo umuhimu wa kuendelea kuwa na uhusiano mzuri na idara husika za utekelezaji sheria. Katika mwaka huu wa kifedha wa 2011, Tume ya Mawasiliano ya Kenya (CCK) ilipendekeza na/au kutangaza sheria mpya mbali mbali kama inavyoelezewa hapa chini kimuhtasari.

Sheria ya Ushindani wenye Usawa na Usimamizi wa Bei 2010

Mnamo mwezi wa Mei 2010 Waziri wa Habari na Mawasiliano alitangaza rasmi sheria kumi na nne mpya za tume ya CCK zikijumuisha zile za Ushindani wenye Usawa na Usimamizi wa bei 2010. Baada ya ushawishi kufaulu, sheria za Ushindani wenye Usawa na Usimamizi wa bei zilirekebishwa ili kuwa na uwiano na zile za viwango vya kimataifa na kubuni ukadriaji maalum wa ukiukaji wa tamalaki na vitengo katika soko.

Usimamizi wa Shirika

Halmashauri ya wakurugenzi wa shirika la Safaricom Ltd ndio yenye jukumu la usimamizi wa shirika na wanawajibika kwa wenyehisa na washika dau wake kuhakikisha shirika hili linatekeleza sheria zote husika na linadumisha viwango vya ubora wa hali ya juu vya maadili ya biashara na usimamizi wa shirika.
Vile vile ni jukumu la halmashauri kusimamia kwa makini utekelezaji wa shughuli za kundi na wajibu mkubwa wa kusimamia, kuongoza utendakazi wa kampuni na biashara zake. Bado pia halmashauri inawajibika kwa wenyehisa kuendesha vyema

shughuli za biashara na kutoa taarifa kuhusu hilo kwa wenyehisa. Halmashauri ilianzisha kamati ya ukaguzi wa hesabu kusaidia halmashauri kutekeleza wajibu wake wa kulinda rasilimali, kuendesha mikakati ya kifedha na ya usimamizi, na utayarishaji wa taarifa za kifedha na taarifa zingine husika za kifedha kuambatana na mahitaji ya kisheria na kwa viwango vya uhasibu.

Mwakani kumekuwa na mabadiliko fulani katika halmashauri ya wakurugenzi. Bw. Nicholas Read na Bi. Karen Witts walichaguliwa katika halmashauri kama wanachama wasio watendaji huku aliyekuwa Afisa Mkuu mtendaji, Bw. Michael Joseph, sasa atakaa katika halmshauri akiwa na wadhifa wa mkurugenzi asiye-mtendaji. Wote hawa watatu waliteuliwa na kampuni Vodafone Kenya Ltd kwa mujibu wa sheria za ushirikiano za Kampuni hii.

Wakurugenzi wa halmashauri wafuatao walistaafu mwakani

- Bw. James McLaughlin
- Bw. Les Baillie (Mpokezi kwa zamu wa Bw. Morten Lundal)
- Bw. Morten Lundal

Nawakaribisha wakurugenzi wapya kwenye halmashauri na ningependa kuwashukuru wale wanaondoka kwa mchango wao katika mwaka huo tunaozungumzia

Ada za Kutamatisha simu

Katika mwezi wa Agosti 2010 Tume ya Mawasiliano ya Kenya (CCK) ilipunguza ada ya kutamatisha simu (MTR) iliyokuweko kwa kiasi cha 50%. Mfumo wa kupunguza utakaochukuliwa na CCK kwa huduma za simu za kauli na SMS ni kama inavyoorodheshwa hapa chini:-

Kutokana na kupungua kwa ada hii ya MTR na shughuli za washindani wetu wa kibiashara, kwa ujumla biashara hii imekumbwa na upungufu wa 70% wa bei ya rejareja ya simu za kauli huku bei za Safaricom za simu za kauli zikipungua kwa takriban hadi 68%. Inatarijiwa ikiwa Tume ya CCK wataendelea kutekeleza mfumo huu wa kupunguza ada, basi bado shinikizo litazidi kukabili bei za rejareja.

Hazina ya Universal Service Fund (USF)

Kuanzia Januari 2011 CCK waliagiza Safaricom pamoja na watoa huduma wengine kuanza kulipia mchango wao katika Hazina ya Universal Services Fund kwa kiwango cha 0.5% cha mapato ghafi.

Safaricom imekuwa ikishirikiana na Wizara ya Habari na Mawasiliano na Halmshauri ya ICT kuanzisha vijiji vya kimtandao yaani digital villages, ambavyo vitashadidi juhudi za Wizara hii za kufikia lengo lake la kuwasilisha teknolojia kwa wote hasa wale walio maeneo ya mashinani. Hadi kufikia tarehe 30 Machi 2011, Safaricom pamoja na washirika wake wengine walijenga takriban digital villages 1,000 na wameahidi kuanzisha jumla ya vingine 5,000 katika mwaka wa kifedha wa 2011.

Jedwali la mfumo – Ada ya kutamatisha simu za kauli na SMS

Tarehe ya kutekeleza	1st Jul 2011	1st Jul 2012	1st Jul 2013	1st Jul 2014
Simu za kauli KES/dakika	2.21	1.44	1.15	0.99
SMS – KES kwa kila SMS	0.20	0.10	0.05	-

Umiliki wa Mpangilio wa GSM 1800

Spectrum ya ziada

Kutokuwa na mpangilio wa GSM 1800 spectrum wa kutosha kumekuwa ni kizuizi kikubwa cha sisi kuweza kufikia lengo letu la kutoa huduma zilizo bora zaidi. Sera ya CCK ya ugawanyaji wa mpangilio (spectrum) ni kugawanya sawa kwa kila mtoa huduma za simu. Hii imekuwa changamoto kubwa kwa Safaricom kutokana na kuwa na idadi kubwa zaidi ya wateja pamoja na wingi wa shughuli katika mtandao wetu.

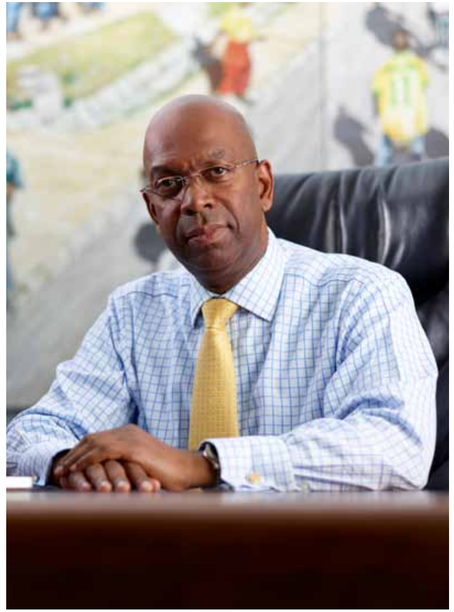
Kuhamisha Nambari ya Simu

Baada ya kutangaza dhamira yake ya kuanzisha uwezo wa Kuhamisha nambari ya simu yaani Mobile Number Portability (MNP) (huduma hii inamwezesha mteja kubadili mtandao bila ya kubadilisha nambari yake ya simu ya awali) hapa Kenya, mnamo mwezi wa Julai 2010, CCK waliteua shirika la Porting XS Kenya Limited kutekeleza shughuli ya MNP. Safaricom, CCK pamoja na watoa huduma wengine walitia sahihi mkataba ufaao wa Muongozo wa kutoa huduma hii ambao unaoyesha jinsi utakavyotekelezwa. Huduma ya MNP ilianzishwa rasmi tarehe 1 Aprili 2011.

Mtazamo wa siku zijazo

Licha ya kuendesha shughuli katika soko linalozidi kuwa na changamoto nyingi, shirika limeonyesha kuwa na uwezo wa ziada wa kuongoza na kukiuka vizuizi vikubwa vilivyoko ili kudumisha uongozi wake wa kuwa na fungu kubwa la wateja katika soko, fungu kubwa la faida, kuenea kwingi kwa mtandao na ubunifu. Hii haingewezekana bila ya juhudi kubwa iliyowekwa na timu ya wasimamizi na wafanyikazi ambao kwao napenda hapa kutoa shukrani zangu za dhati kwa kuufanya mwaka wa kifedha wa 2011 kuwa wa mafanikio.

Safaricom inatarajia kunufaika kutokana na uchumi unaoendelea kusitawi ambao unategemea sana mtandao wa internet na kupelekwa kasi na hali inayogeuka upesi ya kimtandao. Kama ilivyothibitika hapo nyuma, Safaricom ina uwezo wa kiteknolojia, ujuzi na ustadi wa kufuatilia fursa hii kubwa katika kuunga mkono malengo ya taifa letu ya 2030 ambamo humo teknolojia ya mawasiliano ya ICT ni kiungo adhimu cha maendeleo. Safaricom itaendelea na uwekezaji wa kimuundo-msingi na mikakati ya ushirikiano ili kushadidi nafasi yake ya kuwa nambari 1.



CEO's Commentary

Time of Transition

I open my first Chief Executive report by paying tribute to my predecessor Michael Joseph under whose stewardship the company delivered the first half results. MJ, as he is known to many Kenyans, has been the iconic leader who has grown this company from modest beginnings in October 2000 with fewer than 20,000 customers to Kenya's largest telecommunications provider enriching the lives of 17 million customers and in turn the economic well-being of the nation. Michael has handed over leadership of a company with exceptionally strong customer loyalty, a determined and very focused workforce and a place in Kenya's heart that I hope I can nurture in years to come.

The telecommunications market was fiercely aggressive last year with competition intensifying in the second half of the year. Mobile voice prices are now among the lowest in the world. Notwithstanding these dramatic reductions in retail pricing the Group still delivered a very strong set of results with revenue increasing by KShs.10.87 billion.

Despite a slight reduction in voice revenues, it still remains our mainstay accounting for 67% of revenue. We have invested significant CAPEX in order to increase voice capacity to cater for the dramatic increase in traffic following the reductions in retail price. We closed the year with an additional 339 sites having invested KShs. 25.48 billion in CAPEX.

M-PESA has performed extremely well with 13.8 million Kenyans using the service for a range of activities from simple person-to-person money transfer to paying for school fees, utility bills and supermarket shopping. M-PESA revenues grew by 56% in the period. We have further extended its reach through the launch of the M-PESA Safari Card in association with Visa International giving our customers the opportunity to access the service in up to 28 million merchant outlets across the world. We believe that M-PESA is still in its infancy in terms of the impact it will make on the lives of ordinary Kenyans and we continue to develop and evolve the service to meet the needs of our customers.

We have seen very strong growth in data in line with our previously announced strategy to become a total communications provider. Data (including M-PESA and SMS) accounted for 26% of overall service revenues and represented a growth of 57%. During the period we deployed 533 3G sites delivering speeds of up to 7.2mbps and commenced technical trials of the next generation of mobile data technology known as Long Term Evolution (LTE). We believe that data will form the cornerstone of our future growth as the company develops and deploys mHealth, mEducation and Fibre-To-The-Home solutions to meet the demands of our customers as well as address the broader agenda of Government.

Towards the end of the financial year we reorganized the company to create 3 Strategic Business Units with full P&L responsibility in order to increase customer intimacy, improve accountability and accelerate the speed of decision-making throughout the organization. The key elements of the re-organization were establishment of the three customer facing strategic business units. The Enterprise Business Unit will give added focus to this increasingly important and complex customer segment, the creation of the Financial Services Business Unit will allow the team to concentrate on the evolution of M-Pesa to become bigger than cash whilst the Consumer Business Unit will address the cornerstone of our customer base. All the other functions have been consolidated into corporate support functions.

We also launched our cost re-engineering initiative, dubbed Mavuno 2.0, which is aimed at fundamentally redesigning the way we operate. This builds on the earlier cost saving initiatives but recognizes that the market has fundamentally shifted and therefore requires a more cost efficient operation.

The environment in which we operate is changing rapidly. Competition is becoming more intense, retail prices are falling quickly, technology is evolving rapidly and becoming more complex, there is greater regulatory scrutiny and most importantly customers are becoming more demanding. It is against this background that the company has embarked upon a journey towards what we are describing as Safaricom 2.0. Rather than focusing on mere product differentiation we will seek to deliver products that make a difference and our mHealth and mEducation initiatives are good examples. Instead of competitive advantage we will strive for constructive advantage in our relationships with our stakeholders.

In Safaricom 2.0 we will endeavour to provide an unmatched experience to our customers at all touch points. We will not only deliver superior shareholder returns but we will also ensure that there is transparency and the highest standards of corporate governance. We will treat our employees in a manner that makes us the employer of choice in Kenya. Our relationships with Government, regulators, the media will be a respectful one where we will robustly state and defend our position but also establish ourselves as the most trusted industry player. We acknowledge that we have a critical role to play in uplifting the society built on principles of partnership, humility, openness and professionalism. Finally, Safaricom 2.0 recognises the importance of conducting our business in a manner that ensures a sustainable future. We have embarked on addressing the areas of greater use of renewable energy, gender diversity and equality in the workplace, Corporate Social Investment, Corporate Governance and ethical working practices.

Safaricom has been a leader in the Kenyan market on a number of dimensions. As we move into the future we are re-defining that leadership not just in terms of customer satisfaction and providing superior shareholder returns but in terms of the constructive value we bring to our other stakeholders and to Kenya at large.

Maoni ya Afisa Mkuu Mtendaji

Wakati wa mabadiliko

Naanza taarifa yangu ya kwanza kabisa nikiwa Afisa Mkuu Mtendaji kwa kumshkuru mtangulizi wangu Michael Joseph ambaye chini ya uongozi wake kampuni hii iliwasilisha nusu ya kwanza ya matokeo haya. MJ, jina maarufu kwa Wakenya wengi, amekuwa kiongozi wa kitaswira ambaye aliikuza kampuni hii tangu pale mwanzo ikiwa ya wastani Oktoba 2000 ambapo ilianza na wateja kidogo chini ya 20,000 hadi kuwa kampuni ya Kenya ya kutoa huduma za mawasiliano yenye kustawisha maisha ya wakenya milioni 17 na hivyo basi kuendelea kuboresha uchumi wa nchi hii. Michael amenipokeza usimamizi wa kampuni ambayo ina wateja wenye uaminifu mkubwa, wafanyikazi waliyo na ushupavu na malengo muafaka na inayopendwa na wengi wa wakenya upendo ambao natarajia nitaweza kuukuza katika miaka inayokuja.

Soko la mawasiliano lilikuwa na shughuli zilizokuwa na hima sana mwaka jana haswa ushindani wa kibiashara ukizidi mno katika nusu ya pili ya mwaka huo. Bei za kupiga simu sasa ni miongoni mwa zilizo chini zaidi ulimwenguni. Hata kukiwa na kupungua huku kwa ghafla kwa bei hizi za rejareja Kundi hili bado liliweza kuwasilisha matokeo imara ya kifedha kukiwa na ongezeko la faida hadi Ksh.bilioni 10.87.

Licha ya kupungua kidogo kwa faida zinazotokana na simu za kauli, bado biashara hii ndiyo tegemeo letu kuu likichangia 67% ya faida. Tumewekeza zaidi katika CAPEX ili kuongeza kima cha kufidia kauli na kujitayarisha kwa ongezeko la ghafla la shughuli mtandaoni kutokana na kupungua huku kwa bei za rejareja. Tulitamatisha mwaka tukiwa na viwanja 339 vya ziada baada ya kuwekeza Ksh. Bilioni 25.48 katika Kundi.

M-PESA imeleta natija nzuri mno kukiwa na Wakenya milioni 13.8 wanaotumia huduma hii kwa shughuli mbali mbali kuanzia urahisi wa mtu kuhawilisha pesa kwa mwenzake hadi kulipa karo, kulipa bili na hata kulipia bidhaa katika maduka ya supermarket. Faida kutokana na M-PESA ilikua kwa 56% katika kipindi hiki tunachozungumzia. Tumepanua huduma za M-PESA zaidi kwa kuanzisha M-PESA Safari Card kwa ushirikiano na Visa International ili kuwapa wateja wetu fursa ya kupata huduma kupitia vituo kote ulimwenguni. Tunaamini bado M-PESA iko katika hali ya uchanga kuhusu athari nzuri itakayoleta maishani mwa Wakenya wa kawaida na tutaendelea kukuza na kubadili huduma hii ili kukidhi kikamilifu mahitaji ya wateja wetu.

Tumeona kukiwa na ukuaji madhubuti katika nyanja ya data; hii ikiwa inaambatana na mkakati wetu tuliotangaza hivi karibuni wa kuwa mtoaji huduma zote za mawasiliano. Data (ikijumuisha M-PESA na SMS) ilichangia 26% ya jumla ya faida kutokana na huduma na iliwakilisha ukuaji wa 57%. Katika kipindi hiki tulieneza viwanja) 533 vya 3G na kuwasilisha kasi za hadi 7.2mbps na hapo kuanzisha majaribio ya kiufundi ya teknolojia ya kizazi kijacho cha data kupitia rununu ijulikanayo kama Long Term Evolution (LTE). Tunaamini kuwa data itatengeneza kigezo cha usitawi wetu katika siku za usoni wakati ambapo kampuni inapoendelea kustawisha na kutoa suluhisho za mHealth, mEducation na Fibre-To-The-Home ili kufidia mahitaji ya wateja wetu pamoja na pia kuangazia ajenda kuu ya Serikali.

Karibu na mwisho wa mwaka wa kifedha tunaoangazia tulipanga upya tabaka katika kampuni kwa kubuni vitengo 3 vya Biashara vyenye jukumu kamili ili kuongeza urafiki wa karibu na wateja wetu, kuboresha uwajibikaji na kuharakisha uamuzi kote katika shirika. Mambo muhimu zaidi katika upangaji huu mpya ilikuwa kurasimisha vitengo vitatu vyenye mikakati ya kuwashughulikia wateja kwa karibu. Kitengo cha Shughuli za Biashara kiitwacho Enterprise Business Unit kitatazama kwa makini sehemu hii changamana ya wateja, kubuniwa kwa kitengo cha Huduma za Kifedha kiitwacho Financial Services Business Unit kutawezesha kundi hili kuwa na umakinifu juu ya jinsi kugeuza M-PESA kuwa kubwa kuliko pesa na kitengo cha Biashara ya Wateja yaani Consumer Business Unit kitaangazia wateja ambao ndiyo tegemeo letu la kimsingi. Idara zingine zote zimeunganishwa pamoja na kuwa na jukumu la kufanikisha shughuli za shirika za kawaida.

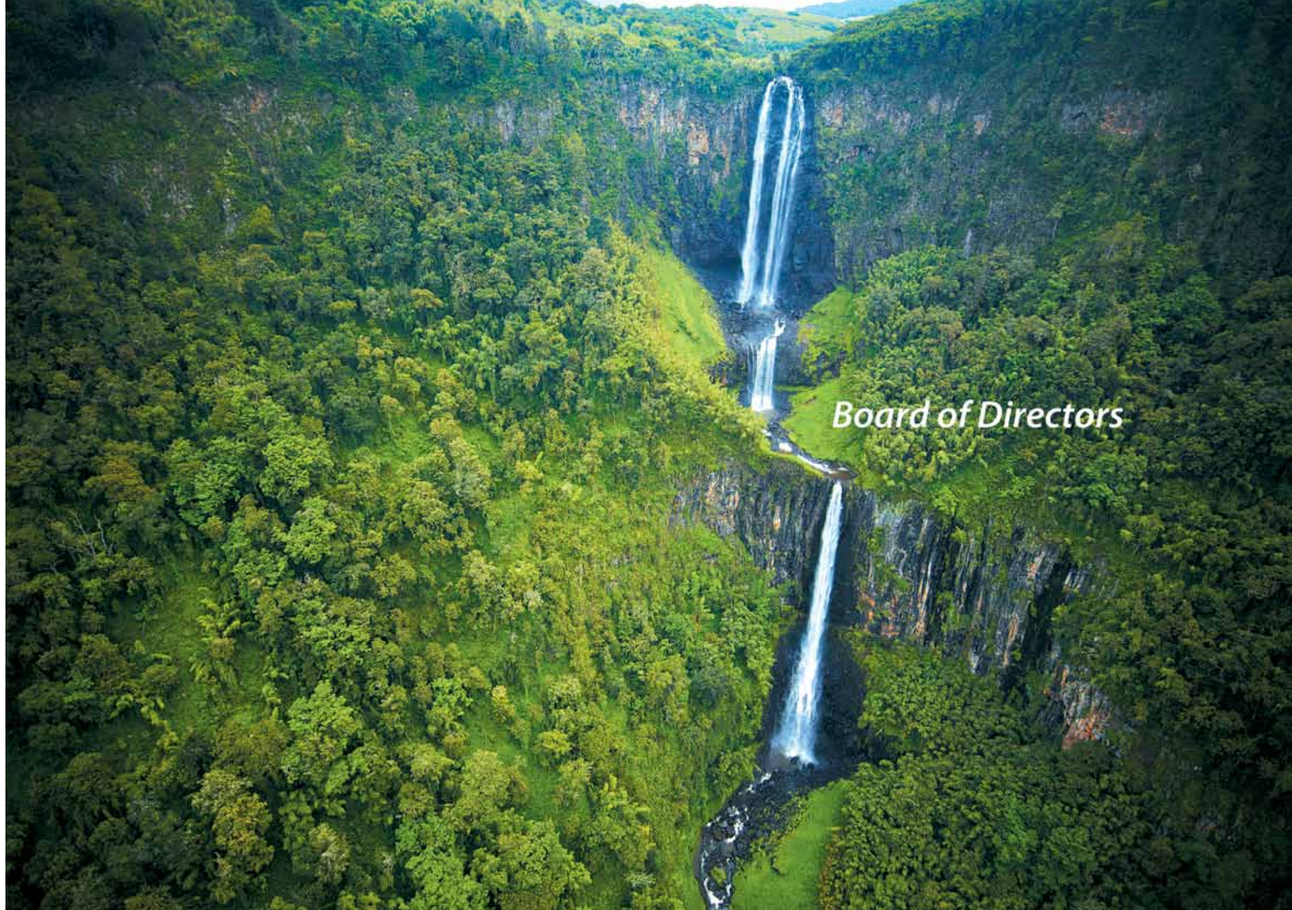
Tumeanzisha mfumo tuliyobuni upya wa kutathmini gharama, uitwao Mavuno 2.0, ambao kimsingi unalenga kuboresha zaidi jinsi tunavyotenda kazi. Hii inashadidi mifumo mingine ya kusimamia gharama iliyokuwepo mbeleni lakini hapo hapo ikitambulika kuwa kimsingi soko limebadilika na hivyo basi kuhitaji mikakati bora zaidi kwenye shughuli hizi za kusimamia gharama.

Mazingira haya tunamoendesha shughuli zetu yanaendelea kubadilika haraka haraka. Ushindani wa kibiashara unaendelea kuongezeka, bei za rejareja zinaanguka kwa

kasi, teknolojia inabadilika kila siku na kuwa yenye mchangamano zaidi, sheria zinaendelea kuwa nyingi mno na la muhimu zaidi matakwa ya wateja yanaongezeka kila kukicha. Ni kwa kuzingatia haya ndipo kampuni imeanza safari itakayotupeleka kwenye mfumo ambao tunaoita Safaricom 2.0. Bila ya kutilia maanani utofautishaji wa bidhaa pekee tutajizatiti kuwasilisha bidhaa ambazo zinaleta mabadiliko maishani ya wateja na huduma zetu za mHealth ns mEducation ni mfano mzuri wa mpango huu. Badala ya kutumia uwezo wetu kushindana tutajitahidi kupata uwezo wa kufaa utakaojenga uhusiano wetu na washikadau wetu.

Katika Safaricom 2.0 tutafanya kila jitihada kutoa tajriba isiyo na kifani kwa wateja wetu katika kila huduma tunayowapatia. Hatutaweka jitihada pekee katika kuwasilisha faida kubwa kwa wenyehisa bali pia tutahakikisha kuwa kuna uwazi na maadili ya hali ya juu zaidi ya usimamizi wa shirika. Tutawashughulikia wafanyikazi wetu kwa hali ambayo itatufanya tuendelee kuwa muajiri anayependwa zaidi hapa Kenya. Uhusiano wetu na Serikali, idara simamizi, vyombo vya habari utakuwa ni wa heshima ambapo tutaeleza kwa dhati na kulinda haathi yetu lakini pia tutajiimarisha kuwa kampuni inayoaminika zaidi katika biashara hii. Tunatambua kuwa tuna kazi muhimu ya kufanya ya kuboresha maisha ya jamii ikitegemezwa kwenye msimamo wa ushirikiano, maridhiano, uwazi na weledi. Mwishowe, Safaricom 2.0 inatambua umuhimu wa kuendesha biashara yetu kwa hali ambayo inatuhakikishia kuwepo kwetu katika siku za usoni. Tumeanzisha juhudi za kuangazia maeneo ambayo yanatumia sana nishati inayoweza kufanyizwa upya, jinsia tofauti na usawa katika mahala pa kazi, kuwekeza katika Wajibu wa Kampuni kwa Jamii, Usimamizi wa Shirika na maadili ya kufanya kazi.

Safaricom imekuwa kiongozi katika soko hili la Kenya kwa kipimo chochote kile. Wakati tunapoelekea katika siku zijazo tunabainisha upya kuwa uongozi wetu sio tu katika kutekeleza mahitaji ya wateja na kuleta faida kubwa kwa wamiliki hisa wetu bali pia ni kwa kuleta thamani inayosaidia kwa washikadau wetu wengine na wakenya wote kwa ujumla.



Governance

Board of Directors

Mr. Nicholas Ng'ang'a
Chairman and Non Executive Director- 72 years

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

Currently, Mr. Nganga is also Chairman of G4S Security and Vice-chair of the Council of the University of Nairobi.

Mr. Robert Collymore
Chief Executive Officer and Executive Director- 53 years

Mr. Bob Collymore is the current CEO of Safaricom Limited, effective November 1st 2010. Prior to joining Safaricom, Bob was the Chief Officer for Corporate Affairs in Vodacom Group responsible for the Group's Corporate Communication, Ethics and Compliance, Legal, External Relationships and Corporate Social Responsibility. Prior to that, he was Vodafone's Governance Director for Africa where he was responsible for developing and driving Vodafone's strategy for its investments in Africa as well as representing Vodafone as a key direct foreign investor in a number of African countries. Bob has more than 25 years of commercial experience working in the telecommunications sector.

Mrs. Susan Mudhune
Non Executive Director – 62 years

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

Mr. Michael Joseph
Non Executive Director- 65 years

Mr. Michael Joseph joined the board on 8th September 2008 as a non-executive Director. Mr. Michael Joseph was the previous CEO of Safaricom Ltd having taken on this role in 2000. During his tenure he guided the Company from a subscriber base of fewer than 20,000 to over 13.3 million as at the end of March 2009. Mr. Michael Joseph has been the recipient of many awards, including CEO of the Year. Michael has over 40 years of international experience in the telecommunications industry.

Mr. Michael Joseph is a U.S. citizen and obtained a B. Sc. (cum laude) in Electrical Engineering from the University of Cape Town and is a member of the Institute of Electrical and Electronic Engineers (I.E.E.E) and the Institute of Electronic Engineers (I.E.E), UK.

Mr. Joseph Kinyua
Non Executive Director- 59 years

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

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

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

Mrs. Esther Koimett
Alternate Director to Mr. Joseph Kinyua- 54 years

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

Mr. Christopher Tiffin
Alternate Director to Robert Collymore- 39 years

Christopher Tiffin joined the board on 5 December 2008. He was appointed as Chief Financial Officer on 25th August 2008. Mr. Christopher Tiffin joined Safaricom from Celtel Nigeria where he held the position of Chief Financial Officer, having served in that position since 2004.

Prior to taking up his current position he held the position of Financial Analyst and Financial Manager with Tracker Network (PTY) Ltd South Africa and prior to that he held various financial positions with Vodacom (PTY) Ltd in South Africa. Christopher is a South African citizen and he is a Chartered Accountant.

Mr. Timothy Harrabin
Non Executive Director- 49 years

Mr. Tim Harrabin joined the Board of Safaricom on 1st December 2008. In November 2008 Tim moved into his current role as Regional Director in the Central Europe and Africa team with responsibility for Vodafone's investments in Poland, Kenya and Ghana; and for the M-PESA product and its business development worldwide.

Tim has over 25 year's multidisciplinary experience in Mobile Communication across Europe and Emerging Markets. He gained extensive international business development experience as Regional Commercial and Strategy Director and Regional Business Development Director at Vodafone.

He has served as Director in the UK, Greece, Malta, Ghana, Portugal, Czech Republic, Hungary, Spain, India, Poland, Turkey and Romania; and as a non Executive Director at three listed companies in Egypt, Kenya and Sweden. Tim holds a Bsc, M.Eng & MBA.

Nicholas Jonathan Read

Non Executive Director- 47 years

Nick Read joined the board on 17 January 2011. He is responsible for all Vodafone operations in the Africa, Middle East and Asia Pacific region. He joined Vodafone in 2001, initially through a joint venture with Vivendi, and then spent 6 years at Vodafone UK, with a short period as CFO, before becoming CCO and then CEO in 2006. He has been in his current role since November 2008.

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

Ms. Nancy Macharia

Non Executive Director- 46 years

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

Ms. Karen Witts

Non Executive Director- 48 years

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

Mr. J L G Maonga

Company Secretary- 50 years

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

Executive Committee

Robert Collymore

Chief Executive Officer

Bob Collymore is the current CEO of Safaricom Limited, effective November 1st 2010. Prior to joining Safaricom, Bob was the Chief Officer for Corporate Affairs in Vodacom Group responsible for the Group's Corporate Communication, Ethics and Compliance, Legal, External Relationships and Corporate Social Responsibility. Prior to that, he was Vodafone's Governance Director for Africa where he was responsible for developing and driving Vodafone's strategy for its investments in Africa as well as representing Vodafone as a key direct foreign investor in a number of African countries. Bob has more than 25 years of commercial experience working in the telecommunications sector.

Peter Arina

Chief Commercial Officer

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

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

Mr. Peter Arina is a Kenyan citizen and holder of a Bachelor of Commerce (Marketing) degree from the University of Nairobi.

Les Baillie

Chief investor Relations Officer

Les Baillie was appointed to his current position of Chief investor Relations Officer soon after the company was listed on the Nairobi Stock Exchange in June 2008. Prior to this he served as the Chief Finance Officer, of Safaricom, a position he held since Vodafone's original investment in mid-2000.

He has extensive experience in the mobile telecommunications industry having joined Vodafone Group in the UK in 1986.

During his time before joining Safaricom, he held several senior financial positions at director level in Vodafone companies covering networks, service provider, value added services, data and radio paging. He has been involved in two start-up operations, in radio paging and in Safaricom.

Les Baillie is a UK citizen, a fellow of the Chartered Institute of Management Accountants and holds a B.A (Honours) degree from Reading University in the UK.

Ivor Wekesa

Chief Risk & Strategy Officer

Ivor Wekesa joined Safaricom in January 2007 as Senior Manager in Charge of Audit from East African Portland Cement.

Ivor Wekesa was appointed as Chief Risk Officer with effect from 1st January 2010 responsible for risk management. Prior to taking up this position he held the position of Head of Business Improvement and Controls. Mr. Wekesa has over 15 years' experience in audit having worked at Nation Media Group, Lonrho Africa and Coopers & Lybrand (now PriceWaterhouseCoopers).

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

Betty Mwangi-Thuo
Chief Officer New Products & Services

Betty Mwangi-Thuo is the General Manager of Financial Services business unit which includes the M-PESA service. Betty joined Safaricom in December 2007 as Head of New Products Division comprising M-PESA business and GSMA projects. She was promoted to Chief Officer New Products Division in October 2008 with the additional responsibility for Safaricom's Value Added Service.

In June 2010, Betty was featured by MCI (Mobile Communications International) as one of the top 10 women in mobile globally. Betty has over 13 years experience in the telecommunications industry. Prior to joining Safaricom she was Chief Marketing Officer at Afsat Communications Ltd and also worked with GlaxoSmithKline for 5 years in various management positions.

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

Francis Murabula
Chief Supply Chain & Administration officer

Francis Murabula joined Safaricom in November, 2007 as the Chief Supply Chain and Administration Officer responsible for procurement, logistics, facilities management and security. Francis has over 16 years' experience in operations and supply chain management. He joined from Kenya Commercial Bank where he was the Head of Procurement. Francis has also worked at British American Tobacco as Procurement Manager, Logistics Manager and Production Manager as well General Motors as an engineer

He is a Kenyan citizen and holds a Bachelor of Technology Degree from Moi University. He is a certified project manager and is currently pursuing post-graduate studies in business and procurement.

Wangari Murugu
Head of Marketing

Wangari Murugu - Head of Department - Strategic Marketing She joined Safaricom in November 2005 as Head of Marketing responsible for Advertising, Research, Media, Sponsorships, and Publicity for the company.

Wangari Murugu has over 15 years Marketing management experience previously having worked for Coca-Cola South and East Africa Division (1998-2004), where she held various positions, culminating as the East Africa Territory Marketing Manager for Kenya, Tanzania and Uganda. Prior to that Wangari worked for PZ Cussons between 1992 and 1998 where she was the Marketing Manager for the company.

Mrs. Murugu is a Kenyan citizen and holds a Bachelor Science Degree in Biology and Chemistry from Trent University, Canada and a Diploma in Advanced Business Management from the IESE (University of Navarra) and Strathmore Business Schools.

Joseph Ogutu
Chief Human Resources Officer

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

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

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

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

Claire Ruto
Chief Corporate Affairs Officer

Claire Ruto joined Safaricom in September 2008 as Chief Corporate Affairs Officer, Claire has more than fourteen years experience as a lawyer much of which has been in the telecommunications industry.

She previously worked with Celtel Kenya Limited (now Airtel) as Corporate & Regulatory Affairs Director where she headed the legal & Regulatory departments and also the Public Relations and Corporate Social Responsibility functions.

Prior to joining Celtel she worked with the Communications Commission of Kenya as a Principal Legal Officer and also sat as the secretary to the Board of Directors during that period. She joined the Commission from the now defunct Kenya Posts & Telecommunications Corporation.

John Barorot
Chief Technical Officer

John Barorot was the Chief Technical Officer of Safaricom. He joined Safaricom in 2000 as Senior Manager in Operations and Maintenance department (NMC Manager) having joined from Telkom Kenya Ltd.

Mr. Barorot has had extensive training and industrial attachments in many countries including UK, Belgium, Hungary and South Africa amongst others. He was responsible for the cellular network planning, network rollout, network maintenance, and network quality and information technology.

Mr. Barorot is a Kenyan citizen who has over 16 years experience in the telecommunications industry. He holds an upper second class Bachelor of Technology degree in electrical and communications, from Moi University

Mr. Barrorot resigned from the company in March 2011.

Pauline Warui
Chief Customer Care Officer

Pauline Warui was Chief Customer Management Officer of Safaricom Limited. She joined the Company in January 2008 as the Head of Call Centre Department responsible for the Call Centre in the Commercial Division. However following the opening of the new 1000 capacity Contact Centre in November 2008 and with Management focus on significant improvement in customer service, the department was reorganized and elevated to a fully fledged division. Pauline Warui was subsequently promoted to her current position of Chief of Customer Management Division.
She previously worked at Chevron Corporation for 2 years as the Area Customer Service Coordinator for East Africa and Egypt.

Prior to that she worked for Celtel (K) Ltd now Airtel (K) Ltd for 6 years as Customer Service Manager where she gained experience and training in Customer Service and Call Centre Operations through holding various positions in those functions.

Ms. Warui is holder of a Bachelor of Arts (Hons) from the University of Nairobi. She is currently pursuing an Executive MBA in Jomo Kenyatta University of Agriculture and Technology.

Robert Mugo
Chief Information Officer (CIO)

Robert Mugo joined Safaricom as the Chief Information Officer (CIO) in June 2008. He was responsible for the IT systems and infrastructure at Safaricom with a key focus on ensuring that they support business needs. He was also responsible for development and implementation of IT strategy and related budgets.

Robert Mugo has over 13 years of industry experience and has carried out IT projects in a number of African countries. Prior to joining Safaricom he was the Chief Executive Officer of Flashcom Limited. He has been General Manager and Technical Director at UUNET as well as Corporate Head of Technical Operations at Africa Online.

Robert is a Kenyan citizen and holds B.Sc. Electrical & Electronics Engineering and MBA Strategic Management degrees from the University of Nairobi. He also holds certifications from Cisco, Microsoft and Checkpoint.

Mr. Mugo resigned from the company in March 2011.

Corporate Governance Statement

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

Board organization and structure

The role of the Board

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

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

The Board has a formal schedule of matters reserved for its decision and these include:

- Company strategy;
- major capital projects, acquisitions or divestments;
- annual budget and operating plan;
- Company financial structure, including tax and treasury;
- annual and half-year financial results and shareholder communication;
- internal control and risk management; and
- senior management structure, responsibilities and succession plans.

Activities of the Board

It is the responsibility of the Chairman and the Company Secretary to work closely together in planning the annual program and agendas for meetings. The Board meets at least four times a

year and the meetings are structured to allow open discussion. All substantive agenda items have comprehensive briefing papers, which are circulated two weeks before the meeting.

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

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

The non-executive Directors have a particular responsibility for ensuring that the business

2011 Board Meetings Attendance

DIRECTORS	25/5/2010	22/7/2010	1/9/2010	10/11/2010	24/2/2011	22/3/2011
Mr. Nicholas Ng'ang'a	✔	✔	✔	✔	✔	✔
Mr. Robert Collymore	✔	✔	✔	✔	✔	✔
Mr. Les Baillie	✔	✔	✔	✔	-	✔
Mr. Timothy Harrabin	✔	✔	✔	✔	✔	✔
Mr. Michael Joseph	✔	✔	✔	✔	✔	✔
Mr. Joseph Kinyua	-	-	-	-	-	-
Mrs. Esther Koimet	✔	✔	✔	✔	✔	✔
Mr. Morten Lundal	-	✔	-	-	-	-
Ms Nancy Macharia	-	✔	✔	✔	✔	✔
Mrs. Susan Mudhune	✔	✔	✔	✔	✔	-
Mr. Nick Read	-	-	-	-	✔	-
Mr. Christopher Tiffin	✔	✔	✔	✔	✔	-
Mrs. Karen Witts	✔	✔	✔	✔	✔	✔
Mr. John L G Maonga	✔	✔	✔	✔	✔	✔

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

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

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

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

Division of responsibilities

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

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

Board balance and independence

The Company's Board consists of nine (9) members, of whom eight (8) are non – executive directors and 1 is an executive director.

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

Board effectiveness:-Appointments to the Board

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

Independent advice

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

Board committees

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

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

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

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

Audit committee

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

The Audit Committee's responsibilities include:

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

The Audit Committee is comprised of financially literate members having the necessary ability and experience to understand financial statements. The members of the Audit Committee during the year, together with a record of their attendance at scheduled meetings which they were eligible to attend, are set out below:

Member	Meetings attended
Mr. Tim J Harrabin *(Non-executive member)*	4/4
Mrs. Esther Koimett *(Non-executive member)*	4/4
Ms. Nancy W Macharia *(Non-executive member)*	4/4

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

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

Nomination & Remuneration Committee

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

Member	Designation
Mr. Nicholas Ng'ang'a	Chairman and Non-Executive member
Mr. Robert Collymore	Executive member
Mr. Michael Joseph	Non-Executive member
Mrs. Esther Koimett	Non-Executive member
Mrs. Susan Mudhune	Non-Executive member

Company Secretary

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

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

Board of Directors Shareholding in Safaricom Ltd

Member	Shareholding
Mr. Nicholas Ng'ang'a	850,100
Mr. Robert Collymore	588,000
Mr. Timothy Harrabin	0
Mr. Michael Joseph	2,357,200
Mr. Joseph Kinyua	42,500
Mrs. Esther Koimett	517,600
Ms. Nancy W Macharia	43,000
Mrs. Susan Mudhune	51,200
Mr. Chris Tiffin	0
Mr. Nicholas Read	0
Ms. Karen Witts	0
Mr. John Maonga	40,000

Business Overview

Voice

The company continued to grow its customer base by 1.28 million, representing an increase of 8% compared to prior year; with the Kenyan market penetration expanding by 8.8% in the year.

The year also saw unprecedented cuts on the voice headline tariff with Safaricom's retail price falling by 68%. Despite this, voice usage grew year on year from an average of 793,000 minutes of use a day to 1,461,000 minutes a day, an 84% increase. Ongoing customer revenue grew by 13.3% year on year with the average monthly minutes of use (MOU) per subscriber growing by 72% from 50 to 86. Monthly average revenue per user (ARPU) decreased by 7% year on year as a result of the overall reduction in tariffs throughout the year. Voice remains the key contributor to overall company revenue, contributing to 67% of total revenues.

Despite the intense price wars, Safaricom's history of strong growth through product diversification and innovation placed it in good stead to defend its revenue and market share and stay poised for growth in the future.

Initiatives

In the year under review, several initiatives were undertaken to protect market share and grow alternative revenue channels.

"Skiza", the caller ringback tone service has continued to grow steadily and closed the year with 3.9 million customers. This represents over 22% of our total subscriber base which is a high penetration for this service compared to the worldwide average penetration amongst other operators of about 10%-15%.

2011 also saw the reduction in international calling rates to flagship destinations such as the US, China, India and Canada come down significantly to 3/- per minute from an average of 30/- per minute. This resulted in an average 130% increase on international traffic to these destinations.

SMS has also been an area of focus in the year under review with several initiatives undertaken to drive usage. We launched SMS bundles during the year in a bid to drive up usage. In February, an unlimited SMS service with Twitter & Facebook SMS was also launched. Premium Rate Service Providers (PRSPs) were also very active in the year under review further driving SMS growth through promotions. Year on year SMS revenues have grown by 47% as a result of these initiatives.

Mobile Data

As demand for data services grows in Kenya, Internet penetration has increased with just over 22% of the population having access to the internet according to Communications Commission of Kenya (CCK) statistics. Mobile data subscriptions through EDGE and 3G dominate with Safaricom having 92% share of the internet subscriptions market. There has also been notable growth in wireless internet connections presenting growth opportunities for business and residential internet solutions.

The special emphasis placed on data as the next frontier of growth has yielded impressive results in the year under review as distinct mobile data users grew 75% to 4.9 million and data revenue grew by 77% to Kshs. 5.4 billion, representing 6% of total company revenues.

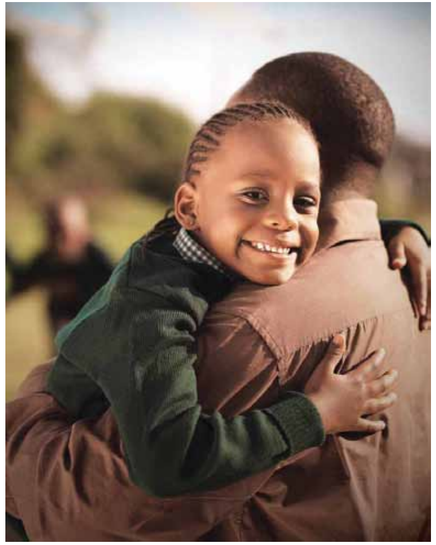
This exceptional performance can be attributed to Safaricom's significant investment in a data network that is the most extensive in the country. Safaricom now has the capability to offer speeds of 7.2 mbps – another first from Safaricom.

Through the Safaricom Applications Store we now provide a mobile portal that allows Safaricom customers to access and browse a host of applications on their mobile phones. It also allows application aggregators to upload applications on the portal. All Kenyan Apps appear under the banner "Proudly Kenyan"

The company's focus remains centered on the fast growing data market, several initiatives were undertaken to drive data penetration and usage:-

- The increase in the penetration of data capable handsets was a key pillar to the overall data strategy. Throughout the year, emphasis was placed on driving data capable handset sales across all our retail and trade channels.
- Pricing on Internet on Your Mobile was reviewed and daily bundles launched to increase frequency of data usage.
- A deliberate effort was also made throughout the year to increase data usage amongst the youth by encouraging the youth to join and use social networks. The "Face Off" initiative on *544# was integral to driving the Facebook agenda and in the period under review mobile Facebook users grew from 250,000 to 1.2 million users.

Scan this QR code and discover Safaricom Live



M-PESA

Spectacular Growth

Since its launch in 2007, the growth of the M-PESA service has been nothing short of phenomenal. M-PESA has found its way to the core of the lives of Kenyans at every level. The major early drivers of success for M-PESA was the ease of use, speed and safety of this means of money transfer contrasted with the traditional methods of sending money. M-PESA success has been recognized once again at the 2010 Mobile Money Transfer Awards, where M-PESA won three awards – for the 'Most inventive Marketing Campaign', 'Achievement in Financial Inclusion' and finally for 'Outstanding Personal Contribution to Mobile Money Development', which went in person to former Safaricom CEO, Michael Joseph.

As at March 2011, there were close to 14 million Safaricom subscribers actively using the M-PESA service, supported by a nationwide agent network of over 24,000 outlets. This large agent network is supported by ATM's, such as PesaPoint, Diamond Trust Bank and Equity Bank, which allow customers to withdraw money from their M-PESA account at over 700 ATM's nationwide.

M-PESA continues to spread its wings to reach more users globally with the extension of the International Money Transfer services in partnership with Western Union that allows users across 46 countries worldwide to send money directly to the M-PESA accounts of their family, friends and business partners back home in Kenya.

Evolution

M-PESA has evolved into a major financial tool, at both the corporate and individual level with over 600 Pay Bill partners. Over one million people now use M-PESA to pay their monthly bills through the Pay Bill function – electricity and water bills being prime examples – saving time and money for the individuals, and increasing efficiency for the recipient companies.

The same trend has been repeated at a small-scale level with M-PESA becoming the prime business tool for small businesses.

With the bulk payment service, corporations that employ large numbers of people who do not have bank accounts can now transfer this payroll function over to M-PESA.

M-PESA into the future

The latest additions to M-PESA's stable of products are the 'Nunua na M-PESA' service, M-PESA PrePay Visa Card and 'Lipa Karo na M-PESA'.

With 'Nunua na M-PESA' Customers can now pay for goods and services at Retail Outlets via M-PESA. This innovation has made shopping even more hassle free than ever before.

The M-PESA PrePay Safari Card is a service that allows users to load the M-PESA PrePay Safari Card via their mobile phones, which in turn allows M-PESA customers to transact electronically both locally and internationally, and purchase goods and services at merchant outlets worldwide and withdraw cash from over 1.7 million Automated Teller Machines (ATMs) both locally and internationally.

The M-Ticketing service was also launched in the year under review. It is a service which allows M-PESA users to book and pay for bus, train or plane tickets by M-PESA

Enterprise Business

The 2010 financial year marked the rebirth of Safaricom Business with the revitalization of the fixed data product portfolio as the demand for fixed to mobile convergence became a reality in the Kenyan market. Safaricom Business reported a robust growth driven mainly by new customer acquisitions on the fixed data platform. The unit invested strongly in development of a solid machinery to engage and design custom-made solutions for the different market segments, augmented by a strong delivery system that ensured speed of execution while at the same time maintaining world class service delivery standards.

To support expansion into the SME (Small Medium size Enterprise) / SOHO (Small Office-Home Office) sector, we have built a partner ecosystem to serve this market with over 130 business partners contributing 30% of enterprise revenues located in strategic locations across the country. This was further complimented by a countrywide aggressive infrastructure rollout which brought us closer to our customers and enabled us to deliver reliable connectivity outside the main urban areas of Nairobi and Mombasa. In addition, a major focus area remains the Government sector; in our bid to increase our market share by offering custom made solutions specific to this sector. Further strategic alliances with the ICT policy making and implementation agencies in government such as e-Government and Kenya ICT Board have been established. We have partnered with the Judiciary, Cisco and Kenya ICT Board in the establishment of the Telejustice system. This system is currently being scaled up as a key component for the judicial reforms in Kenya.

Major milestones in the year include winning key projects that have major impact in their respective industries such as Integrated Motor Insurance Data service (IMIDs) project for Association of Kenya Insurers (AKI) in which Safaricom Business will provide connectivity to all the insurance companies linking them to AKI. Kenya Bankers Association cheque truncation project is also a key win in the banking industry, with Safaricom providing a robust scalable infrastructure on a managed services platform to over 43 banks in the country. Overall, Safaricom Business continues to work closely and in partnership with industry associations to ensure that the solutions provided meet and exceed the expectations of our customers.

Over the past year, Safaricom Business continued to consolidate its leadership position through the creation of value for its customers with products and solutions that fulfilled customer needs. We remain the market leader in the enterprise space with provision of compelling service propositions that include:

- Virtual meeting solutions: Telepresence and Video Conference services
- Data center services: Disaster Recovery, Collocation services, etc
- Media services: Plug & Play Broadcasting, Digital Media Signage, remote media broadcasting

Going forward we will continue to grow the business organically through new customer acquisitions as well as increase our wallet share among our existing customer base. 'Customer first' is a key value that we will continue to embrace as we help our customers fully maximize on the convergence opportunities arising in the world today with a view to ultimately spur economic growth. Key innovations this year will include communication and collaboration services, network and computing services, security services etc.

Developing the Data Market

Safaricom Academy

Safaricom unveiled a training facility for Mobile Applications Development dubbed "Safaricom Academy", that trains graduates interested in advancing careers in telecommunications and development of mobile software applications.

The Academy provides entrepreneurial talent with certified qualifications and experiential training in collaboration with globally established institutions. Its first program is the "Master of Science in Telecommunication Innovation and Development" to be realized through a collaborative effort with Strathmore University. Under the academic programme, an incubation centre will be provided to enable entrepreneurs conduct research and development in a professional, conducive environment under guidance from established specialists.

Apart from enhancing academic competence thorough certified qualifications, students at the academy will benefit from mentorship and coaching skills through the world renowned **eMobilis** (an international mobile technology training academy). This will expose them to the global market through the Safaricom Media Store where they can market their applications. Purchasers of these applications can pay through the M-PESA money transfer service.

Digital villages

According to CCK statistics, internet use and penetration is low with about 22% of the population having access. As is to be expected, the depth of internet use is lower in rural populations and higher up the social economic class and largely among the urban dwellers. Cyber Cafés are the popular places where users access internet; however these are largely confined to upper and middle class areas.

The mission of the Safaricom Digital Villages program is to revamp and change the cyber experience by teaming up with our existing partner network (MPESA agents and Safaricom dealers) to set up Safaricom experience centres across the country. These experience centres assignment is to increase internet access to users with no access to computers, data enabled devices and even electricity, by allowing them to access internet services from Safaricom partner shops

The service was launched with the following objectives

- To create and promote a strong internet culture among the masses.
- To educate the public on internet use e.g. email, access to information, social networking, Information and entertainment

- To launch simple internet shops in low income areas to expose more Kenyans to the internet and its applications
- To partner with entrepreneurs who will invest in the Safaricom experience centres to bring internet to the masses.

The Brand and The Customer

The Safaricom Brand

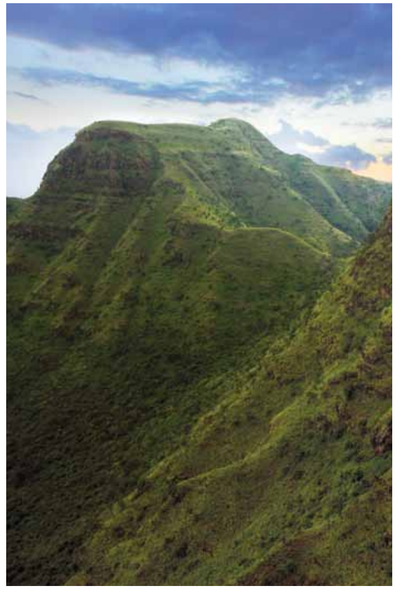
During the year under review, the strategic marketing unit undertook a number of initiatives as part of its mandate to better understand the voice of the customer, improve how we communicate with the market and come up with corporate giving initiatives that help to deepen the appeal of the Safaricom brand within the Kenyan market.

Several initiatives were launched to stimulate and guarantee customer loyalty and retention. In November, 2010, Safaricom launched the "**Niko na Safaricom"** brand campaign. The campaign captured the beauty of Kenya and the notion that "there is nothing quite as beautiful as Kenyans coming together, wherever they are all over Kenya, to 'speak' with one voice." The campaign focused on the spirit and beauty of Kenya showcasing the magnificence of Kenyan landscapes and her people while the cast consisted of actual members of Safaricom's choir, further deepening employee participation. In addition the company revamped its Safaricom website to resonate with the new Brand theme.

As a brand, we stand committed to Kenya and Kenyans and it is imperative that we highlight this in all that we do. As such, in all our brand communication, we pride ourselves in being a successful Kenyan company built by the people of Kenya with a wide range of products and services, providing solutions to make their lives better.

Customer Segmentation

Safaricom is continuously striving to deliver a superior customer experience across all touch points where we are in contact with our customers. To achieve sustained growth going forward, we are placing emphasis on customer development and retention. We are working towards deeply understanding what motivates



and drives our customers so we can meet, deliver and hopefully even exceed their expectations.

Segmentation is our next frontier in putting our customers first in shaping our strategic direction going forward. This has been developed through continuous monitoring and understanding of customer values, motivations and attitudes to our products and services.

Motivational segmentation will help us to understand our customers better and to ensure we align our product development, our communication and distribution strategy and our resources to meet those needs.

During the year, Safaricom maintained its top ranking as the company perceived by Kenyans to have done the most for society (Synovate 2010).

Customer Management

Increased accessibility and customer experience

In the period under review, a new Intelligent Voice Recognition (IVR) system was implemented with full accessibility for all customers allowing them a wider range of selected self service options.

Customer Satisfaction

In our mission to focus on the customer, the Customer Management section has diversified the channels, apart from calls through which customers can seek help and information concerning the company's products and services. Some of the alternative service channels to customers we now offer include; Unstructured Supplementary Service Data (USSD), web-selfcare, IVR self service, SMS and Email. There has also been an alignment of processes to focus on the voice of the customer through the use of the monthly Call Centre Tracker surveys. These in-depth surveys track responses and feedback of customers who have contacted the Contact Centre. In line with this, we continue with our after-call surveys to assess quality of service to the customer. Also introduced was segmentation of customers in the call routing process matching the customer profile to the right agent. Through up-skilling of our customer care staff in Data and M-PESA knowledge we have made problem resolution faster and more efficient.

Data Support

As uptake of data services grows, there is need for increased focus on customer service for data users. We have been able to achieve this through implementation of a fully equipped Data learning zone to enhance data product knowledge as well as up skilling of data staff to handle more complex data issues. In order to

support Corporate Data users we have established and now provide 1st line support to Fixed Data customers while maintaining a dedicated Data support team to support Corporate, SME, SOHO, consumer and Enterprise customers.

We are on course with our strategy to convert the Jambo Contact Centre into a profit centre where revenues can be generated through BPO offerings to other companies. Organizations on board currently include: The Kenya Red Cross, Kilimo Salama organization, Liverpool VCT and Dial-a-Doc services. There is also efficient management of Directory services, providing contacts and directions to customers.

Retail Distribution

In line with our growth strategy and voice revenue sustenance, the company's exclusive Dealer branch network increased from 2,000 to 2,500. Currently, Safaricom products can be found in over 230,000 retailer outlets across the country. Combined, the dealer channel employs over 20,000 people directly & over 1 million people earn their livelihoods indirectly from this extensive distribution network

Every year in an effort to reward performance & enhance loyalty at the retail level, Safaricom holds a national retailer promotion. This year the "Mauzo Kem Kem" promotion saw our National Retail Distribution grow by 9,000 new retailers. Mauzo Kem Kem was the largest retailer promotion to be ever carried out in the retail trade by any organization.

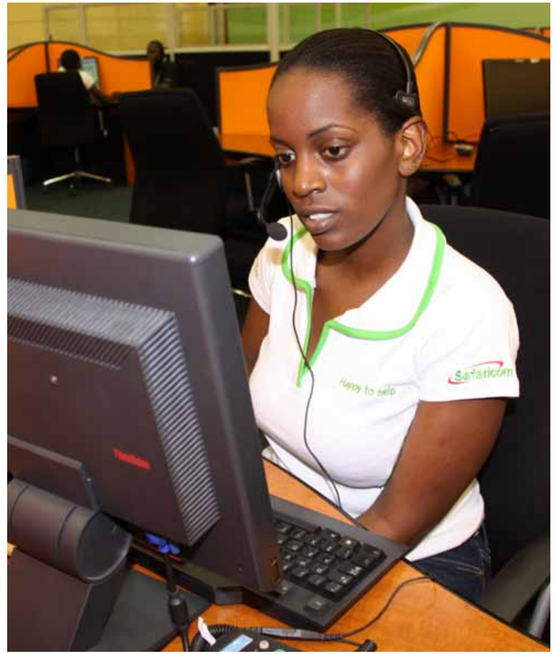
As we seek to drive handset penetration countrywide, Dealer terminal sales were Kshs. 1.3 Billion in the last financial year. This was a 50% increase over the previous financial year. The period under review was marked by the availability of ultra low cost handsets through the Dealer channel (Kshs. 1000 per unit). The VF 150, otherwise dubbed "kazuri" was very popular among subscribers with over 200,000 units sold. The availability of Alcatel OT 305 which at Kshs. 2,000 per unit was the lowest priced data enabled handset in the market with over 500,000 units sold in the local market. The IDEOS phone was the lowest priced 3G Smartphone introduced in the market to tap into the increased demand for smart devices and faster internet speed

Our focus centers in on the following areas:-

- Improving availability in "non-traditional " retail outlets
- Improving SIM pack availability at the retail level
- Focus on ultra low cost handset to increase connectivity in the low income segment
- Increase & enhance distribution in remote/rural areas

Retail Shops

Our retail footprint continues to grow with 5 additional shops opened in Narok, Kitui, Maua, Nairobi (Galleria) and Machakos. This brings the total number of retail shops to 35 as our national footprint grows.



Safaricom Ambassadors

Our focus in terms of human capital firmly remains to attract, recruit, develop and retain high quality talent in line with our vision; "to make Safaricom the employer of choice". Our value proposition to our talent pool is development and placement to challenging and rewarding roles which are mutually beneficial to the staff and to the business. More specifically, the value proposition to our staff compliment includes:

- A vibrant culture - The Safaricom Way-Speed, Simplicity and Trust;
- Exciting roles and opportunities;
- A unique place to work (facilities, Gyms, Crèche)
- Cutting edge technology;
- Reward and competitive compensation;
- Diverse environment.

We understand the key role our staff continues to play in driving the Safaricom 2.0 strategy and agenda and therefore concerted effort is made to ensure Safaricom is the place our staff can work and grow. Platforms have been set up in which the leadership team creates opportunities to talk, on a continuous basis, with the staff.

As an organization, we maintain cordial relationships with our employees guided by a legal framework and internal policies and procedure which are subject to change in line with changes in the environment.

The permanent staff headcount numbers as at 31st March 2011 was 2,801. We are continuously striving to attain a gender ratio of 1:1 thus making Safaricom truly an equal opportunity employer.

Month	Total Headcount	Male	Female
Mar-11	2,801	1,609	1,192
Mar-10	2,467	1,396	1,071
Mar-09	2,390	1,054	1,336

Talent acquisition & management

In line with the business focus on the data space, as a key channel for revenue generation, we continue to increase the capability of our technical and commercial staff through training and targeted talent acquisition. We also continue to develop our managers to ensure that we have a diverse

pool of skills and expertise which is critical in ensuring sustainable business and revenue inflows. To this end we have implemented a Talent Management tool which is used to identify and nurture talent for business continuity.

Training and development

We have also launched "Safaricom e-class" which is a platform where staff across the entire organization can up-skill in fields of business and information and Communication Technology (ICT) by studying on-line. We believe that in addition to providing value to individual staff the initiatives are in sync with the changing landscape of our industry. This will go a long way in supporting the development of Safaricom as responsive to individual and organizational needs.

"In your shoes" customer experience

As part of bringing the employees closer to the customer in the company, we embarked on a program dubbed "In your shoes" customer experience. This is an experiential program for all non-customer facing staff to have an opportunity to serve customers face to face in the retail centres and the Jambo Contact Centre.

Objectives of the program:-

- Interact with customers and "walk in the shoes" of the frontline staff for 2 days and understand their challenges in dealing with products, systems, and processes on a daily basis.
- Ideas for improvement are consolidated and followed up expeditiously.
- Customer issues are brought to management attention for quick execution.

SAFARICOM 2.0

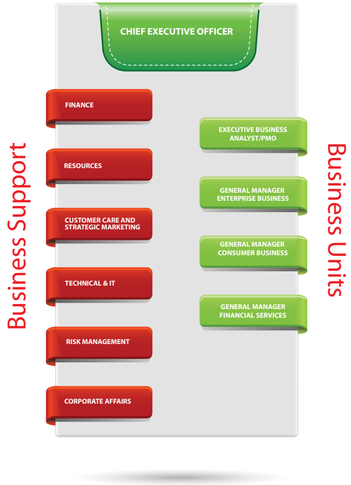
The company embarked on a new strategic direction, dubbed Safaricom 2.0. The basis of this shift is the changed operating environment in which Safaricom finds itself after a highly successful first 10 years. The next 10 years' success will be based on strengthening relationships with all stakeholders, with particular emphasis on the customer. This will be driven by a cultural change within the company. Safaricom 2.0 is about changing our structure, our culture and our mindsets towards the stakeholders who make up our business ecosystem. We acknowledge that if we do not change, we risk losing certain stakeholders and eventually suffering significant business harm in the process. Safaricom 2.0 is about building constructive advantage in the industry.

Safaricom 2.0 is about:

- Understanding and honouring all customers
- Not being a mere merchant of minutes; we are selling an experience
- Providing meaningful value creation to all our stakeholders
- Being a respected and useful part of society
- Creating a great place to work and grow for all our staff

In Safaricom 2.0 we place the customer at the centre of everything we do. Of all our business stakeholders, the customer has the highest priority.

In order to achieve this, we have changed our company structure to facilitate agility in customer service delivery. Our structure is focused on delivering superior customer service to the key customer segments, with customer Strategic Business Units (SBUs) leading the effort.



Ecosystem Charters

All the components of a natural ecosystem depend on each other to thrive. Our business ecosystem comprises various stakeholders whose dedicated support enables our continued success.

We will engage each of these stakeholders in a consistent manner across the organization, irrespective of functional role. Our highest priority as a company will be the customer.

This is our commitment :

The customer charter

We will listen to and understand our customer needs, undertaking to provide a "wow" experience at every customer interaction. We will communicate honestly, offering simple and relevant products and delivering on our promises consistently.

The employee charter

We will provide a great place to work and grow, where both individual accomplishments and team effort will be rewarded. We will provide opportunities for personal empowerment and career growth in an atmosphere of trust, honesty and openness.

The shareholder charter

We will enhance shareholder value by adherence to the highest standards of corporate governance and world class management practice. Our shareholders should expect timely and accurate information and the opportunity to engage through various forums with us.

The business partners charter

We will engage in mutually beneficial and sustainable relationships with all business partners in an environment of equity, mutual respect and honesty.

We are committed to growing Kenyan businesses and will offer preferential support to innovative local businesses.

The regulators charter

We will build constructive, respectful, open and transparent relationships with all regulators. Whilst being compliant with all regulations and applicable laws, we will adopt a firm approach on issues that may be detrimental to industry growth.

The society charter

We will work closely with Kenyans to be a respected and empowering contributor in the society. While we participate as an integral part in the uplift of society, our relationship will be built on the principles of partnership, humility, openness and professionalism.

The media charter

We will continuously and proactively engage the media in a factual, speedy and honest way in order to actively participate in informing public opinion. We will take a lead role in building industry knowledge among various media groups and hold them to account for responsible reporting.

The future generations charter

The future is now and our conduct and business practices today must be designed to create and shape a sustainable tomorrow.

Sustainability Path

In December 2010, Safaricom was selected as the Best Environmental Compliant Firm in Telecommunications Sector by the National Environment Management Authority (NEMA). This was in recognition of our attainment of high compliance levels through deliberate investment in cleaner production systems. Safaricom had its first Green Awareness Day on 17th February 2011 where we showcased our green initiatives to staff. The EMF (Electro Magnetic Frequencies) Booklet was endorsed by the CEO and launch of the Handset recycling program in partnership with Computer for Schools Kenya (CFSK).

Safaricom understands that all our activities contribute to a cumulative effect; hence addressing climate change is integral to our business strategies. Safaricom is proactively addressing this by way of technological solutions that replace the traditional carbon intensive methods of doing business. We have embarked on a carbon neutral path as part of our sustainability initiative by pledging to undertake a carbon footprint analysis and reporting on the same as part of our Corporate Policy. We will further design carbon reduction programs that will assist Safaricom achieve its carbon neutrality goals.

The current status of various sustainability initiatives that Safaricom has embarked on in the recent past are:

Use of Hybrid Energy Technologies at our Base Transceiver Stations

We have employed hybrid energy technologies that use renewable energy sources such as wind and solar to provide an energy mix to power the Base Transceiver Stations (BTS'). We have deployed over 80 BTS' on a solar-wind-diesel-battery hybrid system. The Key objective of using the hybrid system is to reduce our carbon emission from combustion of fossil fuels by the diesel generators hence reducing our carbon footprint.

Technological Innovations

Safaricom Business recently launched Tele-presence which is a high definition visibility meetings interface. Tele-presence and video conferencing has been proven to reduce carbon emissions associated with business travel locally, regionally and globally. This initiative will not only help Safaricom reduce its carbon footprint but also assist other enterprises using the tele-presence service reduce their carbon footprint.

Eco-friendly Buildings and Facilities

Safaricom House II is one of the first buildings in Kenya to have the latest Digital Addressable Lighting Interface that controls the lighting level and hence power consumption of lights in the main work areas based on the intensity of external lighting. Safaricom Care Centre and Safaricom House II are some of the few buildings in Kenya to feature a fully integrated Building Management System incorporating occupation-based lighting and air-conditioning control. The system has enabled the company to monitor and control building systems thereby increasing energy efficiency.

E-waste Management

Safaricom recently launched a Handset Take-Back programme aimed at managing the impact of our electronic gadgets from Cradle to Grave. This initiative is currently being piloted by our staff before roll out in our retail shops for the public.

Green Products

M-PESA the world's first Mobile Money Transfer system has brought convenience and changed many lives by reducing the number of trips people make to pay for transactions, reducing carbon emissions. The service is available 24 hours. Another first from Safaricom is "Simu ya Solar"; solar phones that are charged by the sun and hence do not consume electricity.

These valuable exercises shall inform our sustainability and carbon neutrality policies on offsetting our carbon foot print and also pave way for carbon trading in the near future. We believe that our continued existence as a viable enterprise is dependent on the creation of a sustainable environment.

Supplier Engagement

Safaricom requires all Suppliers to conduct their business dealings with Safaricom in compliance with its suppliers Code of conduct and in compliance with all laws applicable to the Suppliers' business, wherever conducted. By entering into business transactions with Safaricom, the Supplier agrees to abide by the terms of the Code and acknowledge that compliance with the Code is required to maintain the Supplier's status as a Safaricom Supplier. Each supplier is required to self-assess their practices in line with a rating scale designed by Safaricom and the self assessment covers core areas of the sustainability initiative, environment compliance, occupation health and safety, fraud and ethics, human resources, community and corporate giving, and regulatory compliance.

Everlasting smiles

Corporate Social Responsibility

The Safaricom Foundation

Founded in 2003, Safaricom Foundation was the first corporate foundation in Kenya and is now in its 7th year, the foundation continues to provide a focused mechanism for Safaricom Limited to exercise its Corporate Social Investment mandate.

The Foundation partners with communities, Community Based Organisations and Non-Governmental Organisations to implement development projects in a partnership model that involves the active participation of Safaricom staff. Over the years, the Safaricom Foundation has and will continue to grow in terms of programme scope; funding and the number of projects funded each year.

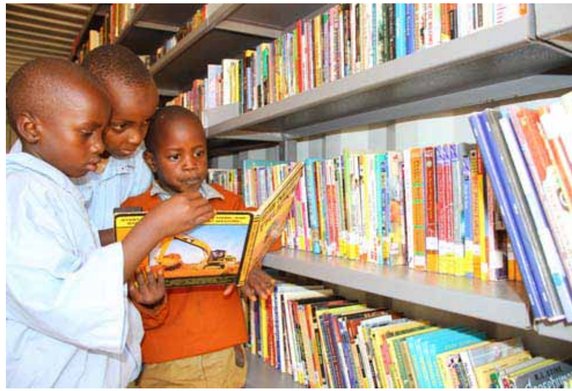
The Safaricom Foundation supports initiatives that provide sustainable and community based solutions in the thematic areas of Education; Health; Economic Empowerment; Environmental Conservation; Water; Arts, Culture and Music; Sports and Disaster Relief.

The Foundation's thematic areas contribute towards Kenya's development agenda, and the Millennium Development Goals.

This financial year, the Foundation disbursed a total of Kshs. 245,163,015 towards 108 initiatives in the thematic areas covered by its mandate.

Education

In its efforts to contribute to the development of Kenya's future generations, The Foundation spent 14% of total funding in 47 Education projects. These projects covered partnerships to construct and equip learning facilities, laboratories and libraries, provision of text books and learning materials to schools across the country.



Driving forward Kenya's economic empowerment through partnerships in income generation....

Economic empowerment

The Foundation is committed to driving forward Kenya's economic empowerment through partnerships in income generation, food security, vocational training and employment creation. 5% of total funding was invested in 18 projects throughout the year.

Health

The Foundation invested 23% of total funding in improving access to quality and affordable health care for Kenyans through 25 partnerships to construct and equip health facilities, provide mobile medical services and provide specialized medical services.

Water

The Safaricom Foundation in partnership with the Kenya Red Cross and Action Aid Kenya has been running community based water projects dubbed "Maji na Uhai". These projects provide clean and safe water for domestic use, livestock and agriculture; with a view to improving food production and food security in arid and semi arid areas. "Maji na Uhai" as the name suggests aims at improving livelihoods and saving lives. 14% of total funding was spent during the 2011 financial year. This included a response to the drought appeal by the Kenya Red Cross Society.

Sports

The Foundation supported partnerships in sports for social cohesion, health and well being, and the promotion of social and economic development. 8% of total funding was invested in various sporting programmes and the development and rehabilitation of sporting infrastructure.

Arts Music & Culture

Our commitment to preserving and promoting Kenya's national heritage through partnerships which apply arts, culture and music to social and economic development was demonstrated by the Foundation's investment towards mosaic art projects for school children in Western Kenya and Music Festivals at the coast.

Environmental Conservation

The Safaricom Foundation aims at providing sustainable support for the preservation of Kenya's environment and natural resources through partnerships to grow forests, conserve biodiversity, mitigate against human-wildlife conflict and promote the use of renewal energy sources. 3% of total funding was used in support of activities that addressed the above 3 main areas of intervention across 8 different projects.

Employee Engagement

Safaricom staff continue to play a pivotal role in the activities of the Foundation. This has been made possible by presenting them with a variety of opportunities to participate in projects that are supported by the Safaricom Foundation.
In a continued demonstration of leadership, Safaricom Limited allows its employees up to four paid leave days a year to engage in CSR activities. Staff can also become staff sponsors (undertaking feasibility assessments, monitoring and evaluation on behalf of the Foundation), volunteer at the Foundation, mentor in the various mentorship programs supported by the Foundation, participate in "Pamoja" or in the "World of Difference" programme.

Over 600 staff from all of the divisions within Safaricom actively participated in CSR activities across the country. Some of the activities included planting trees at Ngare Ndare Forest and the Nairobi Greenline at the Nairobi National Park. Collecting garbage and cleaning up of Nairobi's Eastlands area; supporting fundraising for the Gender Violence Recovery Centre; assisting in the administration of medical camps country wide; taking part in a massive de-worming exercise for school children in Kaloleni district; mentoring students through Junior Achievement; tree planting and environmental cleanup on the World Environment Day in Molo and Garissa.

Pamoja – the Staff Funding Scheme

The Pamoja scheme of the Safaricom Foundation provides the opportunity for permanent employees of Safaricom to apply for funding for projects or causes that they wish to support. Through the scheme, staff are able to access funding of up to Ksh 500,000. Staff contribute 10% of project costs and the Foundation provides 90%. There has been tremendous interest from staff, some have applied for funding to renovate their former schools, others to build or equip health centres in their home areas and others to support income generating activities for communities

World of Difference

World of Difference is an innovative charitable volunteering initiative currently being delivered across the international network of Vodafone Foundations.

The Safaricom Foundation is in the second year of this initiative having launched it to Safaricom staff in 2009. The first phase had 12 Safaricom staff take part and the second phase currently has 19 staff members. In addition to the staff, 3 students from Masinde Muliro University, Sangalo Institute of Technology and the Medical Trainning Center in Webuye will have the opportunity to participate in this initiative.

This programme, managed by the Foundation, gives staff the unique opportunity to be paid to work for their charity of choice. 5 partner organizations are benefitting from the skills and passion of the staff seconded to their organizations. The organizations include the Kianda Foundation, Mathare Community Educational and Development Organisation (MCEDO), Ngare Ndare Forest Trust, Jamaa Mission Hospital and Nyumbani Children Village in Kitui.

The aim of the initiative is to take corporate philanthropy in a new direction. By providing support to skilled people with a passion to work for charity, it provides new talent to the charities and taps into their energy and ambition to deliver more to the charity than money alone can give.

Expressions of Gratitude

"Initially our students learnt under trees, but with the donation we have built classrooms. One notable difference is that the students are happy, very happy." Samuel Sosio-Principal Osupukiai Primary School in Transmara. The foundation built 2 classrooms in this school.

"[WoD] makes a huge difference to institutions, it brings more professionalism … it was an innovative thing to do in this country. I have seen staff exchanges but not from the private sector into the non-profit sector." –2009/2010 charity

"I would queue from 6 am and return home at 1 pm with only a twenty litre jerican since I had no donkey to carry extra water like most of my neighbours". Catherine Wambua, a resident of Mukame-A-Mbeu speaking during the commissioning of the Mukanda water project in Makueni.

"The Foundation definitely helped us improve, renovate, expand and repair facilities for approximately 180 boarding students". Bro John Koczka-Coordinator Materi Centre

"This was a great and timely intervention as most farmers didn't have seeds to plant. They had however prepared their farms in the hopes that the rains would fall as expected. The seed distribution was therefore undertaken at the right time; before the onset of the rains". Kenya Red Cross Society-Kitui Branch Coordinator. The Foundation purchased 36.5MT of certified cowpeas and maize that was distributed by KRCS to 31,600 farmers in Mutito and Mwingi South.

"The camps give me courage to talk to people about Diabetes. I have been encouraging my friends to test for blood sugar levels, considering that I was diagnosed with diabetes four years after symptoms of the disease started showing," Tabitha Mwanduka a participant in the DMI Childrens Camp that was sponsored by the Foundation

"Discussing fistula openly can help reduce the stigma associated with it. And learning that the condition is treatable can transform the lives of those who had lost hope. Safaricom Foundation has been a lead supporter of this. " George Audi, CFO, Jamaa Mission Hospital, speaking during Safaricom Foundation cheque presentation at the hospital in 2009

"I feel very happy every time we win a competition. I have made new friends through choir outings and I have improved my relationships with the teachers and other children because of discipline, music requires a lot of discipline. I have faith that I can make it life through music." Margaret Wairimu, 16 years, Safaricom supported the Wema Centre choir attend the music festivals.

"There is every need for us, as citizens of the world, to do everything possible at our disposal to protect the environment for the benefit of the current generation and posterity, since a proper environment leads to a better and developed world". Isaiah Olale Onyango–Centre for Family Initiatives(CEFI) Executive Director. CEFI is engaged in a community led agro forestry project in Migori that is partly funded by the Safaricom Foundation.

The Michael Joseph Centre

The Michael Joseph Centre is located at Safaricom House and is a modern public space dedicated to suporting the development of the arts in Kenya. It hosts an array of cultural events ranging from musical concerts, theatrical plays and art exhibitions. It is always open to art lovers ...do visit us sometime.

Exhibitions

The centre has been a host to several exhibitions which include

- Islands of Creativity – Opening of the Centre, May 2010. A feature of visual artists giving a glimpse into the journey of contemporary art in Kenya.
- Style it Hot – an exploration and bridging of culture through fashion, music and art.

The Michael Joseph Centre is an area that has been set aside at Safaricom House II specifically for activities, events and exhibitions; both for internal and external guests. The centre comprises of 4 areas; the CSR space, the Art space, the Technology space and the Telepresence Room.

- Shujaaz FM-an exhibition that showcased the creative comic strip that focuses on heroes that address contentious subjects head on.
- 10 years of Safaricom – an exhibition that retraces the 10 year journey of Safaricom.
- VITI Exhibition- an artistic showroom of furniture made by Kenyan skilful handiwork designers and furniture makers.

Student Activities

Admission into the Michael Joseph Centre is free, making it a favourite for visits by students from various schools which include Riara Girls High School, Aga Khan Academy, Waldorf School of Nairobi, Muguga Green, Lavington Primary and Baraton University.

The centre also runs arts and crafts initiatives aimed at horning the art skills of youngsters. These initiatives draw participants from children homes, Safaricom staff children, school children and

include the Kiddy Christmas Day Celebration, the Fashion Children Fun Day, the Junior Achievement Week and Project Sanaa

Artist and Music Workshops

The centre was the location of several artist workshops such as

- Designers Workshop attended by art students from Evelyn College of Design, BIFA and University of Nairobi
- MILA Wall training
- KENYA Live workshops
- Cartoonists workshops by renowned cartoonist such as Maddo, Gado, Kham

The centre was also host to various visits and performances of Music artist like

- D-Banj and Ramsey Noah – Nigerian music and Film artists
- Hugh Masekela
- Safaricom Jam training
- KENYA Live artistes visit
- Berklee College of Music Jazz Jam session

Company Events

The Michael Joseph centre is the premier venue for Safaricom's launches of new products and services, internal and external forums/meetings as well as Corporate and Business partner events

Notice of The Annual General Meeting

Notice in accordance with provisions of Article 149 is hereby given that the Annual General Meeting for the year 2011 of the Company will be held at the Bomas of Kenya, Nairobi on Thursday, 8th September 2011 at 11.00 a.m. to conduct the following business.

Ordinary Business

1. To receive, consider and adopt the Financial Statements for the year ended 31st March 2011 together with the Chairman's, Directors' and Auditors' reports thereon.
2. To approve a first and final dividend of 400% of the issued and paid up share capital of the Company i.e. Kshs 0.20 per share of Kshs 0.05 each to the Shareholders on the Register of Members as at the closure of business on 8th September 2011 for the Financial Year ended 31st March 2011 as recommended by the Directors payable on or about 8th December 2011.
4. 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.
5. To note that PricewaterhouseCoopers continue in office as Auditors by virtue of section 159 (2) of the Companies Act (Cap) 486 and to authorise the Directors to fix their remuneration for the ensuing financial year.
6. Any other business of which due notice has been given.

BY ORDER OF THE BOARD

J L G MAONGA
SECRETARY

10th August 2011

NOTES:

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

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

   All proxies should be sent by Post to Image Registrars of P O Box 9287, 00100 Nairobi. Alternatively, duly signed proxies can be scanned and emailed to info@image.co.ke in PDF format. Proxies must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting.
2. In accordance with Article 145 of the Companies Articles of Association, a copy of the entire Annual Report and Accounts may be viewed and obtained from the Company's website www.safaricom.co.ke or from the Registered Office of the Company Safaricom House, Waiyaki Way, Westlands, Nairobi. An abridged set of the Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statement for year ended 31st March 2011 have been published in two daily newspapers with nationwide circulation.
3. Registration of Members and proxies attending the Annual General Meeting will commence at 7.00 a.m. and will close at 11.00 a.m. Production of a national identification card, a passport or other acceptable means of identification and the Member's share certificate or current central Depository Corporation statement of account for their shares in the Company will be required.
4. The preferred method of paying dividends of less than Kshs 70,000/= will be via the M-PESA mobile money transfer system. Members who are M-PESA Account Holders and will attend the Annual General Meeting are requested to provide details of their M-PESA registered mobile telephone number to which their dividend payment may be sent.

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

Financial Statements

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Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 March 2011, which disclose the state of affairs of the Group and of the Company.

Principal Activities

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

Results And Dividend

The net profit for the year of Shs 13,158,973,000 (2010: Shs 15,148,038,000) has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 8,000,000,000 (2010: Shs 8,000,000,000).

Directors

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

N Nganga	Chairman
R Collymore	(Appointment 1 November 2010) Managing Director
T Harrabin	
J Kinyua	
N Macharia	
S Mudhune	
K Witts	(Appointment 9 July 2010)
N Read	(Appointment 17 January 2011)
E Koimett	(Alternate to J Kinyua)
M Lundal	(Resigned 17 January 2011)
L Baillie	(Resigned 17 January 2011 as alternate to M Lundal)
M Joseph	(Retired as Managing Director on 31 October 2010 and was appointed Director on 1 November 2010)
C Tiffin	(Resigned on 31 October 2010 as alternate to M Joseph and was appointed as alternate to R Collymore on 1 November 2010)

Auditor

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

By order of the Board

J L G Maonga
SECRETARY

18 May 2011

Statement of Directors' Responsibilities

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

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

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

Director

Director

18 May 2011

Report of the Independent Auditor to the Members of Safaricom Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Safaricom Limited (the Company) and its subsidiaries (together, the Group) set out on pages 79 to 171. These financial statements comprise the consolidated statement of financial position at 31 March 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended together with the statement of financial position of the Company standing alone as at 31 March 2011 and the statement of changes in equity of the Company for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply

Report of the Independent Auditor to the Members of Safaricom Limited (Continued)

with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and the Company as at 31 March 2011 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report of the Independent Auditor to the Members of Safaricom Limited (Continued)

Report on other legal requirements

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

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

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

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

KPMG Kenya

Certified Public Accountants

18 May 2011

Consolidated statement of comprehensive income

	Notes	Year ended 31 March 2011 Shs'000	2010 Shs'000
Revenue	5	94,832,227	83,960,677
Cost of sales		(45,794,536)	(36,554,370)
Gross profit		49,037,691	47,406,307
Other income		36,368	15,342
Distribution costs		(3,896,176)	(2,779,913)
Administrative expenses		(6,850,839)	(5,634,221)
Other expenses		(18,936,895)	(16,396,899)
Finance income	6	871,249	797,308
Finance costs	7	(1,907,783)	(2,441,254)
Share of profit of associate	19 (b)	7,748	-
Profit before income tax	8	18,361,363	20,966,670
Income tax expense	11	(5,202,390)	(5,818,632)
Profit for the year (of which Shs 13,546,966,000 (2010: Shs 15,432,750,000) has been dealt with in the accounts of the Company)		13,158,973	15,148,038
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		13,158,973	15,148,038

Consolidated statement of comprehensive income (Continued)

	Notes	Year ended 31 March 2011 Shs'000	2010 Shs'000
Attributable to:			
Owners of the parent		13,311,587	15,287,810
Non controlling interest		(152,614)	(139,772)
		13,158,973	15,148,038
Earnings per share for profit attributable to the equity holders of the Company			
- basic (Shs per share)	12	0.33	0.38
- diluted (Shs per share)	12	0.33	0.38

Consolidated statement of financial position

	Notes	31 March 2011 Shs'000	31 March 2010 Shs'000
Capital and reserves attributable to the Company's equity holders			
Share capital	13	2,000,000	2,000,000
Share premium	13	1,850,000	1,850,000
Retained earnings		56,002,747	50,691,160
Proposed dividend	14	8,000,000	8,000,000
Attributable to owners of the parent		67,852,747	62,541,160
Non controlling interest		(398,656)	(246,042)
Total equity		67,454,091	62,295,118
Non-current liabilities			
Borrowings	15	12,104,932	7,610,374
Payables and accrued expenses	25	178,013	395,388
Total non-current liabilities		12,282,945	8,005,762
Total equity and non-current liabilities		79,737,036	70,300,880

Consolidated statement of financial position (Continued)

	Notes	31 March 2011 Shs'000	31 March 2010 Shs'000
Non-current assets			
Property, plant and equipment	17 (a)	83,022,590	73,090,172
Intangible assets - Licences	18 (a)	2,722,706	2,842,620
Intangible assets - Goodwill	18 (a)	219,151	219,151
Investment in associate	19 (b)	8,873	1,125
Indefeasible rights of use	20	3,756,343	3,051,523
Deferred income tax asset	16 (a)	2,421,142	2,342,054
Prepaid operating lease rentals	31	2,661	3,560
		92,153,466	81,550,205
Current assets			
Inventories	21	5,880,837	2,887,029
Receivables and prepayments	22	9,440,461	8,862,983
Derivative financial instruments	23	111,382	3,409
Current income tax		1,009,581	93,809
Cash and cash equivalents	24	5,259,035	10,723,415
		21,701,296	22,570,645
Current liabilities			
Payables and accrued expenses	25	31,101,667	24,739,379
Borrowings	15	3,016,059	9,080,591
		34,117,726	33,819,970
Net current liabilities		(12,416,430)	(11,249,325)
		79,737,036	70,300,880

The financial statements on pages 79 to 171 were approved for issue by the Board of Directors on 18 May 2011 and signed on its behalf by:

Director

Director

Company statement of financial position

	Notes	31 March 2011 Shs'000	31 March 2010 Shs'000
Equity			
Share capital	13	2,000,000	2,000,000
Share premium	13	1,850,000	1,850,000
Retained earnings		56,460,083	50,913,117
Proposed dividend	14	8,000,000	8,000,000
Total equity		68,310,083	62,763,117
Non-current liabilities			
Borrowings	15	12,000,000	7,513,000
Payables and accrued expenses	25	178,013	395,388
Total non-current liabilities		12,178,013	7,908,388
Total equity and non-current liabilities		80,488,096	70,671,505
Non-current assets			
Property, plant and equipment	17(b)	82,875,969	72,898,486
Intangible assets- Licences	18(b)	1,878,297	2,455,991
Investment in associate	19(b)	8,873	1,125
Investment in subsidiaries	19(a)	1,017,070	558,870
Indefeasible rights of use	20	3,756,343	3,051,523
Receivables and prepayments	22	850,000	650,000
Deferred income tax	16(b)	2,408,102	2,329,014
Prepaid operating lease rentals	31	2,661	3,560
		92,797,315	81,948,569

Company statement of financial position (Continued)

	Notes	31 March 2011 Shs'000	31 March 2010 Shs'000
Current assets			
Inventories	21	5,880,837	2,886,336
Receivables and prepayments	22	8,614,079	8,744,723
Derivative financial instruments	23	111,382	3,409
Current income tax		1,008,841	93,809
Cash and cash equivalents	24	5,222,344	10,699,197
		20,837,483	22,427,474
Current liabilities			
Payables and accrued expenses	25	30,130,643	24,623,949
Borrowings	15	3,016,059	9,080,589
		33,146,702	33,704,538
Net current liabilities		(12,309,219)	(11,277,064)
		80,488,096	70,671,505

The financial statements on pages 81 to 173 were approved for issue by the Board of Directors on 18 May 2011 and signed on its behalf by:

Director

Director

Consolidated statement of changes in equity

	Notes	Attributable to owners of the parent					
		Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Non controlling interest Shs'000	Total equity Shs'000
Year ended 31 March 2010							
At start of year		2,000,000	1,850,000	43,403,350	4,000,000	(106,270)	51,147,080
Total comprehensive income for the year		-	-	15,287,810	-	(139,772)	15,148,038
Transactions with owners							
Dividends:							
- Final for 2009	14	-	-	-	(4,000,000)	-	(4,000,000)
- Proposed final for 2010	14	-	-	(8,000,000)	8,000,000	-	-
Total transaction with owners		-	-	(8,000,000)	4,000,000	-	(4,000,000)
At end of year		2,000,000	1,850,000	50,691,160	8,000,000	(246,042)	62,295,118

Consolidated statement of changes in equity (continued)

	Notes	Attributable to owners of the parent					
		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 2011							
At start of year		2,000,000	1,850,000	50,691,160	8,000,000	(246,042)	62,295,118
Total comprehensive income for the year		-	-	13,311,587	-	(152,614)	13,158,973
Transactions with owners							
Dividends:							
- Final for 2010	14	-	-	-	(8,000,000)	-	(8,000,000)
- Proposed final for 2011	14	-	-	(8,000,000)	8,000,000	-	-
Total transactions with owners		-	-	(8,000,000)	-	-	(8,000,000)
At end of year		2,000,000	1,850,000	56,002,747	8,000,000	(398,656)	67,454,091

Company statement of changes in equity

	Notes	Share capital	Share premium	Retained earnings	Proposed dividends	Total equity
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 March 2010						
At start of year		2,000,000	1,850,000	43,480,367	4,000,000	51,330,367
Total comprehensive income for the year		-	-	15,432,750	-	15,432,750
Transactions with owners						
Dividends:						
- Final for 2009	14	-	-	-	(4,000,000)	(4,000,000)
- Proposed final for 2010	14	-	-	(8,000,000)	8,000,000	-
Total transactions with owners		-	-	(8,000,000)	4,000,000	(4,000,000)
At end of year		2,000,000	1,850,000	50,913,117	8,000,000	62,763,117

Company statement of changes in equity (continued)

	Notes	Share capital	Share premium	Retained earnings	Proposed dividends	Total equity
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 31 March 2011						
At start of year		2,000,000	1,850,000	50,913,117	8,000,000	62,763,117
Total comprehensive income for the year		-	-	13,546,966	-	13,546,966
Transactions with owners						
Dividends:						
- Final for 2010	14	-	-	-	(8,000,000)	(8,000,000)
- Proposed final for 2011	14	-	-	(8,000,000)	8,000,000	-
Total transactions with owners		-	-	(8,000,000)	-	(8,000,000)
At end of year		2,000,000	1,850,000	56,460,083	8,000,000	68,310,083

Consolidated statement of cash flows

	Notes	Year ended 31 March 2011 Shs'000	2010 Shs'000
Operating activities			
Cash generated from operations	26	38,268,803	30,434,335
Interest received	6	293,519	349,587
Interest paid	7	(1,363,200)	(1,458,218)
Income tax paid		(6,197,250)	(5,280,085)
Net cash from operating activities		31,001,872	24,045,619
Investing activities			
Acquisition of IGO Wireless Limited, net of cash acquired	30 (a)	(454,094)	-
Acquisition of Instaconnect Limited, net of cash acquired	30 (b)	(2,095)	-
Acquisition of Packetstream Limited, net of cash acquired		-	(373,309)
Purchase of property, plant and equipment	17 (a)	(25,482,597)	(17,434,944)
Additions of property, plant and equipment – IGO Wireless Limited	17 (a)	(11,608)	-
Purchase of intangible assets	18	(1,600)	(1,500)
Investment in TEAMS	19 (b)	-	(1,125)
Investment in Indefeasible rights of use	20	(913,214)	(1,180,943)
Proceeds from disposal of property, plant and equipment		17,590	17,323
Net cash used in investing activities		(26,847,618)	(18,974,498)

Consolidated statement of cash flows (continued)

	Notes	Year ended 31 March 2011 Shs'000	2010 Shs'000
Financing activities			
Proceeds from long-term borrowings		7,496,030	15,840,350
Repayments on long-term borrowings		(9,112,653)	(10,498,886)
Dividends paid	14	(8,000,000)	(4,000,000)
Net cash (used in)/ generated from financing activities		(9,616,623)	1,341,464
Net (decrease)/ increase in cash and cash equivalents		(5,462,369)	6,412,585
Movement in cash and cash equivalents			
At start of year		10,723,415	4,310,830
(Decrease)/ increase		(5,462,369)	6,412,585
At end of year	24	5,261,046	10,723,415

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 Stock 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 years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in accordance 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 thousand.

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

Notes (Continued)

2. Summary of significant accounting policies (Continued)

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 January 2010.

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

The revised standard was applied to the acquisition of the controlling interest in IGO Wireless Limited and Instaconnect Limited acquired on 3 November 2010. The acquisition was done in one go (not in stages). The revised standard requires goodwill to be determined only at the acquisition date rather than at the previous stages. The determination of goodwill includes the previously held equity interest to be adjusted to fair value, with any gain or loss recorded in the statement of comprehensive income. See note 30 for further details of the business combination that occurred during the year.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no

Notes (Continued)

2. Summary of significant accounting policies (Continued)

Changes in accounting policy and disclosures (Continued)

change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the statement of comprehensive income. There have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

(b) Standards, amendments and interpretations to existing standards that are effective but not relevant

Classification of rights issues' (amendment to IAS 32) – effective 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'.

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

IFRS 9, 'Financial instruments' – effective 1 January 2013. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. It introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The Group is yet to assess IFRS 9's full impact.

IAS 24 (Revised) 'Related party disclosures' – effective 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard is applied, the subsidiaries of the Group will need to disclose any transactions between itself and associates of its parent Company. The Group has systems in place to capture the necessary information.

Notes (Continued)

2. Summary of significant accounting policies (Continued)

Changes in accounting policy and disclosures (Continued)

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' - effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the Group's financial statements.

Prepayments of a minimum funding requirement' (amendments to IFRIC 14). – effective 1 January 2011. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments should be applied retrospectively to the earliest comparative period presented.

Annual improvements 2009 and 2010 – This is a collection of amendments to 12 standards as part of the IASB programme to annual improvements.

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

The Group uses 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 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. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value over any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this 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 profit or loss.

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

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(ii) Associates (Continued)

includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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

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

(iii) Transactions and non-controlling interests

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

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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

(c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(d) Segment reporting

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

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

(e) Revenue recognition

The Group's principle business is the sale of airtime for use in voice and data transmission. The business is transforming itself to a Total Telecommunication Solution provider. Phones, starter packs and other accessories are sold through dealers and retail centres spread across the country. Starter packs consist of a SIM card and information brochures. There is no right of return for SIM cards.

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

In the year, there were various PrePay tariffs with varied off peak time periods

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(e) Revenue recognition (Continued)

and varied on-net and off-net costs which were available to our subscribers to suit their varied requirements. The tariffs are Ongea, Super Ongea, Super Taifa and Safari. From August 2010, the tariffs were reduced to two. The tariffs are Uwezo and Safari. Uwezo is a flat rate tariff, while Safari is the travellers' PrePay tariff. PostPay tariffs are available for subscribers who opt to pay their bills at the end of the month. Several propositions dubbed "Advantage" are available to suit both individuals and corporate customers.

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

For wireless data services, revenue is based on the bandwidth and speed contracted by the customer. Revenue is recognized at the end of every month based on the standard monthly charge. For PrePay 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 and bandwidth is accounted for as deferred revenue.

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), excise duty, rebates and discounts.

Interest income is recognised using the effective interest method.

A loyalty programme, 'Bonga', was introduced in January 2007 to both pre pay and PostPay subscribers. In this scheme, subscribers earn one Bonga point for every Shs 10 spent on voice calls, short messages service (SMS) and data. These points

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(e) Revenue recognition (continued)

can be redeemed for free airtime, SMS or merchandise such as phones.

Management defers revenue for every point accumulated and recognises the revenue relating to the point earned only on redemption. The current trend is that customers are holding onto their points so that they can redeem through merchandise. The position in March 2011 was that 22.9% of the customers redeem points through merchandise while 77.1% redeem points through airtime, voice minutes and SMS.

(f) Property, plant and equipment

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

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

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

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

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

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(f) Property, plant and equipment (Continued)

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

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

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 year.

(g) Intangible assets

(i) Goodwill

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

Any negative goodwill arising from an acquisition is credited to the statement of comprehensive income. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(g) Intangible assets (Continued)

(ii) Network Licences

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

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

Currently, the Group has the following licences:

- Unified Licence Tier 1 issued in May 2010 consolidating the following three licences:
  - The initial operating licence issued in July 1999 to Safaricom Limited (for operation of mobile systems and the provision of mobile services (ML-99-0001));
  - The international gateway licence issued in June 2006 to Safaricom Limited; and
  - The 3G license issued in October 2007 to Safaricom Limited.
- Local Loop Operator License (LLO) issued to Comtec Training and Management Services Limited in March 2006;
- Digital Carrier Network Operation (DCNO) issued to Comtec Integration Systems Limited in March 2006;
- Internet Service Provider (ISP) issued to Flexible Bandwidth Limited in March 2006;
- Public Data Communications Network Operator License (PDCNO) issued to PacketStream Data Networks Limited in July 2005;
- Public Data Network Operators License (PDNO) issued to Igo Wireless Limited in 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 (Note 19).

The PDCNO Licence was acquired by the Group on 15 December 2009 when

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(g) Intangible assets (Continued)

(ii) Network Licences (Continued)

Safaricom Limited purchased 100% of the issued share capital of PacketStream Data Networks Limited, a WIMAX service provider (Note 19).

The PDNO license was acquired by the Group on 3 November 2010 when Safaricom Limited purchased 100% of the issued share capital of Igo Wireless Limited, whilst the CSP and ASP licenses were acquired by the Group on 3 November 2010 when Safaricom Limited purchased 100% of the issued share capital of Instaconnect Limited (Note 30).

The international gateway and 3G licences operate under the same umbrella as the original license, ML-99-0001. The useful life of these licences is fifteen years as long as the original licence is in force. As such they are amortised within the remaining useful life of the original licence. The start-up date for the initial operating licence was 1 July 1999 as indicated in the contractual agreement with the regulator. Initial amortisation of the licence was calculated in proportion to the average actual customers of the network in the relevant period against total planned customers at maturity. As at 31 March 2002, the network was considered mature and the amortisation policy changed to a straight line basis and the remaining net book value is being amortised over the remaining life of the license.

All the licenses have a useful life of 15 years and are amortised over this period.

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

(h) Accounting for derivative financial instruments and hedging activities

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

Notes (Continued)

2. Summary of significant accounting policies (Continued)

derivatives are recognised immediately in statement of comprehensive income.

(i) Impairment of non-financial assets

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

(j) Accounting for leases

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

(k) Indefeasible rights of use

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

IRU	Contract period
TEAMS	25 years
KPLC	20 years
SEACOM	20 years

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of inventories comprises purchase price and other incidental costs. Net realisable

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(l) Inventories (Continued)

value is the estimate of the selling price and other incidental costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

Network spares are used to refurbish the network. The Group has a contract with one of the suppliers to repair faulty spares and return them in a near-new condition. For this service, a unit repair price is paid to the supplier based on the spare log.

A provision for impairment of inventories is established when there is objective evidence that the inventory items cannot be used within the network.

(m) Receivables

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

(n) Payables

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

(o) Share capital

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

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

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(o) Share capital (Continued)

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 the Company subject to the provisions of the Companies Act.

(p) Cash and cash equivalents

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

(q) Employee benefits

(i) Retirement benefit obligations

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

The assets of the scheme are held in separate trustee administered funds, which are funded by contributions from both the Group and employees. The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The Group's contributions to the defined contribution schemes are charged to the statement of comprehensive income in the year to which they relate.

(ii) Other entitlements

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

(iii) Employee share options

The Group set up an Employee Share Ownership Plan (ESOP) in March 2010

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(q) Employee benefits (Continued)

under which, subject to vesting conditions, eligible employees are entitled to purchase units in a separately administered trust, each unit in the trust representing one share in the Company.

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

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

(r) Current and deferred income tax

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

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

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

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

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

The tax rate applicable in the year was 27%. This rate has been enjoyed since June

Notes (Continued)

2. Summary of significant accounting policies (Continued)

(r) Current and deferred income tax (Continued)

2009 when the Company was listed on the Nairobi Stock Exchange and will revert back to the standard rate in 2013.

(s) Borrowings

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

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

(t) Dividend distribution

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

(u) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise employee termination payments.

Provisions are not recognised for future operating losses.

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

(v) Comparatives

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

Notes (Continued)

3. Critical accounting estimates and judgements

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

(i) Critical accounting estimates and assumptions

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

Fair value estimation

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

Impairment of goodwill

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

Income taxes

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

Notes (Continued)

3. Critical accounting estimates and judgements (Continued)

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.

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

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

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

(iii) Critical judgement on going concern

The Group's current liabilities exceed its current assets by Shs 12,416,430,000 (2010: Shs 11,249,325,000) at the statement of financial position date. This net current liability position is expected to remain in the near future. However, the Group continues to grow its revenue and to generate sufficient cash to meet its obligations as they arise and in line with the long term plans of the business. Management review the cash forecast monthly and determines its cash requirements.

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

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

Notes (Continued)

4. Financial risk management

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

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

Market risk

(i) Foreign exchange risk

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

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

At 31 March 2011, 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 221 million (2010: Shs 29 million) higher/lower, mainly as a result of US dollar trade payables and bank balances.

At 31 March 2011, if the Shilling had weakened/strengthened by 10% against the Euro with all other variables held constant, consolidated post tax profit for the year would have been Shs 12 million (2010: Shs 79 million) lower/higher, mainly as a result of Euro denominated receivables.

Notes (Continued)

4. Financial risk management (Continued)

(ii) Price risk

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

(iii) Interest rate risk

The Group holds interest bearing assets in form of call and fixed deposits. The Group has borrowings in the form of a multi-option loan at a rate of 1.75% above LIBOR, an imports invoicing facility at a rate of 2.5% above the 91-day treasury bill rate as well as a corporate bond composed of two tranches with both fixed and floating interest rate paid bi-annually. The fixed interest rate notes for tranche one are priced at 12.25% while the floating rate notes are priced at 182–day treasury bill rate plus 1.85%. The fixed interest rate notes for tranche two are priced at 7.75% while the floating rate notes are priced at 182–day treasury bill rate plus 1.85%. At 31 March 2011, the floating rates for tranche 1 and tranche 2 were 3.98% and 4.40% respectively.

At 31 March 2011, an increase/decrease of 100 basis points in the floating rate would have resulted in a decrease/increase in consolidated post tax profit of Shs 0.6 million (2010: Shs 100.7 million), mainly as a result of higher/lower interest charges on variable rate borrowings.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from derivative financial instruments, corporate bonds and deposits with banks, as well as trade and other receivables. The Group has no significant concentrations of credit risk. The Group credit controller assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

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

Notes (Continued)

4. Financial risk management (Continued)

Post-pay debtors have a 15 day credit period after which payment must be made. Post-pay debtors comprise individuals as well as corporate customers. The auto-bar feature ensures that once the limit has been reached the customer account is closed. This minimises the credit risk associated with these customers. Most of the overdue balances arose before this feature was introduced. Collection efforts are in place.

The Group currently has 326 signed international roaming agreements in place. The roaming strategy targets countries which historically have had the most visitors to Kenya, including UK, Italy, Spain, Sweden, South Africa, and Kenya's neighbouring countries. Roaming partners have entered into an agreement with the Group to terminate their calls on the Group's network for visitors travelling into Kenya. Amounts due from the roaming partners are settled within 60 days unless a dispute arises. Disputes are handled by Syniverse, a roaming clearing house.

The Group has also signed interconnect agreements with partners such as Bharti Airtel Kenya Limited, Telkom Orange Kenya Limited and Belgacom ICS to terminate calls to and from other networks on the Group's network. Amounts due from interconnect partners are settled within 30 days of invoice unless a dispute arises. Disputes are handled in the first instance by the Regulatory Department of the Group.

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

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

The Group's maximum exposure to credit risk as at 31 March 2011 is Shs 13,484 million (2010: Shs 18,223 million).

Notes (Continued)

4. Financial risk management (Continued)

The amount that best represents the Group's and Company's maximum exposure to credit risk at 31 March 2011 is made up as follows:

	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Cash equivalents	5,258,440	10,723,374	5,221,749	10,699,156
Trade receivables	4,988,765	4,825,872	4,074,199	4,571,735
Derivative financial instruments	111,382	3,409	111,382	3,409
Other receivables	1,816,454	1,103,499	925,878	1,026,953
Amounts due from related parties	1,308,602	1,567,262	3,099,504	2,438,476
	13,483,643	18,223,416	13,432,712	18,739,729

Notes (Continued)

4. Financial risk management (Continued)

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

	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Past due but not impaired:				
- by up to 30 days	1,378,817	500,695	1,378,816	500,695
- by more than 30 days	539,859	410,337	583,806	397,807
Total past due but not impaired	1,918,676	911,032	1,962,622	898,502
Receivables individually determined to be impaired	700,113	642,491	691,544	636,226

Notes (Continued)

4. Financial risk management (Continued)

Receivables

31 March 2011 – Group	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
Dealers	1,965,729	267,991	211,314	2,445,034
Post-pay	475,424	346,083	432,433	1,253,940
Roaming and interconnect	113,121	1,304,602	56,366	1,474,089
Amounts due from related parties	1,308,602	-	-	1,308,602
Other receivables	1,594,298	-	-	1,594,298
	5,457,174	1,918,676	700,113	8,075,963

Notes (Continued)

4. Financial risk management (Continued)

31 March 2010 – Group	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
Dealers	2,096,299	29,815	188,667	2,314,781
Post-pay	278,272	50,562	397,615	726,449
Roaming and interconnect	897,778	830,655	56,209	1,784,642
Amounts due from related parties	1,567,262	-	-	1,567,262
Other receivables	1,103,499	-	-	1,103,499
Total	5,943,110	911,032	642,491	7,496,633

31 March 2011 – Company	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
Dealers	1,597,981	267,991	211,314	2,077,286
Post-pay	475,424	346,083	423,864	1,245,371
Roaming and interconnect	113,121	1,348,548	56,366	1,518,035
Amounts due from related parties	2,249,504	-	-	2,249,504
Other receivables	159,385	-	-	159,385
Total	4,595,415	1,962,622	691,544	7,249,581

Notes (Continued)

4. Financial risk management (Continued)

31 March 2010 – Company	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
Dealers	1,474,414	29,815	188,667	1,692,896
Post-pay	290,801	44,297	391,350	726,448
Roaming and interconnect	904,044	824,390	56,209	1,784,643
Amounts due from related parties	2,438,476	-	-	2,438,476
Other receivables	744,701	-	-	744,701
Total	5,852,436	898,502	636,226	7,387,164

The customers under the 'neither past due nor impaired' category are paying their debts as they continue trading. The default rate is low. Debts that are overdue are not impaired and continue to be paid. The credit control department is actively following these debts. In addition, the Group has bank guarantees of Shs 1,350 million and Shs 1,340 million as at March 2011 and March 2010 respectively, which can be enforced in the event of customer default. Further, for dealers, amounts due are partially covered by future residual and commission payments.

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

Notes (Continued)

4. Financial risk management (Continued)

The Group has an elaborate aging system for monitoring its receivables. Dealers' transactions and credit positions are closely monitored. All fully performing balances are within 90 days. The other categories are past due.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Treasury maintains flexibility in funding by maintaining availability under committed credit lines. Management also monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The table below analyses the Group's and the Company's financial assets and 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

Notes (Continued)

4. Financial risk management (Continued)

(a) Group At 31 March 2011:	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Total Shs'000
Liabilities				
- borrowings	3,030,920	-	104,932	3,135,852
- corporate bonds	465,659	1,246,608	15,739,824	17,452,091
- trade and other payables	30,802,435	299,232	178,013	31,279,680
Total financial liabilities (contractual maturity dates)	34,299,014	1,545,840	16,022,769	51,867,623
Assets				
- cash and bank balances	5,259,035	-	-	5,259,035
- amounts due from related parties	1,308,602	-	-	1,308,602
- other financial assets at fair value through profit or loss	111,382	-	-	111,382
- trade receivables	4,988,765	-	-	4,988,765
- other receivables	1,778,596	-	-	1,778,596
Total financial assets (expected maturity dates)	13,446,380	-	-	13,446,380

Notes (Continued)

4. Financial risk management (Continued)

At 31 March 2010:	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Total Shs'000
Liabilities				
- borrowings	9,411,737	-	97,374	9,509,111
- corporate bond	909,545	909,545	9,938,454	11,757,544
- trade and other payables	24,739,379	-	395,388	25,134,767
Total financial liabilities (contractual maturity dates)	35,060,661	909,545	10,431,216	46,401,422
Assets				
- cash and bank balances	10,723,415	-	-	10,723,415
- amounts due from related parties	1,567,262	-	-	1,567,262
- other financial assets at fair value through profit or loss	3,409	-	-	3,409
- trade receivables	4,825,872	-	-	4,825,872
- other receivables	1,103,499	-	-	1,103,499
Total financial assets (expected maturity dates)	18,223,457	-	-	18,223,457

Notes (Continued)

4. Financial risk management (Continued)

(b) Company	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000
At 31 March 2011:				
Liabilities				
- borrowings	3,030,920	-	-	3,030,920
- corporate bonds	465,659	1,246,608	15,739,824	17,452,091
- trade and other payables	29,831,411	299,232	178,013	30,308,656
Total financial liabilities (contractual maturity dates)	33,327,990	1,545,840	15,917,837	50,791,667
Assets				
- cash and bank balances	5,222,344	-	-	5,222,344
- amounts due from related parties	2,249,504	-	850,000	3,099,504
- other financial assets at fair value through profit or loss	111,382	-	-	111,382
- trade receivables	4,074,199	-	-	4,074,199
- other receivables	925,878	-	-	925,878
Total financial assets (expected maturity dates)	12,583,307	-	850,000	13,433,307

Notes (Continued)

4. Financial risk management (Continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000
At 31 March 2010:				
Liabilities				
- borrowings	9,411,737	-	-	9,411,737
- corporate bonds	909,545	909,545	9,938,454	11,757,544
- trade and other payables	24,623,949	-	395,388	25,019,337
Total financial liabilities (contractual maturity dates)	34,945,231	909,545	10,333,842	46,188,618
Assets				
- cash and bank balances	10,699,197	-	-	10,699,197
- amounts due from related parties	2,438,476	-	-	2,438,476
- other financial assets at fair value through profit or loss	3,409	-	-	3,409
- trade receivables	4,571,735	-	-	4,571,735
- other receivables	1,026,953	-	-	1,026,953
Total financial assets (expected maturity dates)	18,739,770	-	-	18,739,770

Notes (Continued)

4. Financial risk management (Continued)

Capital management

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

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

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

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

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

The Company's focus is to minimise funds tied up in working capital, whilst ensuring that the Company has sufficient financial ability to meet its liabilities as and when they fall due. A significant portion of creditors relate to network infrastructure investments rather than ongoing trading; hence the net current liability position.

Notes (Continued)

4. Financial risk management (Continued)

	2011 Shs'000	2010 Shs'000
Total borrowings	15,120,991	16,690,965
Less: cash and cash equivalents	(5,259,035)	(10,723,415)
Net debt	9,861,956	5,967,550
Total equity	67,454,091	62,295,118
Total capital	77,316,047	68,262,668
Gearing ratio	13%	9%

Notes (Continued)

4. Financial risk management (Continued)

Fair value estimation

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

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

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

31 March 2011	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total balance Shs'000
Assets				
Derivative financial instruments	-	111,382	-	111,382
31 March 2010				
Assets				
Derivative financial instruments	-	3,409	-	3,409

Notes (Continued)

5. Segment information

(a) Basis of preparation

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

Management has determined the operating segment based on the reports reviewed by the executive committee.

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

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

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

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

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

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

Notes (Continued)

5. Segment information (Continued)

(a) Basis of preparation (Continued)

The segment information provided to the executive committee for the reportable segment for the year ended 31 March 2011 is as follows:

	31 March 2011 Shs'000	31 March 2010 Shs'000
Total equity and non-current liabilities	79,737,036	70,300,880
Non-current assets	92,153,466	81,550,205
Current assets	21,701,296	22,570,645
Current liabilities	34,117,726	33,819,970
Net current liabilities	(12,416,430)	(11,249,325)
	79,737,036	70,300,880

Notes (Continued)

5. Segment information (Continued)

(a) Basis of preparation (Continued)

There are no discontinued operations.

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

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

Revenue from subscribers is derived from the sale of airtime, handsets, accessories and other data products through our wide dealer network or through our 35 retail outlets across the country.

Breakdown of the revenue from all services is as follows:

Analysis of revenue by category	2011 Shs' 000	2010 Shs' 000
Voice	63,501,392	64,575,695
SMS and other data	12,911,497	8,167,704
M-PESA commission	11,784,238	7,555,895
Equipment sales and other acquisition revenues	6,635,100	3,661,383
Total	94,832,227	83,960,677

Notes (Continued)

5. Segment information (Continued)

(a) Basis of preparation (Continued)

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

Voice revenue, which includes revenue from redemption of customer loyalty points, continues to contribute a high percentage of total revenue at 67.0% (2010: 76.9%) with SMS and other data at 13.6% (2010: 9.7%), M-PESA at 12.4% (2010: 9.0%) and equipment sales at 7.0% (2010: 4.4%).

In the year, growth in voice dropped by 1.7%. Growth in revenue in all the other categories was positive: SMS and other data at 58.1%, M-PESA at 56.0% and equipment sales at 81.2%.

None of the revenue is generated from any single customer.

6. Finance income

	Group	
	2011	2010
	Shs'000	Shs'000
Interest income	293,519	349,587
Foreign exchange gain on cash and borrowings	577,730	447,721
	871,249	797,308

Notes (Continued)

7. Finance costs

	Group	
	2011	2010
	Shs'000	Shs'000
Interest expense	(1,363,200)	(1,458,218)
Foreign exchange losses on cash and borrowings	(538,950)	(820,177)
Other financing costs	(5,633)	(162,859)
	(544,583)	(983,036)
	(1,907,783)	(2,441,254)

8. Expenses by nature

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

	Group	
	2011	2010
	Shs'000	Shs'000
Depreciation on property, plant and equipment (Note 17)	15,545,247	13,377,364
Amortisation of intangible IRUs (Note 20)	208,394	35,883
Amortisation of intangible assets (Note 18)	579,714	579,613
Repairs and maintenance expenditure on property, plant and equipment	171,759	171,268
Operating lease rentals		
- buildings	487,979	392,537
- sites	493,375	406,846
Receivables – provision for impairment losses (Note 22)	84,128	111,251
Inventory adjustments	(1,501)	22,347
Employee benefits expense (Note 9)	4,463,404	3,994,518
Auditor's remuneration	26,220	20,850
Sales and advertising	3,632,873	2,659,185
Consultancy	101,392	228,796
Site/facilities costs	258,897	276,824
Travel and accommodation	369,905	337,320
Computer maintenance	563,230	369,395
Office upkeep	365,307	333,312
Other operating expenses	2,406,654	1,610,045
Net foreign exchange gains, other than on borrowings and cash and cash equivalents	(73,067)	(116,321)
	29,683,910	24,811,033

9 Employee benefits expense

	Group	
	2011	2010
	Shs'000	Shs'000
The following items are included within employee benefits expense:		
Salaries and wages	4,193,837	3,774,964
Retirement benefits costs:		
- Defined contribution scheme	261,072	212,926
- National Social Security Funds	8,495	6,628
	4,463,404	3,994,518

10. Employee share option

The Group has an Employee Share Option plan where 101 million shares have been allotted for issue to eligible staff upon vesting. The scheme is aimed at rewarding employees for the long term success of the Group and to give them an opportunity to participate in the growth of the value of the Company. The Company has offered eligible staff the option to purchase units within a fixed period of time (the option term currently set at 3 years) at a prescribed unit price. The units represent shares of the Company that are listed on the Nairobi Stock Exchange.

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

The vesting period is 3 years and the grant price was determined on the grant date, 26 February

10. Employee share option(Continued)

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

11. Income tax expense

	Group	
	2011	2010
	Shs'000	Shs'000
Current income tax	5,281,478	6,287,034
Deferred income tax (Note 16)	(79,088)	(468,402)
Income tax expense	5,202,390	5,818,632

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

	Group	
	2011	2010
	Shs'000	Shs'000
Profit before income tax	18,361,363	20,966,670
Tax calculated at the statutory income tax rate of 27% (2010: 27%)	4,957,568	5,661,001
Tax effect of:		
Income not subject to tax	223,706	(345)
Expenses not deductible for tax purposes	76,221	122,026
Deferred income tax not recognised	(55,105)	35,950
Income tax expense	5,202,390	5,818,632

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.

	2011	2010
Profit attributable to equity holders of the Company (Shs thousands)	13,311,587	15,287,810
Weighted average number of ordinary shares in issue (thousands)	40,000,000	40,000,000
Basic earnings per share (Shs)	0.33	0.38
Diluted earnings per share (Shs)	0.33	0.38

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

13. Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000	Total Shs'000
Balance at 1 April 2009	40,000,000	2,000,000	1,850,000	3,850,000
Balance at 1 April 2010	40,000,000	2,000,000	1,850,000	3,850,000
Balance at 31 March 2011	40,000,000	2,000,000	1,850,000	3,850,000

Notes (Continued)

13. Share capital (Continued)

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 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 Companies Act.

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

14. Dividends

No interim dividend was paid during the year (2010: Nil). At the annual general meeting to be held on 8 September 2011, a final dividend in respect of the year ended 31 March 2011 of Shs 0.20 (2010: Shs 0.20) per share amounting to a total of Shs 8,000,000,000 (2010: Shs 8,000,000,000) is to be proposed.

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

Notes (Continued)

15. Borrowings

The borrowings are made up as follows:

	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Non-current				
Shareholder loans	104,932	97,374	-	-
Corporate bond	12,000,000	7,513,000	12,000,000	7,513,000
	12,104,932	7,610,374	12,000,000	7,513,000
Current				
Bank borrowings	3,016,059	9,080,591	3,016,059	9,080,589
	3,016,059	9,080,591	3,016,059	9,080,589
	15,120,991	16,690,965	15,016,059	16,593,589

Notes (Continued)

15 Borrowings (Continued)

The Group has one year renewable loan facilities of Shs 3,016,059,000 from Standard Chartered Bank Kenya Limited (SCB) and Barclays Bank Kenya Limited (BBK). Interest on Shs 2,399,755,000 of the loan is payable monthly in arrears at a rate of 2.5% above the reference 91 day treasury bill rate while interest on Shs 616,304,000 of the loan is payable in arrears at a rate of 1.75% above the reference LIBOR (London Inter-Bank Offer Rate). Further BBK has granted the Group an additional one year loan facility of Shs 2,400,000,000. Interest on these facilities are 1% above the reference 91 day treasury bill rate and is payable in arrears. The loans are unsecured.

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

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

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

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

Notes (Continued)

16. Deferred income tax

(a) Group

Deferred income tax is calculated using the enacted income tax rate of 27% (2010: 27%). The movement on the deferred income tax account is as follows:

	Group	
	2011	2010
	Shs'000	Shs'000
At start of year	(2,342,054)	(1,873,652)
Credit to statement of comprehensive income (Note 11)	(79,088)	(468,402)
At end of year	(2,421,142)	(2,342,054)

Notes (Continued)

16. Deferred income tax (Continued)

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

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

Notes (Continued)

16. Deferred income tax (continued)

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

Notes (Continued)

16. Deferred income tax (Continued)

(b) Company

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

	2011 Shs'000	2010 Shs'000
Deferred income tax liabilities		
Unrealised exchange gains	79,713	3,769
Total deferred income tax liabilities	79,713	3,769
Deferred income tax assets		
Property, plant and equipment:	(2,316,946)	(2,275,403)
Unrealised exchange loss	8,596	5,620
Provisions	(179,465)	(63,000)
Total deferred income tax assets	(2,487,815)	(2,332,783)
Net deferred income tax asset	(2,408,102)	(2,329,014)

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

Notes (Continued)

17. Property, plant and equipment

(a) Group	Network infrastructure	Capital work in progress	Leasehold improvements	Equipment and motor vehicles	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 April 2009					
Cost	93,465,558	9,418,149	1,880,440	7,900,214	112,664,361
Accumulated depreciation	(38,425,932)	-	(932,722)	(4,270,596)	(43,629,250)
Net book amount	55,039,626	9,418,149	947,718	3,629,618	69,035,111
Year ended 31 March 2010					
Opening net book amount	55,039,626	9,418,149	947,718	3,629,618	69,035,111
Additions	12,909,585	2,221,768	748,189	1,555,402	17,434,944
Transfers	14,076	(14,076)	-	-	-
Disposal	-	-	-	(48,073)	(48,073)
Depreciation charge	(11,299,113)	-	(281,404)	(1,796,847)	(13,377,364)
Depreciation on disposal	-	-	-	45,554	45,554
Closing net book amount	56,664,174	11,625,841	1,414,503	3,385,654	73,090,172
At 31 March 2010					
Cost	106,389,219	11,625,841	2,628,629	9,407,543	130,051,232
Accumulated depreciation	(49,725,045)	-	(1,214,126)	(6,021,889)	(56,961,060)
Net book amount	56,664,174	11,625,841	1,414,503	3,385,654	73,090,172

Notes (Continued)

17. Property, plant and equipment (Continued)

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

Notes (Continued)

17. Property, plant and equipment (Continued)

(b) Company	Network infrastructure	Capital work in progress	Leasehold improvements	Equipment and motor vehicles	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 April 2009					
Cost	93,240,249	9,418,149	1,880,440	7,851,504	112,390,342
Accumulated depreciation	(38,325,080)	-	(932,722)	(4,237,290)	(43,495,092)
Net book amount	54,915,169	9,418,149	947,718	3,614,214	68,895,250
Year ended 31 March 2010					
Opening net book amount	54,915,169	9,418,149	947,718	3,614,214	68,895,250
Additions	12,888,708	2,180,194	748,189	1,427,444	17,244,535
Disposal	-	-	-	(47,648)	(47,648)
Depreciation charge	(11,268,817)	-	(281,404)	(1,688,678)	(13,238,899)
Depreciation on disposal	-	-	-	45,248	45,248
Closing net book amount	56,535,060	11,598,343	1,414,503	3,350,580	72,898,486

17. Property, plant and equipment (Continued)

(b) Company

At 31 March 2010	Network infrastructure	Capital work in progress	Leasehold improvements	Equipment and motor vehicles	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost	106,128,957	11,598,343	2,628,629	9,231,300	129,587,229
Accumulated depreciation	(49,593,897)	-	(1,214,126)	(5,880,720)	(56,688,743)
Net book amount	56,535,060	11,598,343	1,414,503	3,350,580	72,898,486
Year ended 31 March 2011					
Opening net book amount	56,535,060	11,598,343	1,414,503	3,350,580	72,898,486
Additions	20,339,081	2,214,081	479,958	2,441,987	25,475,107
Fair Value of swapped assets	5,854,360	-	-	-	5,854,360
Disposal	(12,871,137)	-	(2,833)	(180,152)	(13,054,122)
Depreciation charge	(13,144,555)	-	(423,902)	(1,913,100)	(15,481,557)
Depreciation on disposals	7,030,646	-	1,317	151,732	7,183,695
Closing net book amount	63,743,455	13,812,424	1,469,043	3,851,047	82,875,969
At 31 March 2011					
Cost	119,451,261	13,812,424	3,105,754	11,493,135	147,862,574
Accumulated depreciation	(55,707,806)	-	(1,636,711)	(7,642,088)	(64,986,605)
Net book amount	63,743,455	13,812,424	1,469,043	3,851,047	82,875,969

18. Intangible assets

(a) Group At 31 March 2009	Goodwill	Licence Fees	Total
	Shs'000	Shs'000	Shs'000
Cost	219,151	5,938,159	6,157,310
Accumulated amortisation	-	(2,890,735)	(2,890,735)
Net book amount	219,151	3,047,424	3,266,575
Year ended 31 March 2010			
Opening net book amount	219,151	3,047,424	3,266,575
Additions	-	374,809	374,809
Amortisation	-	(579,613)	(579,613)
Closing net book amount	219,151	2,842,620	3,061,771
At 31 March 2010			
Cost	219,151	6,312,968	6,532,119
Accumulated amortisation	-	(3,470,348)	(3,470,348)
Net book amount	219,151	2,842,620	3,061,771

Notes (Continued)

18. Intangible assets (Continued)

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

Notes (Continued)

18. Intangible assets (Continued)

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

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

(ii) Company At 31 March 2010	Licence Fees Shs'000	Total Shs'000
Cost	5,923,750	5,923,750
Accumulated amortisation and impairment	(3,467,759)	(3,467,759)
Net book amount	2,455,991	2,455,991
At 31 March 2011		
Cost	5,923,750	5,923,750
Accumulated amortisation and impairment	(4,045,453)	(4,045,453)
Net book amount	1,878,297	1,878,297

Notes (Continued)

19. Investments

(a) Investment in subsidiaries at cost

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

	Year end	% interest Held	Company 2011 Shs'000	2010 Shs'000
One Communications Limited and its subsidiaries (Comtec Training Management Service Limited; Comtec Integrations System Limited; and Flexible Bandwidth Service Limited)	31 March	51	185,561	185,561
Packet Stream Data Networks Limited	31 March	100	373,309	373,309
IGO Wireless Limited	30 June	100	454,250	-
Instaconnect Limited	30 April	100	3,950	-
			1,017,070	558,870

Notes (Continued)

19. Investments (Continued)

(a) Investment in subsidiaries at cost (continued)

Through its shareholding in One Communications Limited (OCL), Safaricom Limited indirectly controls the wholly owned subsidiaries of OCL which are incorporated in Kenya. The companies are dormant but hold the various licenses issued by the Communications Commission of Kenya. Details of the licenses held by the various companies in the Group are set out in note 2(g)(ii).

(b) Investment in associate

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

	Group and Company 2011 Shs'000	2010 Shs'000
At start of year	1,125	-
Acquisition	-	1,125
Share of profit	7,748	-
At end of year	8,873	1,125

Notes (Continued)

19. Investments (Continued)

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

	2011 Shs'000	2010 Shs'000
Equity	39,683	179,985
Current liabilities	(8,524,076)	(1,352,011)
Non-current liabilities	(642,090)	(8,176,094)
Current assets	1,687,698	3,078,437
Non-current assets	7,532,775	6,269,683

Notes (Continued)

20. Indefeasible rights of use (IRUs)

a) Group and Company	TEAMS Shs'000	SEACOM Shs'000	KPLC Shs'000	Total Shs'000
Year ended 31 March 2010				
At start of year	-	-	-	-
Transfer from prepayments	1,951,043	-	-	1,951,043
Additions	-	890,063	290,880	1,180,943
Amortisation	-	(33,439)	(2,444)	(35,883)
Closing net book amount	1,951,043	856,624	288,436	3,096,103
At 31 March 2010				
Cost	1,951,043	890,063	290,880	3,131,986
Accumulated amortisation	-	(33,439)	(2,444)	(35,883)
	1,951,043	856,624	288,436	3,096,103

20. Indefeasible rights of use (IRUs) (Continued)

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

Notes (Continued)

20. Indefeasible rights of use (IRUs) (Continued)

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

	2011 Shs'000	2010 Shs'000
Current portion included in current assets (Note 22)	44,580	44,580
Non-current portion	3,756,343	3,051,523
	3,800,923	3,096,103

The carrying amounts of the IRUs approximate to their fair value.

21. Inventories

	Group 2011 Shs'000	Group 2010 Shs'000	Company 2011 Shs'000	Company 2010 Shs'000
Network spare parts	2,167,206	1,588,013	2,167,206	1,588,013
Less: Provision for impairment losses	(120,351)	(174,964)	(120,351)	(174,964)
	2,046,855	1,413,049	2,046,855	1,413,049
Handsets and accessories	3,031,009	1,175,278	3,031,009	1,174,585
Scratch cards	72,388	128,951	72,388	128,951
Starter packs	698,072	142,377	698,072	142,377
Stationery and other stocks	32,513	27,374	32,513	27,374
	5,880,837	2,887,029	5,880,837	2,886,336

The cost of inventories recognised as an expense and included in the consolidated 'cost of sales' amounted to Shs 10,641,574,000 (2010: Shs 7,003,518,000).

Notes (Continued)

22. Receivables and prepayments

	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Trade receivables	5,688,878	5,468,363	4,765,743	5,207,960
Less: Provision for impairment losses	(700,113)	(642,491)	(691,544)	(636,225)
	4,988,765	4,825,872	4,074,199	4,571,735
Prepayments	1,364,498	1,366,350	1,364,498	1,357,559
Receivable from related parties (Note 27)	1,308,602	1,567,262	2,249,504	1,788,476
Other receivables	1,734,016	1,058,919	881,298	982,373
IRUs (Note 20)	44,580	44,580	44,580	44,580
	9,440,461	8,862,983	8,614,079	8,744,723
Loans to related parties (Note 27)	-	-	850,000	650,000

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

Notes (Continued)

22. Receivables and prepayments (Continued)

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

	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	642,491	557,425	636,225	557,425
Provision in the year	84,128	111,251	81,825	104,985
Receivables written off during the year as uncollectible	(26,506)	(26,185)	(26,506)	(26,185)
	700,113	642,491	691,544	636,225

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

23. Derivative financial instruments

	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Forward foreign exchange contracts-asset	111,382	3,409	111,382	3,409
	111,382	3,409	111,382	3,409

Notes (Continued)

24. Cash and cash equivalents

	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Cash at bank and in hand	3,844,364	6,140,460	3,807,673	6,123,602
Short term bank deposits	1,414,671	4,582,955	1,414,671	4,575,595
	5,259,035	10,723,415	5,222,344	10,699,197

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

	Group	
	2011	2010
	Shs'000	Shs'000
Cash and bank balances as above	5,259,035	10,723,415
Cash on acquisition – IGO Wireless Limited (Note 30(a))	156	-
Cash on acquisition – Instaconnect Limited (Note 30(b))	1,855	-
	5,261,046	10,723,415

Notes (Continued)

25. Payables and accrued expenses

	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	9,070,639	7,092,132	7,473,209	6,861,337
Amounts due to related companies (Note 27)	1,166,212	865,310	1,944,897	865,310
Accrued liabilities				
- Network infrastructure	6,319,143	5,077,061	6,301,949	5,077,061
- Customer loyalty	2,573,831	2,546,371	2,573,831	2,546,371
- Inventory	844,920	603,826	844,920	603,826
- Other expenses	7,242,052	4,794,133	7,136,128	4,750,642
Other payables	4,062,883	4,155,934	4,033,722	4,314,790
	31,279,680	25,134,767	30,308,656	25,019,337
Non-current portion	(178,013)	(395,388)	(178,013)	(395,388)
Current portion	31,101,667	24,739,379	30,130,643	24,623,949

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

The deferred revenue of Shs 2,574 million (2010: Shs 2,546 million) is expected to be recognised into revenue as customers redeem their points.

The carrying amounts of the above 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	
	2011	2010
	Shs'000	Shs'000
Profit before income tax	18,361,363	20,966,670
Adjustments for:		
Interest received (Note 6)	(293,519)	(349,587)
Interest paid (Note 7)	1,363,200	1,458,218
Unrealised exchange loss on loans	47,872	88,665
Changes in fair value of financial instruments	(107,973)	96,905
Depreciation (Note 17)	15,545,247	13,377,364
Amortisation of prepaid operating lease rentals	899	900
Amortisation of intangible assets (Note 18)	579,714	579,613
Amortisation of IRUs (Note 20)	208,394	35,883
Profit on sale of property, plant and equipment	(1,050)	(14,805)
Share of profit from associate	(7,748)	-
Changes in working capital		
– receivables and prepayments	(576,462)	(1,757,838)
– inventories	(2,993,808)	42,654
– payables and accrued expenses	6,142,674	(4,090,307)
Cash generated from operations	38,268,803	30,434,335

27 Related party transactions

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

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

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

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

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

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

(c) The Company has signed an agreement with Vodafone Marketing SARL (VMS), a company incorporated in Luxembourg. The agreement is effective from 1 October 2006 to 30 September 2010. Discussions are currently underway with Vodafone for renewal of this agreement. The agreement sets out the framework under which the two companies work together in Kenya with a view to increasing international roaming revenue by marketing and

27 Related party transactions (continued)

advertising products and services under the Vodafone brand. For the year ended 31 March 2011, Safaricom shall pay VMS a participation fee of 0.5% of the Company's qualifying revenue, (2010: 0.5%) of the Company's qualifying revenue. For all financial years during the term of the agreement, the Company shall pay VMS a participation fee of the lower of 0.5% of the Company's qualifying revenue or Euro 2.1 million.

(d) The Company may participate in the Vodafone Group global arrangements for the procurement and/or supply chain management of handsets, SIM cards and other hardware and/or software components with third party suppliers. To participate, the Company shall pay VMS 6% of the aggregate gross amount payable by the Company to vendors in consideration for the procured products.

The following transactions were carried out with related parties:

i) Sale of goods and services	Group	
	2011	2010
	Shs'000	Shs'000
Vodafone International Holdings B.V.	412,983	327,900
Vodacom Tanzania Limited	243,224	1,730
Other Vodafone affiliates	457,431	-
Commissions earned from M-PESA	11,784,238	7,555,096
	12, 897,876	7,884,726

Notes (Continued)

27 Related party transactions (continued)

	Group	
	2011	2010
	Shs'000	Shs'000
ii) Purchase of goods and services		
Vodafone Sales and Services Limited	1,406,798	-
Vodafone Ireland Marketing Limited	-	44,396
Vodafone (UK) Limited	197,500	214,165
Other Vodafone affiliates	76,901	-
Vodafone Marketing S.A.R.L.	148,516	1,083,230
Vodacom Tanzania Limited	78,578	290,154
	1,908,293	1,631,945
iii) Key management compensation		
Salaries and other short-term employment benefits	590,492	502,963
Pension contribution	20,631	19,543
Termination benefits	56,806	-
	667,929	522,506
iv) Directors' remuneration		
Fees for services as director	11,751	13,355
Other emoluments	408,877	310,694
Total remuneration of directors of the Company	420,628	324,049

Notes (Continued)

27 Related party transactions (continued)

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

	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Amounts due from:				
Vodafone (UK) Limited	74,563	120,442	74,563	120,442
Amounts due from: M-PESA Holding Company Limited	1,181,786	1,421,276	1,181,787	1,421,276
Amounts due from: Vodafone affiliates aaailiates Limited	37,857	-	37,857	-
Vodacom Tanzania	14,191	25,339	14,191	25,339
Vodafone Kenya Limited	205	205	205	205
One Communications Limited	-	-	628,401	221,214
Packet Stream Limited	-	-	300,645	-
IGO Wireless Limited	-	-	11,855	-
	1,308,602	1,567,262	2,249,504	1,788,476
Loan to One Communications Limited	-	-	850,000	650,000
	1,308,602	1,567,262	3,099,504	2,438,476

Notes (Continued)

27 Related party transactions (continued)

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

	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Amounts due to:				
Vodafone Sales and Services Limited	386,124	304,987	386,124	304,987
Vodafone Marketing S.A.R.L.	-	38,840	-	38,840
Vodafone (UK) Limited	150,265	8,918	150,265	8,918
M-PESA Holding Company Limited	566,981	378,839	566,981	378,839
Amount due to: Vodafone affiliates aaailiates Limited	7,415	-	7,415	-
Vodacom Tanzania	55,427	57,261	55,427	57,261
One Communications Limited	-	76,465	510,654	76,465
Packet Stream Limited	-	-	268,031	-
	1,166,212	865,310	1,944,897	865,310

The receivables are unsecured and bear no interest. No provisions are held against receivables from related parties (2009: nil).

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

vii) Loans to directors of the Company

There are no loans to directors of the Company at 31 March 2011 and 31 March 2010.

28. Contingent liabilities

At 31 March 2011, a guarantee of Shs 12,000,000 (2010:Shs 12,000,000) had been given to Barclays Bank of Kenya against credit cards for the use of senior staff during travel, a guarantee of Shs 52,564,000 (2010: Shs 25,521,000) to various customers for services regularly provided by the Company and a further guarantee of Shs 38,600,000 (2010: Shs 47,765,000) to CfC Stanbic Bank Kenya Limited for a credit facility given to some of the Company's dealers.

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	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Property, plant and equipment	6,389,920	6,102,714	6,389,920	6,085,022

29 Commitments (continued)

Operating lease commitments	Group		Company	
	2011	2010	2011	2010
	Shs'000	Shs'000	Shs'000	Shs'000
Not later than 1 year	596,708	434,729	568,824	406,845
Later than 1 year and not later than 5 years	1,870,877	1,706,288	1,845,781	1,650,520
Later than 5 years	1,362,437	1,042,335	1,362,437	1,042,335
	3,830,022	3,183,352	3,777,042	3,099,700

30 Business combination

a) Investment in IGO Wireless Limited

On 3 November 2010, the Company acquired 100% of the issued share capital of Igo Wireless Limited, a Wimax service provider.

Details of net assets acquired and goodwill are as follows:	
	Shs'000
Purchase consideration - cash paid	454,250
Fair value of identifiable net assets acquired (see below)	467,451
Goodwill	(13,201)

30. Business combination (continued)

a) Investment in IGO Wireless Limited (Continued)

The assets and liabilities arising from the acquisition as at 3 November 2010 are as follows:

	Acquiree's carrying amount Shs'000	Fair value adjustments Shs'000	Fair value Shs'000
Tangible assets	11,608	-	11,608
Intangible assets	967	454,250	455,217
Receivables	880	-	880
Cash and cash equivalents	156	-	156
Trade and other payables	(410)	-	(410)
Net assets at acquisition	13,201	454,250	467,451
Net assets acquired (100%)			467,451
Goodwill on acquisition			(13,201)
Total purchase price			454,250
Less: Cash in subsidiary			(156)
Cash flow on acquisition, net of cash acquired			454,094

The negative goodwill of Shs 13,201,000 arising from the transaction has been credited to the statement of comprehensive income.

Notes (Continued)

30. Business combination (continued)

(b) Investment in Instaconnect Limited

On 3 November 2010, the Company acquired 100% of the issued share capital of Instaconnect Limited, a content service provider.

Details of net assets acquired and goodwill are as follows:	Shs'000
Purchase consideration - cash paid	3,950
Fair value of identifiable net assets acquired (see below)	4,203
Goodwill	(253)

30. Business combination (continued)

(b) Investment in Instaconnect Limited (Continued)

The assets and liabilities arising from the acquisition as at 3 November 2010 are as follows:

	Acquiree's carrying amount Shs'000	Fair value adjustments Shs'000	Fair value Shs'000
Intangible assets	90	3,950	4,040
Receivables	137	-	137
Cash and cash equivalents	1,855	-	1,855
Trade and other payables	(1,829)	-	(1,829)
Net assets at acquisition	253	3,950	4,203
Net assets acquired (100%)			4,203
Goodwill on acquisition			(253)
Total purchase price			3,950
Less: Cash in subsidiary			(1,855)
Cash flow on acquisition, net of cash acquired			2,095

The negative goodwill of Shs 253,000 arising from the transaction has been credited to the statement of comprehensive income.

31 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:

	2011 Shs'000	2010 Shs'000
At start of year	426,028	380,830
Additions	485,329	456,715
Amortisation charge for the year	(606,855)	(411,517)
At end of year	304,502	426,028
Current portion reflected in prepayments	(301,841)	(422,468)
Non-current portion	2,661	3,560

Principal shareholders

The ten largest shareholdings in the Company (ordinary shares only) and the respective number of shares held as at 31 March 2011 are as follows:

	Name of shareholder	Number of shares
1	VODAFONE KENYA LIMITED	16,000,000,000
2	PERMANENT SECRETARY - THE TREASURY	14,022,572,580
3	STANDARD CHARTERED NOMINEES NON-RESIDENT A/C 9011	278,500,000
4	STANDARD CHARTERED NOMINEES NON-RESIDENT A/C 9057	272,629,895
5	STANDARD CHARTERED NOMINEES NON-RESIDENT A/C 9054	213,798,310
6	NATIONAL SOCIAL SECURITY FUND - UGANDA	160,278,800
7	CFC STANBIC NOMINEES LTD A/C NR70001	147,931,400
8	CFC STANBIC NOMINEES LTD A/C NR1030629	144,045,400
9	STANDARD CHARTERED NOMINEES NON-RESIDENT A/C 9369	131,995,500
10	STANDARD CHARTERED NOMINEES A/C 9230	129,666,400
11	Others	8,498,581,715
	Total	**40,000,000,000**

Principal shareholders (continued)

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
1 to 1000	439,423	269,356,913	0.67%
1001– 10,000	254,002	760,668,868	1.90%
10,001 – 100,000	37,928	981,960,576	2.45%
100,001 – 1,000,000	3,809	971,421,981	2.43%
1,000,001 – 10,000,000	461	1,348,720,807	3.37%
10,000,001 – 100,000,000	144	3,942,183,170	9.86%
100,000,001 - 1,000,000,000	10	1,703,115,105	4.26%
1,000,000,001- 100,000,000,000	2	30,022,572,580	75.06%
Total	**735,779**	**40,000,000,000**	**100.00%**

Safaricom Limited

Proxy

I/WE _____

OF_____

Being a member of the above Company, hereby appoint:

_____

OF_____

failing whom, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday, 8 September 2011 and at any adjournment thereof.

As witness my/our hand this day of 2011.

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.

Corporate Information

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Website: www.image.co.ke

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For further insights, scan the QR code below with your QR code reader on your phone for the digital version of the Annual Report.

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