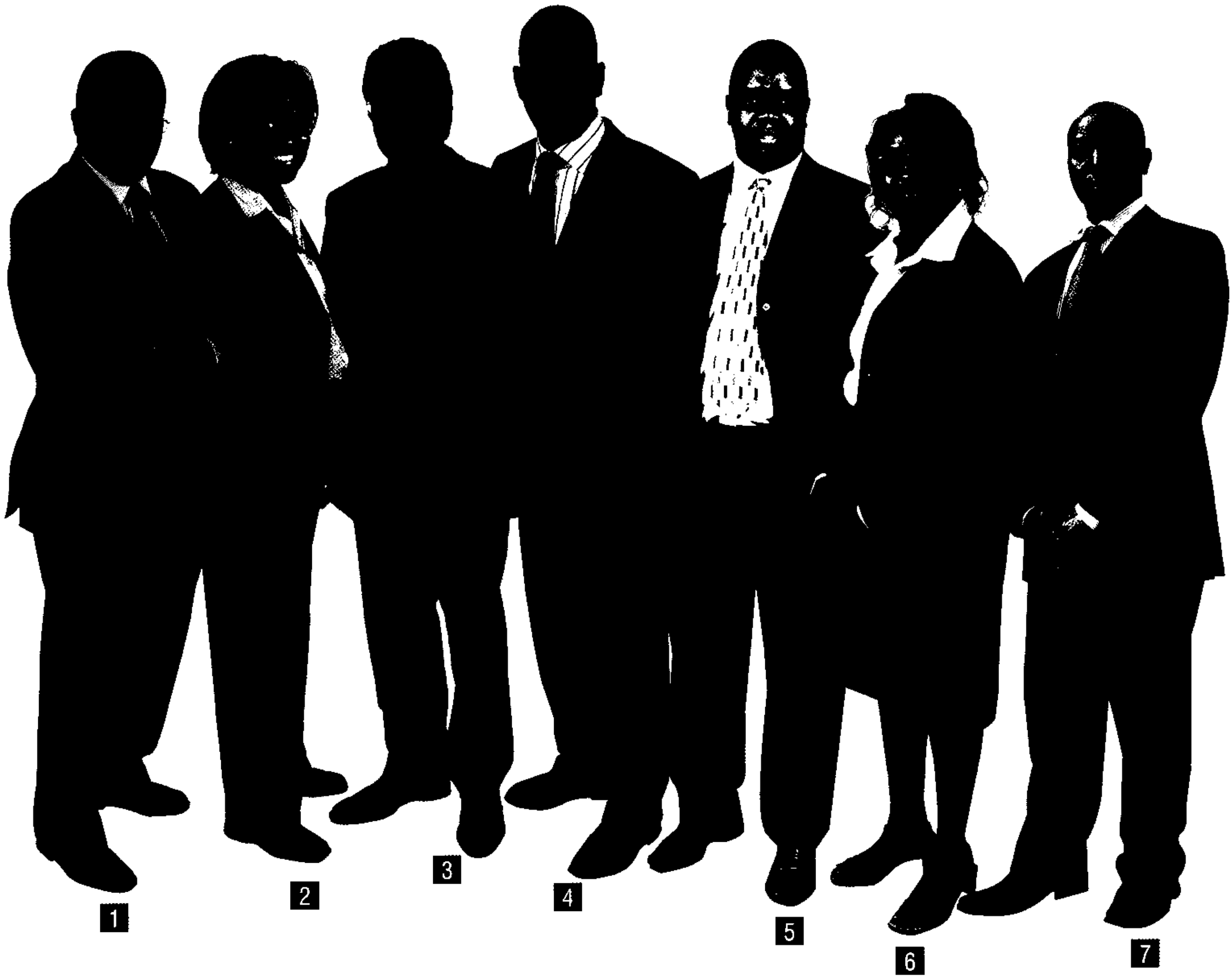
Annual Report and Accounts 2007

Safaricom

Highlights of the year

Revenue................	up	**35.7%** to Kshs 47.4 Billion
Pre tax profit....	up	**40.8%** to Kshs 17.2 Billion
Post tax profit..	up	**42.6%** to Kshs 12.0 Billion
Dividends............	up	**33.7%** to Kshs 4.0 Billion
Subscribers......	up	**54%** to Kshs 6.08 Million

Contents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1. Mr Nicholas Nganga – Chairman

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.

2. Ms Esther Koimett – Non Executive Director

Ms Koimett joined the Board of Safaricom on 24 May 2005. She previously served on the Board between 11 April 2001 and 5 September 2002. She holds 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.

3. Mr Gavin Darby – Non Executive Director

Mr Darby joined the Board of Safaricom on 31 August 2004. He graduated from the University of Manchester Institute of Science and Technology with a BSc (Hons) in Management Sciences. He has extensive experience in sales and marketing – working at Spillers Foods, Johnson Wax and Coca-Cola. He became UK Chief Executive Officer for Vodafone Group in September 2002, and Americas Region CEO in April 2004 and has recently taken on responsibility for Africa, China and India.

4. Mr Robert Collymore – Non Executive Director

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

5. Mr Sammy Kirui – Non Executive Director

Mr Sammy Kirui joined the Board of Safaricom on 24 May 2005. He is MD Telkom Kenya Ltd. He holds a Bachelor of Law degree from the University of Nairobi. He is an advocate of the High Court of Kenya and a member of the Institute of Certified Public Secretaries.

6. Ms Nancy Macharia – Non Executive Director

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

7. Mr J L G Maonga - Company Secretary

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

> **At Safaricom, we are committed to the highest level of corporate governance, which we consider critical to business integrity and to maintaining investors' trust in the Company**

Chairman's Statement

Since my election as chairman, of Safaricom on January 16 this year, taking over from Wilson Ndolo Ayah, the company has maintained its position as the leading mobile telephone operator, growing our subscriber base to 6.08 million.

Overall, we have delivered a robust performance against a rapidly changing business environment. The competitive landscape is changing; with increased activity in both the cellular and fixed services. This will intensify in the coming year with the expected licensing of the Second National Operator (SNO).

We have operated against a background of an improved economic climate. The Kenyan economy grew by an impressive 6.1 per cent during the year under review. This was underpinned by good performance in the agricultural, tourism, telecommunications, construction and manufacturing sectors.

Tourism remained the country's largest foreign exchange earner, grossing Ksh 56 billion in 2006, despite persistent security concerns. The mobile communications sector continues to be a high growth sector, further emphasising the existing economic expansion. There has been increased regulatory pressure to lower mobile calls' termination rates, leading to a 19 per cent reduction in October 2006 and a further 23 per cent reduction in March 2007.

Liberalisation of the sector led to the setting up of our own international gateway in October 2006, making it possible for us to reduce charges for international calls substantially.

Further regulatory changes are expected that will lead to the issuing of a technology neutral licence. This will provide an opportunity for us to provide total communications solutions to our customers.

Safaricom aims to remain the leading mobile network operator in Kenya. To achieve this, we have placed strong emphasis on quality of service to our customers. Safaricom has implemented, and will continue to implement, best practices backed by Vodafone's vast international experience and Telkom Kenya's unique knowledge of the Kenyan market. This will ensure a superior quality of service that is customer focused and will benefit every subscriber.

Corporate governance

The Company is committed to the highest level of corporate governance. We consider this critical to business integrity and to maintaining investor trust. We value and reward the highest ethical standards as well as personal and corporate integrity. The Company operates in accordance with the laws of Kenya and we respect the cultures of all the people of Kenya.

Even though the company is 40 per cent UK-owned, all our products and advertisements cultivate a Kenyan image, utilising the beauty of the Kenyan landscape and using the Swahili language to reinforce how Kenyan we are.

The company is run through the direction of the board of directors made up of six non-executive directors. The board approves Safaricom's commercial strategy, major capital projects and borrowings, among others. It delegates responsibility for day-to-day activities to the Chief Executive Officer (CEO).

Globalisation

In the modern world of globalisation, we at Safaricom have kept pace with the global mobile telecommunications scenario by investing heavily in building our capacity to accommodate the substantial growth in subscriber base during the year.

Over the last 12 months, Safaricom has invested more than Ksh 12.4 billion to put up 250 base stations countrywide. These include conventional and hybrid-powered base stations.

To mitigate against the expense of electricity grid extension in remote regions, which is sometimes unfeasible, we invested in wind turbine hybrid systems to power our base stations. This will result in average savings of Ksh 800,000 per base station annually. This system was rolled out to nine base stations countrywide.

Safaricom also installed a Very Small Aperture Terminal (VSAT) base station in Mpeketoni, Lamu, to provide cellular services to area residents cost-effectively.

Currently, Safaricom has installed VSAT base stations in 16 sites around the country. These are located in Mandera, Dadaab, Moyale, Wajir, Lamu, Marsabit, Kakuma, Lodwar, Laisamis, Wamba, Elwak, Modogashe, Liboi, Mpeketoni, Ndau and Faza. Each base station costs approximately Ksh 25 million.

We are piloting third generation (3G) technology, estimated to cost Ksh1 billion, with a view to upgrading our network. The technology will enable us to provide our subscribers with enhanced multimedia content at much faster speeds than is currently available in the market.

Subscribers will be able to access broadband, packet-based transmission of text, digitised voice, video and multimedia content at speed rates of up to 1.4 megabits per second.

Third generation technology is currently only available in selected locations within Westlands in Nairobi as we assess its economic viability with a view of launching it later in the year, once we acquire a commercial licence for the same.

Growth

The company has grown in all areas. We now have over 1,000 employees and have opened eight customer care centres countrywide. Four are in Nairobi, two in Mombasa and one each in Kisumu and Nakuru. We also have a countrywide dealer network to handle distribution and selling of our services and products.

We have kept our edge through aggressive marketing and by constantly reviewing our product range. Recently, we removed all roaming charges for our subscribers in East Africa, and introduced a country low cost money transfer service, M-PESA.

Changes in social structures and diversification of people's values have served to draw greater public attention to corporate social responsibility (CSR) in attaining sustainable development of the society.

As a leading corporate organisation, we decided to set up the Safaricom Foundation in 2003. The Foundation aims to create a sustainable environment by promoting dialogue with our stakeholders countrywide and assisting local communities, through our business, to prosper.

Having allocated more than Ksh 190 million in the past year alone, on projects ranging from education, health, community development, environment, arts and culture, sports and disaster funding, the Foundation has continued to positively affect hundreds of thousands of Kenyans.

Based on our areas of expertise, we will seek to complement the work of other agencies in the various communities in which we do business. Our social investment will focus primarily on reaching the disadvantaged, developing skills and reaching out. We want to extend the benefits of mobile technology to communities nationwide in areas where we operate and in those that have not yet shared in our technological developments.

We will also support programmes that attempt to increase accessibility or that make creative use of our technology in the areas of arts and culture, community health, education and employability.

"We have kept our edge through aggressive marketing and by constantly reviewing our product range. Recently, we removed all roaming charges for our subscribers in East Africa, and introduced a country low cost money transfer service, M-PESA."

We want to help protect the environment and support programmes that use our technology to help solve environmental problems. In all this, we believe our employees are our strongest link with local communities. We want to support their voluntary efforts to improve those communities.

Within this framework, the Safaricom Foundation will retain the flexibility to identify and respond to the most pressing social needs and interests of the local communities.

We are committed to accurate measurement and reporting of the value of social investment, the benefits it generates for communities and the company and its longer-term effectiveness in meeting communities' needs.

Looking forward

We will continue to delight our customers by meeting their total communication needs. Building on our strong brand, we will lead in product innovation and utilise emerging technology to serve them. We will continue to drive demand and grow customer usage particularly as we expand to underserved rural markets.

During the financial year, J J Visser resigned from the board and Robert W Collymore was appointed to replace him. The year also saw the resignation of Mr Wilson Ndolo Ayah on January 16, and the appointment of Ms N W Macharia to the board. We thank the outgoing directors for their past contribution and welcome the new directors to Safaricom.

Nicholas Nganga
Chairman

CEO's Report

> **We have kept our edge through aggressive marketing and by constantly reviewing our product range**

We have delivered another year of robust performance against a background of increasing competition. We are the leading mobile network operator in Kenya. From a subscriber base of 17,000 seven year ago, and 3.4 million in 2006, we now boast of 6.08 million subscribers. This represents a growth of 54.2 per cent over the previous year.

Net connections in the year were 2.138 million, an increase of 149 per cent over the previous year's net connections of 1.432 million. This growth is the result of the continuing increased network rollout to the rural areas, the new services and tariffs introduced during the year, the ongoing belief that the country has in the value of the Safaricom network and services offered and the general improvement in the Kenyan economy.

Total turnover for the year increased by 35.7 per cent to Ksh 47.448 billion up from Ksh 34.972 billion the previous year. Operating profit rose to Ksh 17.789 billion, an increase of 39.3 per cent from the previous year's Ksh 12.776 billion.

Financing costs increased slightly in the year, due to higher borrowings, an increase in the average interest rate payable on the borrowings and increased foreign exchange losses being offset by higher interest income. As a result of the increased financing costs, profit before income tax rose to Ksh 17.193 billion, an increase of 40.8 per cent.

With an effective tax rate of 30.1 per cent, a slight decrease over the 31 per cent in the previous year, the income tax payable increased by 36.9 per cent to Ksh 5.182 billion, resulting in a post tax profit of Ksh 12.010 billion, an increase of 42.6 per cent over the previous year's Ksh 8.425 billion. We therefore continue to be one of the most important contributors to the wealth of this country and, as a truly Kenyan company, we are proud to pay these levels of taxes.

Due to the strong performance of the Company and its increasing credit standing, the Directors were able to recommend the payment of a dividend of Ksh 4 billion, an increase of 33.7 per cent over the previous year's declared dividend of Ksh 2.992 billion.

With the declaration of the dividend to the shareholders, the balance of the profit has been transferred to retained earnings, thus increasing the amount by 47.3 per cent to Ksh 24.939 billion. Shareholders funds have therefore increased to Ksh 32.789 billion.

Cash flow remained strong during the year with net cash from operating activities generating Ksh 21.285 billion, an increase of 43.9 per cent over the previous year. Capital expenditure in the year absorbed 76.8 per cent of net cash from operating activities and further borrowings of Ksh 1.2 billion combined with the payment of the dividend of Ksh 2.992 billion helped cash balances to increase by Ksh 2.970 billion, slightly higher than the increase in current liabilities.

As a Company, we believe that the key to success is to invest for the future and this is demonstrated by our increased investment in the network. We are very pleased with these results and firmly believe that they will continue to allow us to expand our network to better serve our customers now and in the future. Whereas in 2000 only two cities were covered by GSM, today, 63 per cent of the population is covered.

We have kept our edge through aggressive marketing and by constantly reviewing our product range. We continue to expand our 2G network, largely to address network capacity requirements in urban areas and provide coverage in rural areas in our endeavours to satisfy customer needs.

Commercial power availability and stability in rural areas continues to be a challenge. In our endeavour to optimise green power usage, we have, over the last two years, collaborated with Kenya Power and Lighting Co (KPLC) and have constructed power lines within five kilometres of the national grid.

To date, we have completed commercial power connections to over 300 BTS sites, totalling Ksh 350 million. We have been experimenting on the use of wind and solar at 20 sites with very promising results.

Our network now supports the EDGE technology to meet our customers' increasingly need for more data speeds. We have been trialling 3G broadband through HSDPA from October 2006.

In recent years, the use of optical fibre networks is increasing, especially within Nairobi and along the major highways. This very welcome trend will enable a more reliable interconnection media alternative to the current over-dependence on microwave links.

New products

Data and messaging

Mobile Office – Edge/GPRS

We introduced EDGE (Enhanced Data-rate for GSM Evolution) to enhance data speeds that subscribers experience on the GPRS (General Packet Radio Service) network. With EDGE, subscribers can upload or download information at speeds three times faster than GPRS.

Pocket Office

We introduced this innovative mobile phone e-mail service last year to enable post-paid subscribers to access their email and personal information instantly through their handsets.

Pocket Office allows users access to e-mail and personal information management services anywhere covered by the Safaricom network.

Multiple Top Up

With the launch of this service, we enabled businesses to issue their staff with monthly Safaricom airtime allowances. We introduced Multiple Top Up for companies that want to top up their prepaid lines automatically every month, saving time in purchasing and distributing airtime.

Flashback 130

Instead of flashing, Safaricom subscribers can now send a polite request to friends and family to call them whenever they lack sufficient credit or are in distress.

Flashback is a free service that enables any Safaricom subscriber to send up to five free messages a day to another subscriber to call them back. It is a polite and free way to get someone to call you.

Kama Kawaida

In partnership with MTN Uganda and Vodacom Tanzania, we have launched a seamless network that has enabled more than 10 million subscribers in the region to communicate within areas covered by the three networks.

Both prepaid and post-paid subscribers of the three network operators can now receive and make calls anywhere within East Africa without having to pay roaming charges.

In essence, subscribers of the three network operators can now comfortably travel across East Africa, without having to worry about roaming charges, fluctuating exchange rates, and uncertain call rates.

M-PESA

Another innovative addition that we have introduced this year is the world's first money transmission service – M-PESA. This low-cost money transfer service enables users to send and receive money through their mobile phones. One can send between Ksh 100 and Ksh 35,000 via text messages.

Customers do not need to have a bank account to benefit from M-PESA services. Users deposit their money with authorised agents and withdraw the same from the mobile phone service provider's airtime distribution outlets.

Kenya is the first country in the world to utilise this service, following an extensive pilot study carried out by Safaricom's shareholder, Vodafone, to gauge its viability.

Currently, we have 450 M-PESA agents who are mainly Safaricom airtime dealers. However, the range and type of agents is continuously being expanded to

include petrol stations, supermarkets, cyber cafés, and independent retailers.

International Voice and Roaming International Gateway Licence

Previously, we used to direct all international calls through Telkom Kenya's International Gateway. The constant breakdown and poor clarity of calls inevitably proved expensive. With the acquisition of an international gateway licence, we were able to reduce the cost of international connections, thereby slashing our international calling rates by 70 per cent.

Safaricom 888 (VoIP)

We launched this service last year to complement our voice services. Subscribers have the convenience of making VoIP calls abroad from their mobile phones. A subscriber just dials 888, followed by the country code then the desired number. The service has drastically reduced international calling costs with services to the USA, Australia and Europe costing as little as Ksh 30 per minute, Ksh 40 around East Africa, and Ksh 50 to India and other destinations – all billed per second.

Social responsibility

We have, through the Safaricom Foundation founded in 2003, allocated more than Ksh 190 million in the past year alone, to community projects. These range from education, health, community development, environment, arts, culture, sports and disaster funding.

Staff

We now employ over 1,000 members of staff and have created 300 additional jobs in the past year. We also provided internship opportunities to over 100 Kenyan students from various institutions of higher learning.

As part of our commitment to enhance opportunities for young Kenyans and provide them with diverse career choices, we created a curriculum for a Bachelor of Engineering in telecommunications degree with Moi University. This will strengthen the talent being availed to both Safaricom and the industry at large.

In our commitment to remain the employer of choice and in recognition of the contribution of our outstanding employees, we provided over 200 employees with opportunities to progress within the organisation and in our partner organisations within the Vodafone group.

For young engineers, we created a Graduate Management Engineering programme that provides the participants with rotational assignments in the various parts of the business, in preparation for their roles as future managers within our technology division. Going forward, we plan to replicate this programme throughout the organisation.

We remain committed to rewarding performance. We maintain our reward proposition within the top quartile of the market and continually enhance the packages we offer to our employees. We have embraced diversity and have achieved an overall gender balance in the total workforce. In continuing our drive for diversity, we will focus on creating more employment opportunities for the physically challenged.

Over the past year, we rolled out the Oracle Human Resource modules of our enterprise resource platform. This provides our employees with the information and tools to manage themselves and their careers within the organisation.

The system provides our managers with the capability to make informed decisions on their human capital within the shortest timeframes. For the thousands of Kenyans who apply for career opportunities within Safaricom, the system will simplify the process of application and shorten the time within which they join the organisation.

Our focus will remain on providing employees with opportunities to grow, excel and fulfil their ambitions. Through our Corporate Social Responsibility (CSR) programmes, we will continue to provide them with the opportunities give back to their communities and our country. As the organisation grows, we will continue to provide new job opportunities to Kenyans.

Finally, I take this opportunity to thank our valued clients and business partners for their unwavering support throughout the year and beyond. I also wish to thank members of staff for their dedication, commitment and ingenuity. Our outstanding performance has been largely the result of this commitment.

Michael Joseph
Chief Executive Officer

Senior Management Team

1. Michael Joseph **Chief Executive Officer**	2. Susan Kiama **Chief Human Resource Officer**	4. Les Baillie **Chief Financial Officer**	6. Eddie Irungu **Chief Risk Officer**
	3. John Barorot **Chief Technical Officer**	5. Peter Arina **Chief Commercial Officer**	7. Joseph Ogutu **Chief Corporate Affairs Officer**

CORPORATE SOCIAL RESPONSIBILITY

A passion for the world around us

At Safaricom, we have a passion for the world around us. We are part of the community in which we operate, and we take our responsibility to the community seriously. Our passion is reflected in the Safaricom Foundation that we set up in 2003, whose mission is "Passion for the world around us."

Safaricom Foundation supports initiatives that advance a community's economic development. Among others, the Foundation supported a street rehabilitation centre start a horticultural business and provided a youth group in Mathare slums with start-up capital for a resource/business centre.

In this year's Company of the Year Awards (COYA), Safaricom was declared the winner in the Corporate Citizenship Management category for our commitment to community investment. This is the sixth year in a row that we have received this prestigious award.

HEALTH

Poverty has continued to bar the poor from accessing basic health care services. In view of this, the Safaricom Foundation has collaborated with public and private healthcare institutions, to coordinate the provision of basic healthcare services to many Kenyans.

Health camps

In partnership with Diabetes Management and Information Centre and the Ministry of Health, Safaricom Foundation has held medical camps in 16 constituencies countrywide. These camps provide surrounding villages with tests for diabetes, blood pressure, vision, as well as vaccinations for children. Close to 50,000 patients have been treated.

Gender Violence Recovery Centre

Sadly, domestic violence and rape are serious problems in Kenya. A demographic health survey carried out by the Ministry of Planning in 2003 revealed that at least half of all Kenyan women had experienced violence at some point in their lives.

The Nairobi Women's Hospital's Gender Violence Recovery Centre (GVRC) provides free services to survivors of rape and sexual violence.

To this end, the Safaricom Foundation decided to collaborate with GVRC to launch a fund-raising campaign to mobilise resources in support of their programmes.

The Foundation committed to match the fundraising efforts of the centre. This saw a staggering Ksh 15 million raised through innovative fundraising events with good participation from major companies and other well wishers.

Anti-polio campaign

The discovery of polio cases in the refugee camps of Dadaab and Kakuma in North Eastern Kenya last year prompted Unicef and the government to launch a nationwide anti-polio vaccination campaign.

The Foundation supported this nation-wide campaign to the tune of Ksh 5 million.

EDUCATION

Education is the key to achieving sustainable development, expanding opportunities and promoting equity and prosperity in all societies. The Foundation has responded to education needs of the community. Last year alone, the Foundation spent Ksh 84 million to put up classrooms, science and computer labs and dormitories in 100 primary and secondary schools all over the country.

Addressing the digital divide

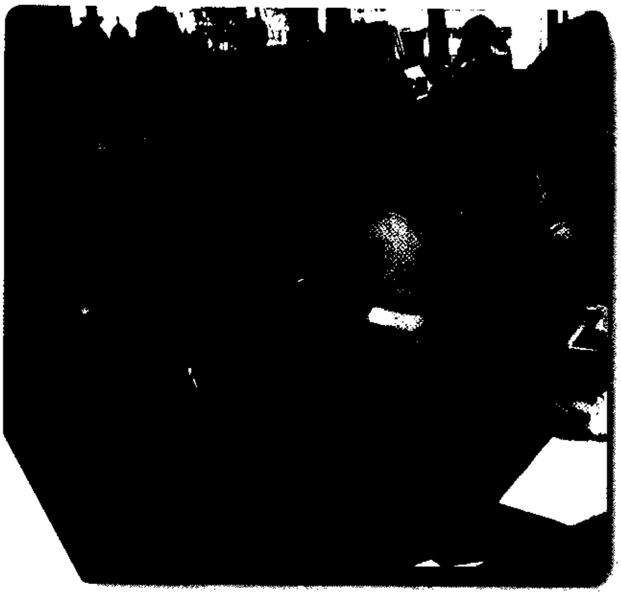
Access to and use of information communication technology (ICT) plays an important role in economic and social development.

In response to the growing "digital divide", Safaricom is working with Computer For Schools Kenya to equip 80 secondary schools – 10 per province – with computers supported with an ICT curriculum. This project deliberately targets resource-deficient schools, which would otherwise not access the invaluable benefits of ICT.

A number of the targeted schools are off the national power grid. To enable them initiate the integration of ICT into mainstream school activities, the Safaricom Foundation has provided supplementary funding for the acquisition of electricity generators. By the end of the project, close to 100,000 students will have access to ICT as over 1,600 computers will have been placed in 80 secondary schools and the wider school community.

Junior Achievement Programme

We recognise the importance of exposing students to entrepreneurial, business and life skills at an early age. Working with Junior Achievement, the Foundation has provided Ksh 3 million to enable the organisation run five different in-school programmes targeting close to 7,000 students in various secondary schools.



ENVIRONMENT

Safaricom Foundation has invested heavily in environmental and wildlife conservation efforts. Some of these activities are:

• The Ngare Ndare forest conservation

With the support of Ksh 8.2 million from Safaricom Foundation, the Ngare Ndare Forest Reserve has established eco-tourism related income generating activities. These projects provide alternatives to forest dependency, thus preserving the environment, as well as creating additional employment and revenue. Safaricom employees have in the last seven years planted trees in Ngare Ndare forest as part of the reafforestation efforts on Mt Kenya.

• Fencing the Aberdare forest in partnership with Rhino Ark

Over Ksh 15 million has been raised by different corporate organisations, including Safaricom Foundation, over the last three years to fence off the Aberdare Forest, one of Kenya's most important water catchment areas. Safaricom staff members have also spent many hours fencing the forest. So far, 235 kilometres, out of the total 350 kilometres, have been completed.

• Save The Elephants Trust

In a two-year project, Safaricom Foundation has collaborated with Save The Elephants to develop a tracking device using Safaricom Global System for Mobile Communication (GSM) technology. The device has significantly improved efforts to conserve elephants and other endangered wild animals.

ARTS AND CULTURE

We believe that a strong arts community is essential to the social sustainability of a nation. For this reason, the Foundation has collaborated with other like-minded organisations to promote art through unique and diverse initiatives.

• The Foundation sponsored a mosaic at the Kenyatta National Hospital. The 400-ft mosaic pieces were displayed along the main traffic corridors of the hospital to inspire a sense of hope and cheerfulness to patients and visitors to the hospital. Children from various schools in Nairobi put together the work of art.

• The Foundation supports rock art, a less known but valuable area. The Kakapel Rock Art in the caves of Western Kenya's Kakapel National Monument is an example of a legacy that could teach current and future generations a lesson on living in harmony with nature. This remarkable site dates back some 2,000 years and may be as old as 4,000 years.

Through a partnership with Trust for African Rock Art, the Foundation donated Ksh 1.2 million for the conservation of this site.

Maji na Uhai project

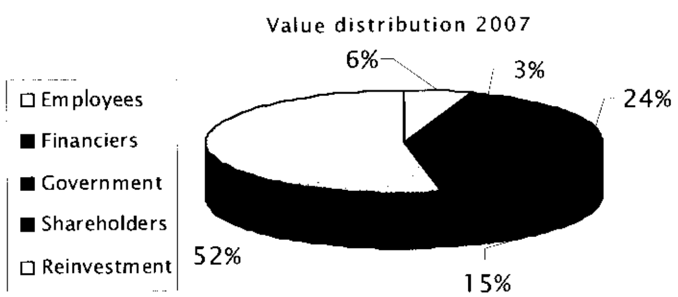
Unless there is adequate investment in water storage, infrastructure and maintenance of existing infrastructure, people will continue to suffer the adverse effects of floods and droughts. It is with this in mind that Safaricom Foundation initiated the Maji na Uhai project in partnership with the Kenya Red Cross and Action Aid Kenya.

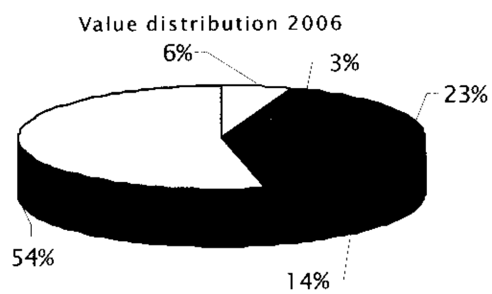
Targeting semi-arid and hardship areas, the programme rehabilitates boreholes, de-silts earth pans, provides irrigation systems and drills new water wells. The Foundation has set aside Ksh 60 million over three years towards this programme.

Safaricom Value Added **Statement**

Value added is the wealth created by Safaricom through the provision of mobile telephone services.
Value created from mobile telephone services is the excess of turnover over the net operating expenses.
The value added statement shows the total wealth created, how it was distributed to meet certain obligations and reward those responsible for its creation, and the proportion retained for the continued operation and expansion of Safaricom network.

	Year ended 31 March	
	2007	**2006**
	Ksh'000	**Ksh'000**
Value created		
Revenue	47,447,490	34,971,944
Less net operating expenses	(20,153,158)	(14,348,143)
Value added by operations	27,294,332	20,623,801
Interest income	258,218	74,446
Total value created	27,552,550	20,698,247
Value distributed		
To the government for taxes and licenses	6,553,228	4,814,907
To shareholders as dividend	4,000,000	2,991,673
To remunerate employees for their services	1,522,666	1,169,575
To providers of finances for monies borrowed	853,998	640,072
	12,929,892	9,616,227
Value retained		
To maintain and develop the network	14,622,658	11,082,029
Total value distributed	27,552,550	20,698,256





Report of the Directors for the Year Ended 31 March 2007

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 March 2007.

Principal activity
The Company provides mobile phone services, both voice and data, and sale of phones and accessories.

Results (Ksh)	
Profit before taxation	17,192,739,000
Taxation	5,182,308,000
Net profit for the year transferred to revenue reserve	12,010,431,000

Dividend
Subject to approval of the shareholders, the Directors recommend payment of a first and final dividend of Ksh 4 billion.

Financial statements
At the date of this report, the directors were not aware of any circumstance which would have rendered the values attributed to the assets in the financial statements of the group misleading.

Directors
The members of the Board of Directors who served during the year and to the date of this report are shown on page 2.

Directors' benefits
Since the last Annual General Meeting of the Company to the date of this report, no director has received or become entitled to receive any benefit other than director's fees and mobile phone benefit.

The aggregate amount of emoluments for directors' services rendered in the financial year is disclosed on page 34.

Neither at the end of the financial year nor any other time during the year did there exist any arrangement to which the institution is a party whereby Directors might acquire benefits by means of the acquisition of shares in or debentures of the company.

Auditors
The auditors, Kenya National Audit Office will continue in office in accordance with the provisions of Section 159 (2) of the Companies Act (Cap 486) and Section 14(3) of the State Corporations Act (Cap 446).

By order of the Board
JLG Maonga
Company Secretary

Corporate Information

Directors	
N Nganga	Chairman
G J Darby	
E Koimett	
S. Kirui	
R W Collymore	Appointed 5 September 2006
N W Macharia	Appointed 16 January 2007
J J Visser	Resigned 5 September 2006
W N Ayah	Resigned 16 January 2007

Company Secretary
John LG Maonga
Livingstone Associates
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Nairobi

Auditors
Kenya National Audit Office
Anniversary Towers
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Registered Office
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Lawyers
Daly & Figgis Advocates
8th Floor, Lonrho House, Standard Street.
P O Box 40034 Code 00100
Nairobi

Corporate Governance Statement

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

The Company has adopted a Code of Conduct, which complies with the highest standards of integrity, honesty and ethics in dealing with all its stakeholders, including directors, managers, employees, customers, suppliers, competitors, shareholders and society at large. The Code also stipulates policies and guidelines regarding the personal conduct of employees. All new staff receive a copy of the Code and a presentation on the Code as part of the induction process.

Board composition
The Company is run through the direction of the Board of Directors, which is responsible for Corporate Governance. The Board consists of six members all of whom are non – executive directors.
The composition and appointment of the Safaricom Board of Directors is governed by the shareholders agreement between the Company's two shareholders. The Shareholders, in that capacity, elect members of the Board.

Board meetings
Meetings are held quarterly and more frequently if circumstances or decisions require.

Board decisions
The Board has a formal schedule of matters specifically reserved for decisions, including the approval of the Company's commercial strategy, major capital projects and borrowings, among others. The board delegates responsibility for day-to-day activities to the Chief Executive Officer (CEO)

Chairman and Chief Executive Officer
The role of Chairman and CEO is not vested in the same person. The Chairman is appointed in accordance with the shareholders agreement. For the year under review, Nicholas Ng'ang'a took over the role of Chairman on January 16, 2007 from Ndolo Ayah who resigned on the same date. Michael Joseph continued as the CEO of Safaricom.

Statement of Directors' Responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss 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 will not remain a going concern for at least twelve months from the date of this statement.

Director

Director

8th June, 2007

Telephone: +254-20-342330
Fax: +254-20-311482
email: cag@kenyaweb.com

P.O. Box 30084
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF SAFARICOM LIMITED FOR THE YEAR ENDED 31 MARCH 2007

The Financial Statements of Safaricom Limited set out on pages 17 to 34 which comprise the balance sheet as at 31 March 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit, were obtained.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation of financial statements which give a true and fair view of the Company's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibilities of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining 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 controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. 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. I believe the audit provides a reasonable basis for my opinion.

Opinion

In my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2007 and of its profit and cashflows for the year then ended in accordance with the International Financial Reporting Standards and the Kenya Companies Act, Cap 486 of the Laws of Kenya.

P.N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

18 June 2007

	Notes	Year ended 31 March 2007 Ksh'000	2006 Ksh'000
Sales	5	47,447,490	34,971,944
Cost of sales		(18,155,340)	(12,915,720)
Gross profit		29,292,150	22,056,224
Other operating income		17,250	10,555
Distribution costs		(1,389,832)	(952,864)
Administrative expenses		(2,147,902)	(1,659,680)
Other operating expenses		(7,983,147)	(6,678,066)
Operating profit	6	17,788,519	12,776,169
Finance costs	8	(595,780)	(565,626)
Profit before income tax		17,192,739	12,210,543
Income tax expense	9	(5,182,308)	(3,785,087)
Profit for the year		12,010,431	8,425,456
Proposed dividends	10	4,000,000	2,991,673

Balance sheet

	Notes	31 March 2007 Ksh'000	31 March 2006 Ksh'000
CAPITAL EMPLOYED			
Share capital	11	1	1
Share premium	11	3,849,999	3,849,999
Retained earnings		24,939,307	16,928,876
Proposed dividends		4,000,000	2,991,673
Shareholders' funds		32,789,307	23,770,549
Non-current liabilities			
Borrowings	13	10,435,000	9,235,000
		43,224,307	33,005,549
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	15	42,731,653	32,791,283
Prepaid operating lease rentals	16	2,487	4,223
Intangible assets	17	2,368,083	2,679,247
Deferred income tax	14	1,156,272	936,452
		46,258,495	36,411,205
Current assets			
Inventories	18	1,234,645	1,101,022
Receivables and prepayments	19	3,027,407	3,515,266
Cash and cash equivalents	20	5,887,692	2,917,454
		10,149,744	7,533,742
Current liabilities			
Payables and accrued expenses	21	12,390,146	10,568,573
Current income tax		754,046	354,099
Derivative financial instruments	12	39,740	-
Borrowings	13	-	16,726
		13,183,932	10,939,398
Net current liabilities		(3,034,188)	(3,405,656)
		43,224,307	33,005,549

The financial statements on pages 17 to 34 were approved for issue by the board of directors on 8 June 2007 and signed on its behalf by:

Director

Director

	Share capital Ksh'000	Share premium Ksh'000	Retained earnings Ksh'000	Proposed dividend Ksh'000	Total Ksh'000
Year ended 31 March 2006					
At start of year	1	3,849,999	11,495,093	-	15,345,093
Profit for the year	-	-	8,425,456	-	8,425,456
Dividends:					
- Proposed for 2006	-	-	(2,991,673)	2,991,673	-
At end of year	1	3,849,999	16,928,876	2,991,673	23,770,549
Year ended 31 March 2007					
At start of year	1	3,849,999	16,928,876	2,991,673	23,770,549
Profit for the year	-	-	12,010,431	-	12,010,431
Dividends:					
- Final for 2006 paid	-	-	-	(2,991,673)	(2,991,673)
- Proposed for 2007	-	-	(4000,000)	4,000,000	-
At end of year	1	3,849,999	24,939,307	4,000,000	32,789,307

Cash flow **statement**

	Notes	Year ended 31 March 2007 Ksh'000	2006 Ksh'000
Operating activities			
Cash generated from operations	24	26,924,595	19,379,473
Interest received	8	258,218	74,446
Interest paid	8	(895,753)	(408,527)
Income tax paid		(5,002,191)	(4,256,146)
Net cash from operating activities		21,284,869	14,789,246
Investing activities			
Purchase of property, plant and equipment	15	(16,337,975)	(11,402,143)
Prepayment of operating lease rentals	16	(216,176)	(358,552)
Proceeds from disposal of property, plant and equipment		21,164	13,980
Payment of license	17	(15,000)	-
Net cash used in investing activities		(16,547,987)	(11,746,715)
Financing activities			
Repayment of bank borrowings	13	(16,726)	(5,286,883)
Borrowing during the year	13	1,200,000	5,016,726
Other financing costs paid	8	41,755	(292,104)
Dividend paid		(2,991,673)	-
Net cash used in financing activities		(1,766,644)	(562,261)
Increase in cash and cash equivalents		2,970,238	2,480,270
Movement in cash and cash equivalents			
At start of year		2,917,454	437,184
Increase		2,970,238	2,480,270
At end of year	20	5,887,692	2,917,454

1 General information

Safaricom Limited is incorporated in Kenya under the Companies Act as a private limited liability company, and is domiciled in Kenya. The address of its registered office is:

L.R. No. 13263
Safaricom House, Waiyaki Way
P.O Box 46350-00100
NAIROBI

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company'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 4.

Adoption of new and revised standards

In 2006 new and revised standards and interpretations became effective for the first time and have been adopted by the company where relevant to its operations. The adoption of these new and revised standards and interpretations had no material effect on the company's accounting policies or disclosures.

Standards, interpretations and amendments to published standards that are not yet effective

The following amendment to an existing standard and new standard are mandatory for the Company's accounting periods beginning on or after 1 January 2007, but which the Company has not yet adopted:

IAS 1 Amendment, Capital Disclosures. The amendment to IAS 1 introduces disclosures about the level of the Company's capital and how it manages capital

IFRS 7, Financial Instruments: Disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

(b) Revenue recognition

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

Airtime revenue is recognised as and when the airtime is used by the customer.

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

Interest income is recognised on a time proportion basis using the effective interest method.

Summary of significant accounting policies (continued)

(c) Translation of foreign currencies

Transactions are recorded on initial recognition in Kenya Shillings, being the currency of the primary economic environment in which the company operates (the functional currency). Transactions in foreign currencies are converted into Kenya Shillings 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 profit and loss account.

(d) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost.
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 company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account 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
Leasehold improvements	Life of lease
Equipment and motor vehicles	3 - 5 years

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

(e) Intangible assets

Network licence fees are capitalised at cost. Licence fees are amortised over the period of the licence. The annual charge is calculated in proportion to the expected usage of the network during the start up period and on a straight-line basis thereafter. Amortisation is charged from commencement of the service of the network.

(f) 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 profit and loss account on a straight-line basis over the period of the lease.

(g) Inventories

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

Summary of significant accounting policies (continued)

(h) 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 company 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 expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(i) Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the profit and loss account.

(j) Employee benefits

(i) Retirement benefit obligations

The company operates a defined contribution retirement benefit scheme for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company 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 company and employees. The company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The company's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

(ii) Other entitlements

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

(k) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account 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 or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are 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 profit and loss account over the period of the borrowings.

(m) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

3 Financial risk management objectives and policies

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

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 principles for overall risk management as well as policies covering specific areas such as foreign exchange risks, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

4 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.

(a) Critical accounting estimates and assumptions

(i) Property, plant and equipment

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

(ii) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome 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.

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

In the process of applying the company's accounting policies, management has made judgements in determining whether assets are impaired.

In making provisions for inventory losses, management considers, the age and obsolesce of inventory.

Provision for bad debts is provided after failure of the customer to pay and assessment of his ability to settle the debt in future.

5 Analysis of sales by category

	2007 Ksh'000	2006 Ksh'000
Revenue from services	46,741,998	34,578,594
Revenue from sales of mobile phone handsets and starter packs	705,492	393,350
	47,447,490	34,971,944

6 Operating profit

The following items have been charged in arriving at operating profit:

	2007 Ksh'000	2006 Ksh'000
Depreciation on property, plant and equipment (Note 15)	6,393,676	5,468,675
Amortisation of intangible assets (Note 17)	326,163	324,757
Inventories expensed under cost of sales	1,925,756	1,932,142
Repairs and maintenance expenditure on property, plant and equipment	30,226	12,722
Profit on disposal of property, plant and equipment	(17,250)	(10,555)
Operating lease rentals		
- buildings	154,584	107,236
- sites (Note 16)	160,416	220,793
Receivables – provision for impairment losses	227,773	65,093
Employee benefits expenses (Note 7)	1,522,666	1,169,575
Auditors' remuneration	11,050	10,495

7 Employee benefits expense

The following items are included within employee benefits expense:

	2007 Ksh'000	2006 Ksh'000
Salaries & wages	1,448,589	1,115,373
Retirement benefits costs:		
- Defined contribution scheme	71,331	52,098
- National Social Security Fund	2,746	2,104
	1,522,666	1,169,575

8 Finance costs

	2007 Ksh'000	2006 Ksh'000
Interest expense - bank borrowings	476,723	124,890
Interest expense - medium term note	-	197,706
Net foreign exchange losses/(gains)	419,030	(60,559)
Other financial income/(costs)	(41,755)	292,104
Interest rate swaps: cash flow hedges	-	85,931
Interest income	(258,218)	(74,446)
	595,780	565,626

9 Income tax expense

	2007 Ksh'000	2006 Ksh'000
Current income tax	5,402,128	3,959,052
Deferred income tax (Note 14)	(219,820)	(173,965)
Income tax expense	5,182,308	3,785,087

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

	2007 Ksh'000	2006 Ksh'000
Profit before income tax	17,192,739	12,210,543
Tax calculated at the statutory income tax rate of 30 %(2006 - 30%)	5,157,822	3,663,163
Tax effect of:		
- expenses not deductible for tax purposes:	24,486	121,924
Income tax expense	5,182,308	3,785,087

10 Dividends

At the annual general meeting to be held on 11 September 2007, a dividend in respect of the year ended 31 March, 2007 amounting to Ksh 4,000,000,000 is to be proposed (2006 Ksh 2,991,672,000).

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

11 Share capital

	Number of issued shares	Ordinary shares Ksh'000	Share premium Ksh'000
Balance at 1 April 2005, 1 April 2006 and 31 March 2007			
- Ordinary shares	10,000	1	3,849,999
- Non-voting, non-participating deferred shares	5	-	-
Balance at 31 March 2007	10,005	1	3,849,999

The total authorised number of ordinary shares is as follows;

- 19,999,800 ordinary shares with a par value of 10 cents per share.
- 5 non-voting, non-participating, deferred shares of Ksh 4 each.

12 Derivative financial instruments

	2007 Ksh'000	2006 Ksh'000
Forward foreign exchange contracts – fair value hedges	39,740	-

13 Borrowings

The borrowings are made up as follows:

	2007 Ksh'000	2006 Ksh'000
Non current		
Bank borrowing	6,200,000	5,000,000
Shareholders loans (Note 25)	4,235,000	4,235,000
	10,435,000	9,235,000
Current		
Bank borrowings	-	16,726
Total borrowings	10,435,000	9,251,726

13 Borrowings(continued)

Movement in borrowings

	1.4.2006 Ksh'000	Repayments Ksh'000	Borrowing Ksh'000	31.3.2007 Ksh'000
Bank borrowings	5,016,726	(16,726)	1,200,000	6,200,000
Shareholders loans	4,235,000	-	-	4,235,000
Total	9,251,726	(16,726)	1,200,000	10,435,000

The company has a loan facility of Ksh 12,000,000,000 from a syndicate of international banks. The loan is secured by a fixed and floating charge over the property and assets, both present and future. The share holders have also pledged 40% of their shares in the company as security to the lenders.

The company drew down Ksh 1.2 billion during this financial year bringing the total loan drawn to date to Ksh 6.2 billion. The loan period is five years and repayment on the principal will start in April 2008.

The interest for the new loan is payable quarterly at a margin of 1% over the reference 91 day treasury bill rate.

Weighted average effective interest rates at the year end were:

	2007 Ksh'000	2006 Ksh'000
- bank borrowings	7.63%	3.67%
- medium term note	-	9.33%

In the opinion of the directors, the carrying amounts of non current borrowings approximate to their fair value.

The non-current borrowings (excluding shareholders loans) mature within 2 - 5 years.

14 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2006: 30%). The movement on the deferred income tax account is as follows:

	2007 Ksh'000	2006 Ksh'000
At start of year	936,452	762,487
Credit to profit and loss account (Note 9)	219,820	173,965
At end of year	1,156,272	936,452

Deferred income tax assets and liabilities and deferred income tax charge/(credit) in the profit and loss account are attributable to the following items:

14 Deferred income tax(continued)

Deferred income tax assets and liabilities and deferred income tax charge/(credit) in the profit and loss account are attributable to the following items:

	1.4.2006 Ksh'000	(Credit)/ Charged to P&L Ksh'000	31.3.2007 Ksh'000
Deferred income tax assets			
Property, plant and equipment	(930,855)	(37,904)	(968,759)
Unrealised exchange loss	(3,938)	(27,899)	(31,837)
Provisions	(21,034)	(134,665)	(155,699)
	(955,827)	(200,468)	(1,156,295)
Deferred income tax liabilities			
Unrealised exchange gains	19,375	(19,352)	23
Net deferred tax asset	(936,452)	(219,820)	(1,156,272)

15 Property, plant and equipment

	Network infra-structure Ksh'000	Capital work in progress Ksh'000	Leasehold improve-ments Ksh'000	Vehicles & equipment Ksh'000	Total Ksh'000
At 1 April 2005					
Cost or valuation	28,443,588	7,407,899	583,451	1,647,788	38,082,726
Accumulated depreciation	(9,708,937)	-	(412,332)	(1,100,217)	(11,221,486)
Net book amount	18,734,651	7,407,899	171,119	547,571	26,861,240
Year ended 31 March 2006					
Opening net book amount	18,734,651	7,407,899	171,119	547,571	26,861,240
Additions	6,512,787	4,213,212	8,794	667,350	11,402,143
Transfers	6,314,773	(6,625,809)	310,318	718	-
Disposals	-	-	-	(3,425)	(3,425)
Depreciation charge	(4,946,278)	-	(138,439)	(383,958)	(5,468,675)
Closing net book amount	26,615,933	4,995,302	351,792	828,256	32,791,283
At 31 March 2006					
Cost or valuation	41,271,148	4,995,302	902,563	2,312,431	49,481,444
Accumulated depreciation	(14,655,215)	-	(550,771)	(1,484,175)	(16,690,161)
Net book amount	26,615,933	4,995,302	351,792	828,256	32,791,283

15 Property, plant and equipment (continued)

	Network infra-structure Ksh'000	Capital work in progress Ksh'000	Leasehold improve-ments Ksh'000	Vehicles & equipment Ksh'000	Total Ksh'000
Year ended 31 March 2007					
Opening net book amount	26,615,933	4,995,302	351,792	828,256	32,791,283
Additions	11,068,455	4,012,011	85,510	1,171,999	16,337,975
Transfers	3,114,866	(3,537,867)	14,131	408,870	-
Disposals	(1,692)	-	-	(2,237)	(3,929)
Depreciation charge	(5,757,291)	-	(68,169)	(568,216)	(6,393,676)
Closing net book amount	35,040,271	5,469,446	383,264	1,838,672	42,731,653
At 31 March 2007					
Cost or valuation	55,452,777	5,469,446	1,002,204	3,891,063	65,815,490
Accumulated depreciation	(20,412,506)	-	(618,940)	(2,052,391)	(23,083,837)
Net book amount	35,040,271	5,469,446	383,264	1,838,672	42,731,653

16 Prepaid operating lease rentals

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:

	2007 Ksh'000	2006 Ksh'000
At start of year	206,633	68,874
Additions	216,176	358,552
Amortisation charge for the year	(160,416)	(220,793)
At end of year	262,393	206,633
Current portion	(259,906)	(202,410)
Non current portion	2,487	4,223

17 Intangible assets – License Fees

	2007 Ksh'000	2006 Ksh'000
Cost		
At start of year	4,235,000	4,235,000
Additions	15,000	-
At end of year	4,250,000	4,235,000
Amortisation		
At start of year	1,555,753	1,230,996
Charge for the year	326,164	324,757
At end of year	1,881,917	1,555,753
Net book value	2,368,083	2,679,247

18 Inventories

	2007 Ksh'000	2006 Ksh'000
Network spare parts	912,980	950,744
Less: Provision for impairment losses	(251,235)	(150,000)
	661,745	800,744
Handsets and accessories	294,395	119,533
Scratch cards	97,774	61,545
Starter packs	168,574	90,925
Stationery and other stocks	12,157	28,275
	1,234,645	1,101,022

19 Receivables and prepayments

	2007 Ksh'000	2006 Ksh'000
Trade receivables	1,660,484	1,108,031
Less: Provision for impairment losses	(306,811)	(112,955)
	1,353,673	995,076
Prepayments	699,340	767,236
Amounts due from related companies (Note 25)	472,426	1,637,937
Other receivables	501,968	115,017
	3,027,407	3,515,266

20 Cash and cash equivalents

The year-end cash and cash equivalents comprise the following:

	2007 Ksh'000	2006 Ksh'000
Cash at bank and in hand	2,331,204	2,857,018
Short term bank deposits	3,556,488	38,000
Escrow Bank Account	-	22,436
	5,887,692	2,917,454

The weighted average effective interest rate on short-term bank deposits account at the year-end was 5.0 % (2006: 6.0 %) and on the Escrow bank account (2006: 4.0%).

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

21 Payables and accrued expenses

	2007 Ksh'000	2006 Ksh'000
Trade payables	3,564,727	2,219,639
Accrued expenses	6,243,667	6,378,822
Other payables	2,581,752	1,970,112
	12,390,146	10,568,573

22 Contingent liabilities

At 31 March 2007 the company has given guarantees of Ksh 17,332,351 (2006: Ksh 2,192,072) on behalf of third parties and cancelled guarantees of Ksh 43,933,317 reported in 2006 which had been issued in favour of the customs and excise department.

23 Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2007 Ksh'000	2006 Ksh'000
Property, plant and equipment	580,278	1,408,527

Operating lease commitments

The future minimum lease payments under non-cancellable operating lease are as follows:

	2007 Ksh'000	2006 Ksh'000
Not later than 1 year	208,108	104,047
Later than 1 year and not later than 5 years	949,535	448,694
Later than 5 years	251,653	125,050
	1,389,296	677,791

24 Cash generated from operations

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

	2007 Ksh'000	2006 Ksh'000
Profit before income tax	17,192,739	12,210,543
Adjustments for:		
Interest income (Note 8)	(258,218)	(74,446)
Interest expense (Note 8)	476,723	322,596
Exchange loss/(gains) on borrowings (Note 8)	419,030	(77,667)
Financing costs – interest rate swaps (Note 8)	-	85,931
Other financing costs (Note 8)	(41.755)	292,104
Fair values loss on financial instruments (Note 12)	39,740	-
Depreciation (Note 15)	6,393,676	5,468,675
Amortisation of prepaid operating lease rentals (Note 16)	160,416	220,793
Amortisation of intangible assets (Note 17)	326,164	324,757
Profit on sale of property, plant and equipment	(17,250)	(10,555)
Changes in working capital		
- Receivables and prepayments	545,380	(652,503)
- Inventories	(133,623)	(521,343)
- Payables and accrued expenses	1,821,573	1,790,588
Cash generated from operations	26,924,595	19,379,473

25 Related party transactions

The company is controlled by Telkom Kenya Limited incorporated in Kenya. The other shareholder is Vodafone Kenya Limited whose ultimate parent is Vodafone Plc incorporated in the United Kingdom. Vodafone Plc is responsible for the management of the company.

The following transactions were carried out with related parties:

a) Sale of services

	2007 Ksh'000	2006 Ksh'000
- Telkom Kenya Limited	1,497,297	2,036,109
- Vodafone Company Plc	137,998	140,322
	1,635,295	2,176,431

b) Purchase of services

	2007 Ksh'000	2006 Ksh'000
- Telkom Kenya Limited	429,250	1,038,267
- Vodafone Company Plc	28,751	325,137
	458,001	1,363,404

c) Key management compensation

	2007 Ksh'000	2006 Ksh'000
Salaries and other short-term employment benefits	177,466	134,665

d) Directors' remuneration

	2007 Ksh'000	2006 Ksh'000
Fees for services as a director	450	350
Other emoluments to non executive directors	1,479	1,151
	1,929	1,501

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

	2007 Ksh'000	2006 Ksh'000
Amounts due from:		
- Telkom Kenya Limited	455,994	1,632,859
- Vodafone Limited	16,432	5,078
	472,426	1,637,937

f) Loans from shareholders

	2007 Ksh'000	2006 Ksh'000
- Telkom Kenya Limited	2,541,000	2,541,000
- Vodafone Kenya Limited	1,694,000	1,694,000
	4,235,000	4,235,000

These loans were advanced for payment of network licence fees. The loans are non-interest bearing and have no defined repayment period.

The shareholders have confirmed that repayment of the amount will not be required within 12 months of the balance sheet date. Consequently, the amount has been carried at cost and has been treated as a non-current liability in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 1 (Presentation of Financial Statements) respectively.

g) Loans to directors of the company

There were no loans to directors of the company at 31 March 2007 and 31 March 2006.

h) Contingencies

The company had no guarantees on bank loans to its related parties at 31 March 2007 and 31 March 2006

NOTICE is hereby given that the Annual General Meeting for the year 2007 of the Company will be held at the Company's Boardroom, Safaricom House, Waiyaki Way, Westlands, Nairobi on Tuesday, 11 September 2007 at 9.00 a.m.

AGENDA

1. To read the notice, the summary of Proxies and to confirm the quorum of the meeting.

2. To approve the minutes of the Annual General Meeting held on 1 November 2006.

3. To receive, consider and adopt the Financial Statements for the year ended 31 March 2007 together with the Directors' and Auditors' reports thereon.

4. To declare payment of a first and final dividend of Ksh 4 billion for the Financial Year ended 31 March 2007 as recommended by the Directors.

5. To elect directors, if any.

6. To note that PricewaterhouseCoopers, who were appointed by the Controller and Auditor-General as authorised auditors, have expressed their willingness to continue in office subject to being re-appointed in accordance with Section 39(1) of the Public Audit Act 2003 and to authorise the directors to fix their remuneration.

BY ORDER OF THE BOARD

J L G MAONGA
SECRETARY

Date: 21 June 2007

Note: A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his stead.
A proxy need not be a member of the Company.

Safaricom **Proxy Form**

I/WE____

OF____

Being a member of the above Company, hereby appoint:

OF____

Whom failing __________________________________

OF

or failing him, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Tuesday, 11 September 2007 and at any adjournment thereof.

As witness my/our hand this day of 2007

Signed ____________________

Signed ____________________

Note:

1. A member entitled to attend and vote is entitled to appoint a proxy 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 24 hours before the time of holding the meeting.


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