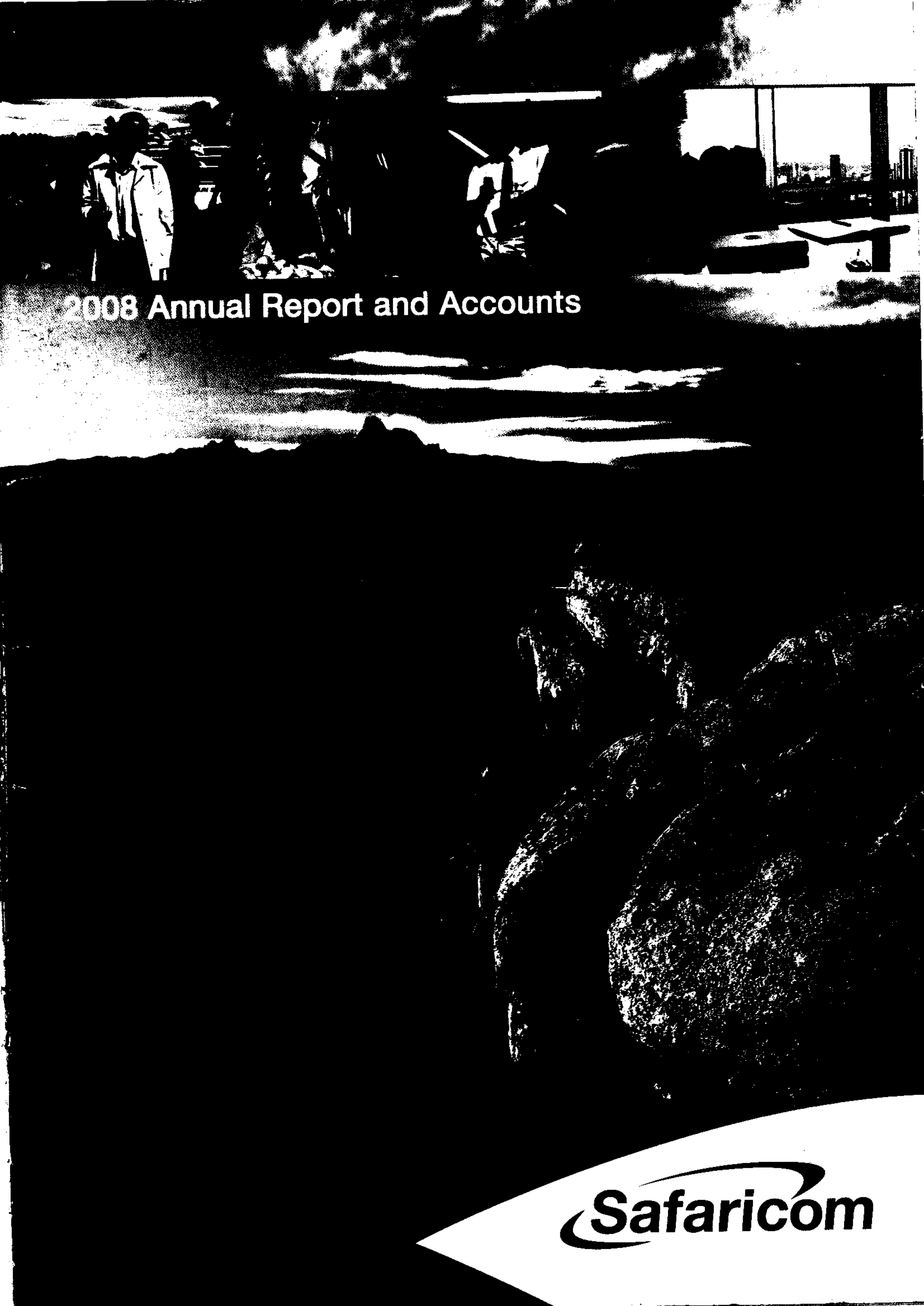
2008 Annual Report and Accounts



Safaricom

Highlights of the year

Revenue .... UP ↑ **29.4%** to Kshs 61.4 billion

Pre-tax profit............ UP ↑ **16%** to Kshs 19.9 billion

Post tax profit.......... UP ↑ **15.3%** to Kshs 13.9 billion

Subscribers .... UP ↑ **68%** to Kshs 10.23 billion

Table of **Contents**

Board of Directors	4
Chairman's Statement	6
CEO's Report	8
Senior Management	11
Safaricom Foundation	12
Report on M-PESA	14
Value Added Statement	16
Directors' Report	17
Corporate Governance Statement	18
Statement of Directors' Responsibilities	19
Report of Controller and Auditor General	20
Financial Statements	
Profit and Loss Account	21
Balance Sheet	22
Statement of Changes in Equity	23
Cash Flow Statement	24
Notes to the Financial Statements	25
Notice of Annual General Meeting	57
Proxy Form	58

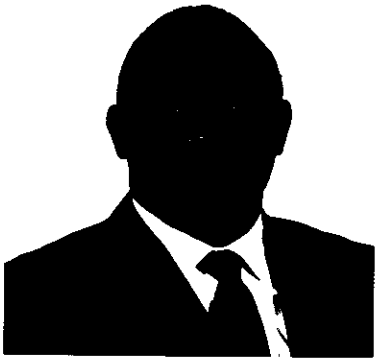
Board of **Directors**

Nicholas Nganga - Chairman

Mr Nganga joined the Board of Safaricom Ltd on 6 May 2004 and was elected Chairman on 16 January 2007. He holds a BA degree from Makerere University. Mr Nganga has 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.

Joseph Kinyua - Non Executive Director

Mr Kinyua joined the Board of Safaricom Ltd on 28 February 2008. A career economist, Mr Kinyua, holds Bachelors and Masters degrees in Economics from the University of Nairobi. He has held various senior positions at the Central Bank of Kenya, International Monetary Fund, Ministry of Planning and National Development, Ministry of Agriculture and Ministry of Finance. He is also a non executive director of Kenya Commercial Bank Limited, Kenya Airways Limited and the NSSF, among other companies.



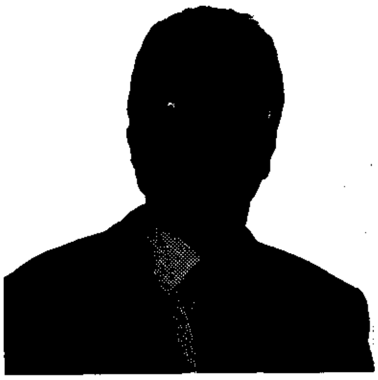
Dr Bitange Ndemo - Non Executive Director

Dr Ndemo joined the Board of Safaricom Ltd on 28 February 2008. Ndemo holds a PhD in Industrial Economics from the University of Sheffield UK, an MBA from St Thomas University, Minnesota, USA and a Bachelors degree in Finance and Accounting from the University of Minnesota. Prior to his appointment as Permanent Secretary, Ministry of Information and Communications, Dr Ndemo was a Senior Lecturer at the University of Nairobi's Business School. By virtue of his position, Dr Ndemo is a Director in a number of organisations including the Postal Corporation of Kenya, Telkom Kenya, Kenya Film Commission, ICT Board and the Communication Commission of Kenya.

Esther Koimett - Alternate Director to Mr Joseph Kinyua

Ms Koimett joined the Board of Safaricom on 24 May 2005. She resigned on 28 February 2008 and was then appointed as alternate to Mr. Kinyua. She previously served on the Board between 11 April 2001 and 5 September 2002. Ms Koimett 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.

Board of **Directors**



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.

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 as well as the Board of Vodacom.

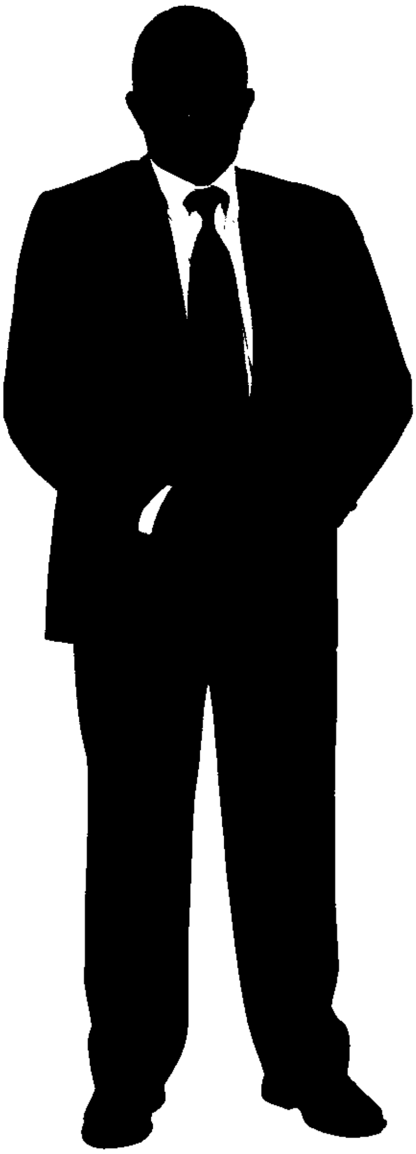
Nancy Macharia - Non Executive Director

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 Masters 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.

John L G Maonga - Company Secretary

Appointed Company Secretary on 18 October 2002, Mr 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.

Chairman's **Statement**



“Safaricom operated in an economic environment characterised by rising costs, a volatile foreign exchange market, challenging pre and post election conditions and a tougher regulatory regime”

It gives me pleasure to announce that against a background of increasing competition and rising costs, Safaricom has yet again delivered another year of exceptional performance and increased shareholder value. During the year ended 31 March 2008, Safaricom embarked on a growth strategy that increased the subscriber base considerably and once again produced record levels of revenue and profit. This growth necessitated an increased capital expenditure and increased costs of acquiring these customers, but it has produced a solid base for the future.

During the year, Safaricom operated in an economic environment characterised by rising costs, a volatile foreign exchange market, challenging pre and post election conditions and a tougher regulatory regime. We managed these through strict cost control, a robust foreign exchange exposure management and a firm focus on our customers. During the last quarter of the financial year, we experienced disruption in both our network and distribution channels in parts of the country, but overall, the effect on the business was minimal, largely due to the dedication of our staff who reacted very positively to the problems.

Key highlights of the twelve months ended 31 March 2008

Overall, Safaricom outperformed against its financial and operating targets during the year. Subscriber numbers rose to 10.2 million from 6.1 million – a 68 per cent increase from the end of March 2007. Despite growing competition, Safaricom's market share over the same period rose to 84 per cent from 72 per cent at the end of the previous year.

Revenues for the period grew by 29.3 per cent to Ksh 61.369 billion from Ksh 47.447 billion as we continued to expand the network throughout the country and introduced new and innovative products. However, the lowering of tariffs and the acquisition of more customers with lower spending power led to reduced average revenue per user (ARPU) in the year. Blended average revenue per user (ARPU) for prepaid and post-paid customers reduced to Ksh 616 from Ksh 799 in the previous year.

The increased revenues contributed to an increase of 14.9 per cent in the EBITDA to Ksh 28.152 billion from Ksh 24.508 billion realised the previous year. However, the EBITDA margin reduced to 45.9 per cent of revenue from 51.7 per cent for March 2007, as the costs for acquisition of subscribers increased in the period, in line with our strategy.

Profit before income tax registered an impressive growth of 16 per cent to Ksh 19.945 billion, from Ksh 17.193 billion the previous year. For the second year running, Safaricom has reported the highest profit before tax results by any company in the East African region.

Due to the increased profit, the tax charge rose to Ksh 6.092 billion, an increase of 17.6 per cent over Ksh 5.182 billion for the period ending March 2007. The effective tax rate increased marginally to 30.5 per cent from 30.1 per cent the previous year. The total overall direct and indirect taxes paid to the Treasury for the period rose to Ksh 24.1 billion from Ksh 18.4 billion paid in the previous year. This makes Safaricom one of the highest taxpayers in the country, ensuring that the Company continues to support the economy significantly.

Profit after tax grew to Ksh 13.853 billion, an increase of 15.3 per cent over the previous year's profit of Ksh 12.010 billion. The directors recommend approval of a dividend of Ksh 2.0 billion.

Major initiatives during the year

During the year, the Government of Kenya (GoK) offered for sale 10,000,000,000 shares with a par value of Kenya Five Cents (KSh 0.05) each in the ordinary share capital of Safaricom through an Initial Public Offer comprising 25 per cent of the issued ordinary Safaricom shares.

The offer opened on 28 March 2008 and closed on 23 April 2008. The shares started trading on the Nairobi Stock Exchange on 9 June 2008 and significantly increased the market capitalisation of the stock market. This has given Kenyans an opportunity to own part of the company.

Following the offer and sale of 25 per cent of the issued shares in Safaricom held by the GoK to the public, the GoK ceased to have a controlling interest in Safaricom under the State Corporations Act. The Company therefore ceased to be a state corporation and the provisions of the State Corporations Act no longer apply to it.

Safaricom continues to introduce innovative products to meet its customer needs, with key initiatives targeted at sustaining its customer focus and to position it for future success.

The highly successful and innovative M-PESA money transfer service, launched at the beginning of the financial year, was the first of its kind anywhere in the world. It has received wide acceptance from our customers and at 31 March 2008 had two million registered subscribers, with person-to-person transfers during March 2008 exceeding Ksh 3 billion. This service has given many of our unbanked subscribers an efficient and very cost effective way of transferring money around the country.

Blackberry® messaging services, launched towards the beginning of the year, have received wide acceptance from subscribers both at individual and corporate level. The recent introduction of a low cost prepay service has further enhanced the product offering, enabling more subscribers to access this service.

The launch of the Bonga loyalty programme at the beginning of the year is a way of rewarding our subscribers for their loyalty by allowing them to earn points on their airtime usage and redeeming these for free minutes, SMS, handsets and accessories. The programme has been very successful and over 57 per cent of the base had enrolled by the end of the year.

In March 2008, the company launched "Bamba 20" the lowest denominated top-up card in the market, enabling more Kenyans to afford airtime and telecommunication services.

Between 21 August 2007 and 4 November 2007, the company ran the largest promotion ever undertaken in the country dubbed "Kwachua Millioni" where subscribers won a combined amount of Ksh 100 million.

Following a successful trial of a 3G network in Nairobi, Safaricom applied for and was awarded a 3G licence in October 2007 at a cost of US$ 25 million. This is the only 3G licence currently awarded and will allow our subscribers to access mobile high-speed data, further enhancing the services they receive from us. The 3G network continues to be rolled out in Nairobi and Mombasa and further coverage will follow during the coming year.

In recognition of its continued innovation and success, Safaricom was awarded the prestigious "Most Respected Company in East Africa" award in November 2007. In addition, we continued our success in the COYA awards, winning three awards. Then in December 2007, we were awarded the "MSK Warrior Award" and the coveted ISO 9001:2000 certificate on quality management systems.

Looking forward

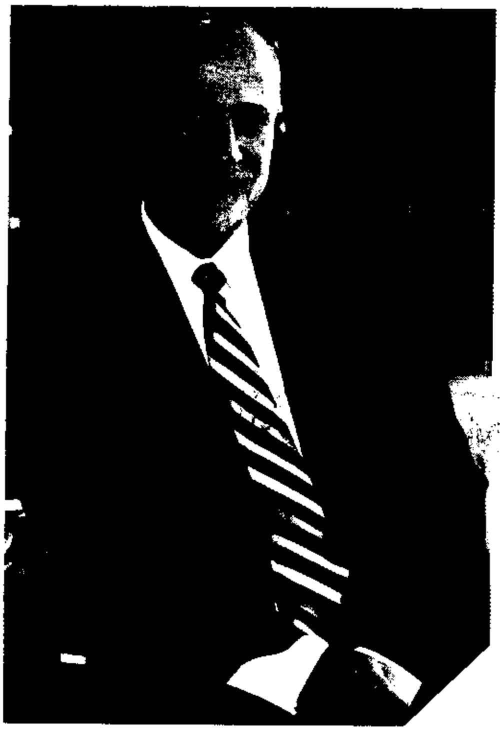
The coming year will see the entry of two new players into the mobile market and the introduction of a unified licence. Mobile penetration, which is currently around 34 per cent, is expected to increase over the next four years to around 60 per cent. This implies that there is high potential for further industry subscriber expansion over the next few years.

The introduction of new players and a changing regulatory landscape will bring new challenges to Safaricom and the industry as a whole. We expect a more competitive industry landscape to place downward pressure on Safaricom's market share of gross additions in the medium term. Retail tariffs are likely to experience downward pressure, which will lower ARPU for both prepay and post pay subscribers for the industry as a whole.

Safaricom's capital expenditure is expected to remain relatively high over the next few years, which is consistent with the strategy of expand the GSM coverage footprint in rural areas and capacity levels in key urban areas. In addition, the rollout of Kenya's first 3G network will incur significant capital expenditure over the next few years. These capital investments will enhance Safaricom's ability to protect its market share of gross subscriber additions, offer higher quality network coverage as well as to capitalise on the high growth potential of the data market.

Nicholas Nganga
Chairman

CEO'S **Report**



"Our key initiatives are targeted at sustaining customer focus and positioning us for future success"

During the year, Safaricom continued an aggressive growth campaign both to increase its subscriber base – by launching a series of promotions and investing heavily in subscriber acquisition – and to increase the core network capacity and coverage in rural areas. To support this growth, capital expenditure increased to Ksh 23 billion, bringing the total expenditure since the launch of the Company to Ksh 88.8 billion.

The Kenyan mobile communications industry is expected to continue its growth over the next few years.

Safaricom may face some operating challenges over the next few years in relation to the uncertain market and regulatory environment that may be introduced after the entry of new competitors and investors to the telecommunications landscape in Kenya. However, the effects of increased competition should affect the industry as a whole, and should not be solely limited to the Company's operations.

The Company's market share is expected to decrease going forward. Retail tariffs are likely to experience downward pressure, which will lower average revenue per user (ARPU) for both prepaid and post-paid subscribers for the industry.

In addition, the expected increase in overall promotional, marketing and acquisition efforts may disrupt current market dynamics, potentially resulting in higher subscriber churn levels, acquisition costs and retention costs for all of the industry players.

Enhanced competition will also create the need for the Company to maintain higher levels of selling, general and administrative expense levels. This is due to the potential requirement for higher advertising costs to protect the subscriber base and increased payroll costs to retain key managerial talent.

With the foregoing in mind, at Safaricom, we shall continue to introduce innovative products to meet our customer needs. Our key initiatives are targeted at sustaining customer focus and positioning us for future success.

For instance, in June 2007, we launched new tariff structures in response to the need to make calling rates more affordable to our customers and to meet their requirement for more flexibility. These tariffs contributed to the significant increase of subscribers during the year.

NEW PRODUCTS

We launched the following products during the last financial year:

- **tXt**

tXt ten for ten (group SMS) is a mobile chat service that enables subscribers to quickly send the same message to several members of a group from a single SMS, instead of having to re-send the same message to all the members of a given group.

A flat rate of Ksh 10.00 is charged regardless of the number of members in a group, subject to a limit of 10.

- **Advantage Contracts**

Advantage Contracts offers our subscribers an opportunity to control their call costs while offering very competitive flat rates. Subscribers get the option to pay for a bundle that entitles them to:

  - a free phone (a choice from two handsets)
  - a certain number of on-net minutes (Safaricom to Safaricom calls)
  - specific rates for on-net calls
  - a choice of retaining your current number or getting a new number

- **Advantage Plus**

This tariff enables corporate customers to give their staff a limit on their monthly expenditure, after which the users of the lines can top up with scratch cards to continue enjoying Safaricom services.

• Safaricom Mail

This is an email service offered by Safaricom in conjunction with Google. It allows our subscribers to access their accounts via a web browser and also to set up POP/IMAP email accounts. This eliminates the need to subscribe to an ISP for receiving emails.

• Toll Free Services

The called party pays for calls to a toll-free number. This service is especially useful in the service industry as it encourages clients to contact companies.

• Corporate Direct Connectivity

The direct connection between the customer's PABX and Safaricom's network facilitates voice communication, both inbound and outbound, to and from the client's PABX with Safaricom subscribers, other mobile subscribers, other local networks and international destinations.

• Winback SMS for Roaming

The Win-Back service (WB) allows Safaricom to Win-Back visitors lost to a competitor's network.

• Automatic Device Configuration

Safaricom subscribers can request for data and network settings automatically via USSD and SMS and have these delivered directly to their handsets over the air.

• OTA SIM Swap

This product allows Safaricom Prepaid subscribers who have lost their SIM Cards to do a SIM Swap on their handsets. Safaricom subscribers using old generation SIM cards can also do a SIM swap to access additional SIM menus including M-PESA.

• Express Autobar

This provides a quick one-stop service for all individual customers and guarantees active post-paid lines within an hour from the time the customer walks out.

Safaricom receives deposit for default services (Voice, SMS, GPRS, IDD, and other default VAS services). Roaming deposit can be picked at the point the customer is applying.

• Kama Kawaida with Rwanda

Safaricom has teamed with MTN Rwanda to offer subscribers seamless service availability at their home tariffs when travelling across the two countries. Rwanda is the third country where Safaricom subscribers enjoy their home tariff when travelling.

• Post-paid Bill Payment with banks

Safaricom post-paid subscribers can now conveniently pay their bills at any Standard Chartered Bank, any Co-operative Bank and any Commercial Bank of Africa branch countrywide.

• New Voicemail Platform

Safaricom subscribers now enjoy enhanced voicemail features from the next generation voicemail platform. The improved service menus and customisation alternatives give subscribers the flexibility to be reached even when their phone is switched off or even busy. Non-intrusive SMS alert notify subscribers of any voicemail messages awaiting attention.

• Bambanet on Post-paid

Post-paid Bambanet allows Safaricom subscribers to purchase competitively-priced monthly data bundles on their data subscriptions. Bambanet is a 3G broadband modem allowing users to access high-speed internet via Safaricom's 3G network.

• Bambanet on Prepaid

Prepaid Bambanet offers Safaricom prepaid subscribers data and internet access over the 3G broadband network with no subscription. The Bambanet 3G broadband modem can be used with any Safaricom prepaid SIM card that is registered for data and internet access and is billed on usage per Mb of data transmitted.

STAFF

People are central to everything we do. Our unique blend of talent, culture and values is the foundation of our success. At Safaricom, we aim at attracting and maintaining a diverse employee base with a wide variety of individual characteristics, perspectives and experiences.

We believe that the success of Safaricom depends on our ability to create an environment where all our employees feel included and able to perform at their best. We have achieved this through putting in place a coherent organisational structure where employees fully recognise their roles and contributions to the business.

Since Safaricom has ambitious growth goals, we have a high performance culture and our reward and recognition programmes reinforce our people's contribution to the success that the Company continues to enjoy.

We have recently found placements in Vodafone South Africa, India and Egypt for our high potential employees to get them exposed to more sophisticated markets in a bid to harness their talents and transfer the same to our organisation.

In our commitment to remain the employer of choice and in recognition of the commitment of our employees, we will introduce an Employee Share Option Scheme to motivate employees to increase the value of the organisation through personal ownership of this great company.

We take this opportunity to thank all employees for their dedication and commitment during the political instability experienced at the beginning of this year. Many of our employees went to great lengths to ensure that our network and products were available to our customers under very difficult circumstances. Their efforts are much appreciated.

FUTURE OUTLOOK

The introduction of new players and a changing regulatory landscape will bring new challenges to Safaricom and the industry as a whole. At the same time, Safaricom's capital expenditure is expected to remain relatively high over the next few years, which is consistent with the strategy to expand the GSM coverage footprint in rural areas and capacity levels in key urban areas.

In addition, the rollout of Kenya's first 3G network will incur significant capital expenditure over the next few years. These capital investments will enhance Safaricom's ability to protect its market share of gross subscriber additions, offer higher quality network coverage as well as capitalise on the high growth potential of the data market.

Michael Joseph
Chief Excecutive Officer

A team building event

Senior **Management**

Michael Joseph
Chief Executive Officer

"Our unique blend of talent, culture and values is the foundation of our success."

Peter Arina
Chief Commercial Officer

John Barorot
Chief Technical Officer

Eddie Irungu
Chief Risk and Strategy Officer

Les Baillie
Chief Financial Officer

Joseph Ogutu
Chief Human Resources and Corporate Affairs Officer

Francis Murabula
Chief Supply Chain and Administration Officer

Fred S Moturi
Chief Enterprise Officer

Betty Mwangi Thuo
Head of New Products Division

Founded in August 2003, Safaricom Foundation, a public charitable Trust duly established under Kenyan law, has a mission, "Passion for the world around us."

From the mission, the Foundation's objectives trickle down to sharing the benefits of development in mobile communications technology as widely as possible; protecting the natural environment and supporting the communities in which Safaricom's customers, employees, investors and suppliers live.

The Foundation also promotes sustainable business practice and environmental protection and promotes the personal involvement of Safaricom Ltd's employees in their local communities.

During last year alone, Safaricom Foundation allocated more than Ksh 200 million on diverse projects ranging from emergency funding, education, health, community development, environment, arts and culture and sports.

EMERGENCY RELIEF

The Foundation donated Ksh 15.3 million, through the Kenya Red Cross Society, to assist humanitarian organisations in delivering assistance to more than 300,000 Kenyans displaced after the post-election violence at the beginning of the year.

HEALTH

In the health sector, the Foundation supported projects to the tune of Ksh 33 million in various parts of the country. These include the Kenya Breast Health Programme, the Kenya Society for the Blind and Operation Smile.

Gender Violence Recovery Centre

Sadly, sexual and domestic violence is increasingly prevalent in Kenya - cutting across all ages, both genders and all social and ethnic groups. In response to this, the Foundation decided to collaborate with the Nairobi Women's Hospital to launch a fund-raising campaign to mobilise resources in support of the hospital's Gender Violence Recovery Centre programme.

To encourage more participation from other corporate bodies, and indeed the public, the Foundation committed to match the fundraising efforts of the centre for three years by donating up to Ksh 7.5 million each year. This enabled the centre to raise a total of Ksh 15 million last year towards the recovery and treatment of the victims of rape and domestic violence.

Mobile Mammography Unit

On October 30, 2007, the Foundation, in conjunction with the Kenya Breast Health Programme, celebrated the launch of a mobile mammography unit – the first of its kind in East Africa. Thousands of Kenyan women and men who previously had to travel some distance to get to the nearest screening centre will now have ready access to screening and diagnosis.

Kirwara Health Centre

Built 15 years ago, the Kirwara Health Centre had not been utilised due to lack of equipment. Patients had to travel 40 kilometres to get treatment at Thika District Hospital.

The District Medical Officer asked the community to get certain specialised equipment so that the government could provide doctors. Ksh 4 million from the CDF kitty was used to refurbish the entire structure, and Safaricom Foundation donated theatre equipment worth Ksh 3.8million.

Being the only health centre in the constituency, it serves approximately 200,000 people.

EDUCATION

Last year alone, the foundation spent close to Ksh 78 million in education projects.

The Foundation's core objective is the improvement of educational standards countrywide and it has partnered with over 100 schools in all corners of the country to fund additional classrooms, science laboratories and dormitories, as well as ensuring high standards of hygiene within the school environment.

Computer for Schools

The Foundation entered a three-year agreement with Computer for Schools Kenya through which 1,600 computers will be delivered to 10 schools per province in all the eight provinces in the country. To ensure sustainability, this will be coupled with training of a head teacher and an IT teacher from each recipient school.

This will offer ICT literacy to over 40,000 young Kenyans at an affordable fee. These computer centres will also serve as community centres during the school holidays. This way, students who might not necessarily be in the recipient schools also stand to benefit from the donation.

African Braille Centre

The Foundation is proud to be associated with African Braille Centre in addressing the welfare of people with visual impairment. The Foundation has established a working relationship with the African Braille Centre to purchase and distribute 30 Perkins Braillers to special schools.

Junior Achievement

Junior Achievement Kenya is a strong motivator to the youth and helps them with their career choices. Pupils from a number of secondary schools around the country spend a day at the Safaricom offices. Each learner is allocated a staff member and spends the day observing the workings of the company. The objective is to teach students the importance of basic skills in the workplace and show them the connection between education and future success.

THE ENVIRONMENT

In Kenya, concern for the environment has been overshadowed by the hardships of poverty. The conservation of wildlife and the environment is therefore being increasingly driven by non-governmental and private organisations. Against this background, the Safaricom Foundation has invested heavily in environmental and wildlife conservation efforts through the promotion and encouragement of environmental education, community awareness, participation and sustainable development of the environment. The Foundation disbursed over Ksh 19 million in the last financial year under this initiative.

Ngare Ndare forest

Safaricom employees have over the years planted trees in Ngare Ndare forest as part of the re-forestation efforts in Mount Kenya region. With the support of Ksh 8.2 million from the Foundation, the Ngare Ndare Forest Reserve has established income-generating activities, therefore creating additional employment and revenue.

COMMUNITY DEVELOPMENT

Last year, the Foundation spent more than Ksh 54 million on community development projects including supporting a street rehabilitation centre or providing start-up capital to business/resource centres, among other projects.

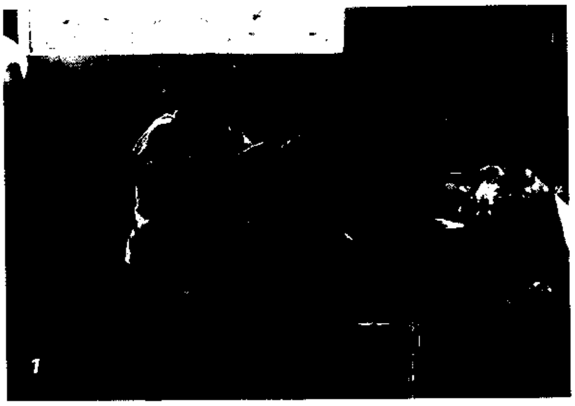
Food Security Project in Partnership with Kenya Community Development Fund [KCDF]:

In June 2007, the Foundation approved a grant of Ksh 5 million to KCDF to implement a pilot food security project for two years. From this amount, Ksh 2 million is available annually for two years. In August, after inviting applications, the KCDF team selected five projects with which to work. The partners received grants in December 2007 and the projects are at various stages of implementation.

EMPLOYEE INVOLVEMENT

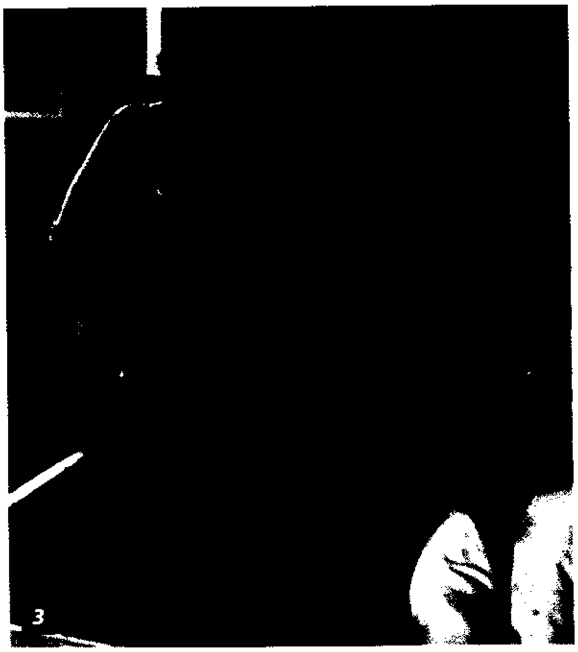
The Foundation initiated a scheme known as PAMOJA You Care, We Care, where it matches donations raised by staff members towards a charity or community project of their choice.

In addition, staff members contributed towards initiatives such as the Save our Country and visited internally displaced persons at the Kirathimo camp and Deliverance Church in Limuru, where they presented various food items.



1

2



3

1 ***Girls at work at Zabibu Centre, Limuru.***

2 ***A child receives a polio vaccine during the UNICEF- Safaricom polio campoign.***

3 ***A big smile for a child at the Missionaries of Charity Home in Langata.***

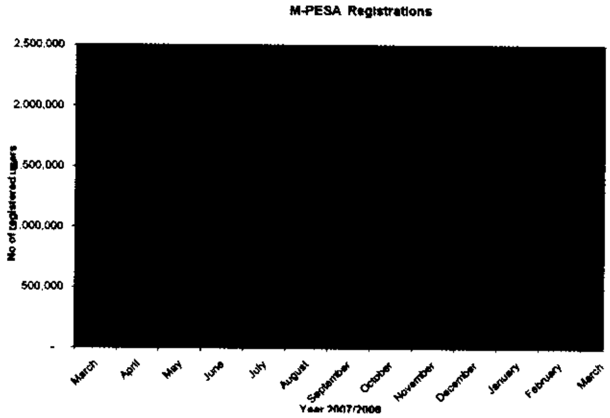
M-PESA – Safaricom sets the pace

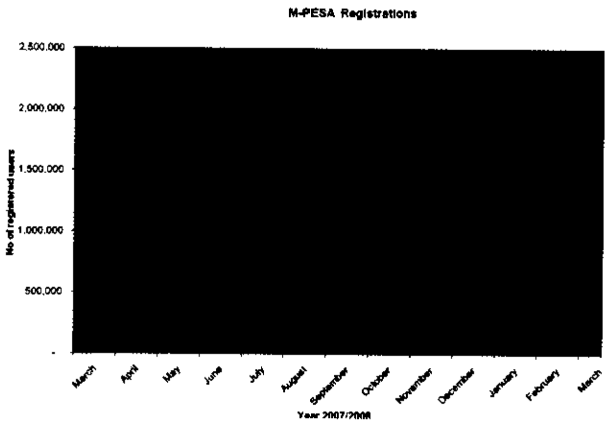
The innovative M-PESA money transfer service was launched in March 2007 by Safaricom in conjunction with Vodafone Marketing Sarl (a subsidiary of Vodafone Group Plc). M-PESA is a world first service that uses mobile telephony to offer fast, safe, affordable money transfer across Kenya. M-PESA is mainly targeted at the large un-banked population in Kenya but also offers a convenient alternative means of transferring money to people with a bank account.

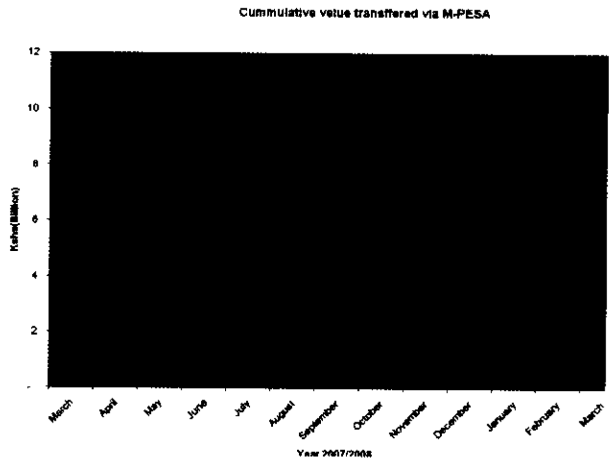
Safaricom customers can register for an M-PESA account at authorised agents. All they need is a national identification document. Registered M-PESA customers have a "virtual money" account attached to their Safaricom mobile phone number, into which they can place money at participating agents. Using a menu on their SIM card, they can withdraw cash at an agent, send money to another mobile phone number and purchase airtime for themselves or any other Safaricom pre-paid account.

To receive money via M-PESA a customer does not need to be registered for M-PESA, and can even be on another mobile network. Charges are deducted directly from a customer's account at the time of a transaction and all M-PESA related text messages are free to customers.

"Virtual money" held on the M-PESA system is backed up by an equal amount of money held in a Kenyan bank account by a trustee for and on behalf of all M-PESA account holders. The M-PESA system allocates ownership of the money between the different account holders.
As at 31 March 2008, two million subscribers had registered with M-PESA, with person-to-person transfers in March 2008 exceeding Ksh 3 billion.







M-PESA agents continue to grow

The M-PESA agent network has grown to over 1,200 outlets. They include Safaricom dealers, Kenya Post Office Savings Bank branches, courier companies, supermarkets, fuel retailers and others. The number, type and distribution of

M-PESA provides a complementary service to their existing businesses. Under the Terms of Agreement, agent fees are based on a number of criteria, including the volume and value of M-PESA transactions carried out.

Future Initiatives

The M-PESA technology supports value movement between different types of account holders. Current person-to-person money transfer capability will in future be expanded to enable other transaction types. These include:

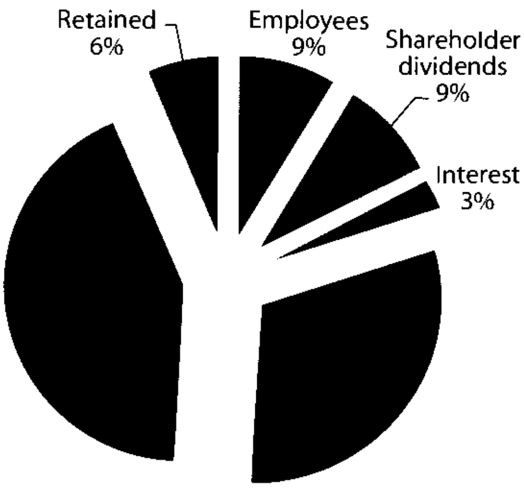
- Customer-to-business payments (to allow purchase of goods or services from authorised retailers and bill payment, whether remotely or with the customer present)
- Business-to-customer payments (to allow dispersal of salaries and allowances to field staff) and
- Business-to-business payments.

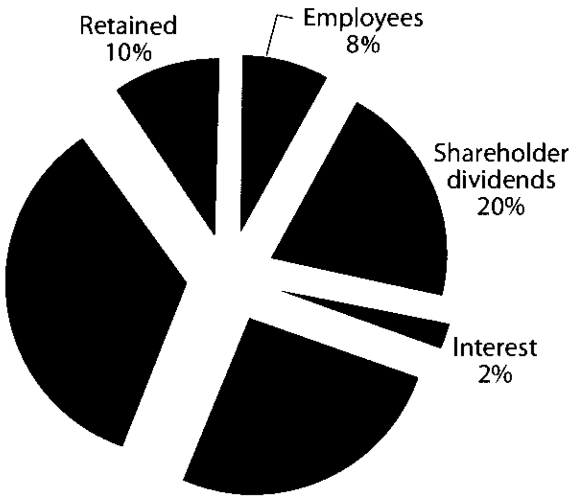
Vodafone Group PLC, the owner of the intellectual property in the M-PESA system, has assigned rights in its intellectual property to Vodafone Marketing Sarl (VMS). Safaricom and VMS have entered into an M-PESA Managed Services Agreement under which VMS provides M-PESA to Safaricom as a managed service, which Safaricom operates and markets in Kenya. VMS has also granted a trademark licence to Safaricom for the use of the M-PESA Trade Mark and Logo of M-PESA under the terms of the Managed Services Agreement.

Value added **Statement**

For the year ended 31 March 2008

Sales	[redacted]		[redacted]	
Less: cost of goods and services bought	[redacted]		[redacted]	
Value added from trading operations	[redacted]	90%	[redacted]	98%
Income from investments	[redacted]	10%	[redacted]	2%
Total value added	[redacted]	100%	[redacted]	100%
Distributed as follows:	[redacted]		[redacted]	
To remunerate employees for their services	[redacted]	9%	[redacted]	8%
To the shareholders as dividends	[redacted]	9%	[redacted]	20%
To providers of finance for monies borrowed	[redacted]	3%	[redacted]	2%
To the government for taxes and licences	[redacted]	31%	[redacted]	26%
	[redacted]	51%	[redacted]	56%
Retained to maintain and develop the network	[redacted]	49%	[redacted]	44%
- Depreciation and impairment	[redacted]		[redacted]	
- Reinvested in the business	[redacted]		[redacted]	
Total distributions	[redacted]	**100%**	[redacted]	**100%**





Report of the Directors for the Year Ended 31 March 2008

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 March 2008.

Principal activity

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

Results (Ksh)

Profit before taxation	19,945,160,000
Taxation	6,091,874,000
Net profit for the year transferred to revenue reserve	13,853,286,000

Dividend

Subject to approval of the shareholders, the Directors recommend payment of a final dividend of Ksh 2 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 company misleading.

Directors

The members of the Board of Directors who served during the year and to the date of this report are shown on pages 4 and 5.

Directors' benefits

Since the last Annual General Meeting of the Company to the date of this report, no director has received or been 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 53.

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

At the Annual General Meeting of the Company held on 30 May 2008 the Controller and Auditor General retired as the audiors and did not seek re-election. Messrs PriceWaterhouseCoopers certified public accountants (K) were appointed auditors for the financial year ending 31 March 2009.

By order of the Board

J L G Maonga
Company Secretary

Corporate Information

Directors

N Nganga	Chairman
G L Darby	
R W Collymore	
N W Macharia	
E Koimett	(Resigned on 28 February 2008; appointed as alternate to J Kinyua)
S Sivagnanasundaram	(Appointed 11 September 2007 as alternate to G J Darby and R W Collymore)
J Kinyua	(Appointed 28 February 2008)
B Ndemo	(Appointed 28 February 2008)
S Kirui	(Resigned 20 December 2007)

Company Secretary

John L G Maonga
Livingstone Associates
P O Box 30029 Code 00100, Nairobi

Auditors

Kenya National Audit Office
Anniversary Towers
P O Box 30084 Code 00100, Nairobi

Registered Office

Safaricom House, Waiyaki Way
P O Box 46350 Code 00100, Nairobi

Lawyers

Daly & Figgis Advocates
8th Floor, Lonrho House, Standard Street,
P O Box 40034 Code 00100, Nairobi

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. Following the IPO, the Board of Directors shall consist of no more than 10 directors and no fewer than 7 directors, one of whom shall be the Managing Director/Chief Executive Officer. 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 annual budget, forecasts and borrowings among others. The board delegates responsibility for day-to-day activities to the Chief Executive Officer (CEO)

On 6 November 2007, the Board of Directors of Safaricom approved terms for the appointment of an Audit Committee, which shall be chaired by a non-executive director who is not the Chairman of the Board and shall consist of three non-executive and independent Board members, at least one of whom shall be designated a "financial expert". The Company's CEO, CFO and Chief Risk and Strategy Officer will be permanent invitees to the Audit Committee meetings and the Chief Risk and Strategy Officer shall act as secretary.

A quorum for meetings shall consist of any two members of the Committee and there should be a minimum of three meetings per year (plus any time that the Company proposes to issue a press release with its half year or full year financial results).

The primary function of the Audit Committee is to assist the Board in overseeing:

i. The Company's risk management process and adequacy of internal controls, including reviewing compliance with the code of ethics and laws relating to money laundering and combating corruption, reviewing reports from internal audit and ensuring that appropriate remedial actions are taken;
ii. Financial reporting and approval of the annual financial statements and reports, including considering of findings of material weaknesses in accounting and financial control systems; and
iii. Performance and independence of the external and internal auditors.

The Audit Committee is vested with the authority to investigate any activity that it has responsibility for under the terms of reference and shall have access to sufficient funds to fulfill its duties.

Chairman and Chief Executive Officer

The role of Chairman and CEO is not vested in the same person. Nicholas Nganga is the Chairman of the Board while Michael Joseph is the CEO of Safaricom.

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 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 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 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 controls 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

2008

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

REPUBLIC OF KENYA

P O Box 30084 - 00100
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 2008

The financial statements of Safaricom Limited set out on pages 22 to 57 which comprise the balance sheet as at 31 March 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with 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' responsibility 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.

Responsibility 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 financial affairs of the Company as at 31 March 2008 and of its profit and cash flows 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, CBS
Controller And Auditor General
Nairobi

30 May 2008

Profit and Loss **Account**

	Notes	Year ended 31 March 2008 Ksh'000	2007 Ksh'000
Sales	5	[redacted]	47,447,490
Cost of sales		[redacted]	(18,155,340)
Gross profit		[redacted]	29,292,150
Other income		[redacted]	17,250
Distribution costs		[redacted]	(1,389,832)
Administrative expenses		[redacted]	(2,147,902)
Other expenses		[redacted]	(7,983,147)
Operating profit	6	[redacted]	17,788,519
Finance income	8	[redacted]	258,218
Finance cost	8	[redacted]	(853,998)
Profit before income tax		[redacted]	17,192,739
Income tax expense	9	[redacted]	(5,182,308)
Profit for the year		[redacted]	12,010,431
Proposed dividends	10	[redacted]	4,000,000
Earnings per share for profit attributable to the equity holders of the Company - basic (Ksh per share)	10	[redacted]	0.300
Dividend per share for profit attributable to the equity holders of the Company - basic (Ksh per share)	10	[redacted]	0.100

Balance **Sheet**

	Notes	2008 Ksh'000	2007 Ksh'000
CAPITAL EMPLOYED			
Share capital	11	[redacted]	1
Share premium	11	[redacted]	3,849,999
Retained earnings		[redacted]	24,939,307
Proposed dividend	10	[redacted]	4,000,000
Shareholders' funds		[redacted]	32,789,307
Non-current liabilities			
Borrowings	13	[redacted]	10,435,000
		[redacted]	43,224,307
REPRESENTED BY:			
Non-current assets			
Property and equipment	15	[redacted]	42,731,653
Intangible assets	17	[redacted]	2,368,083
Deferred income tax	14	[redacted]	1,156,272
Prepaid operating lease rentals	16	[redacted]	2,487
		[redacted]	46,258,495
Current assets			
Inventories	18	[redacted]	1,234,645
Receivables and prepayments	19	[redacted]	3,027,407
Cash and cash equivalents	20	[redacted]	5,887,692
		[redacted]	10,149,744
Current liabilities			
Payables and accrued expenses	21	[redacted]	12,390,146
Current income tax		[redacted]	754,046
Derivative financial instruments	12	[redacted]	39,740
Borrowings	13	[redacted]	-
		[redacted]	13,183,932
Net current liabilities		[redacted]	(3,034,188)
		[redacted]	43,224,307

The financial statements on pages 21 to 56 were approved for issue by the board of directors on 27 May 2008 and signed on its behalf by:

Director

Director

Statement of **changes in equity**

	Notes	Share capital Ksh'000	Share premium Ksh'000	Retained earnings Ksh'000	Proposed dividends Ksh'000	Total Ksh'000
Year ended 31 March 2007						
At start of year	11	[redacted]	3,849,999	[redacted]	2,991,673	[redacted]
Profit for the year		[redacted]	-	[redacted]	-	[redacted]
Dividends:						
- Final for 2006 paid		[redacted]	-	[redacted]	(2,991,673)	[redacted]
- Proposed for 2007		[redacted]	-	[redacted]	4,000,000	[redacted]
At end of year		[redacted]	3,849,999	[redacted]	4,000,000	[redacted]
Year ended 31 March 2008						
At start of year	11	[redacted]	3,849,999	[redacted]	4,000,000	[redacted]
Bonus issue of shares	11	[redacted]	(1,999,999)	[redacted]	-	[redacted]
		[redacted]	1,850,000	[redacted]	4,000,000	[redacted]
Profit for the year		[redacted]	-	[redacted]	-	[redacted]
Dividends:						
- Paid for 2007	10	[redacted]	-	[redacted]	(4,000,000)	[redacted]
- Proposed for 2008	10	[redacted]	-	[redacted]	2,000,000	[redacted]
At end of year		[redacted]	1,850,000	[redacted]	2,000,000	[redacted]

Cash flow **Statement**

	Notes	Year ended 31 March 2008 Ksh'000	2007 Ksh'000
Operating activities		[redacted]	
Cash generated from operations	24	[redacted]	26,289,379
Interest received	8	[redacted]	258,218
Interest paid	8	[redacted]	(434,968)
Income tax paid		[redacted]	(5,002,181)
Net cash generated from operating activities		[redacted]	21,110,448
Investing activities		[redacted]	
Purchase of property and equipment	15	[redacted]	(16,337,975)
Purchase of intangible assets	17	[redacted]	(15,000)
Proceeds from disposal of property and equipment		[redacted]	21,164
Net cash used in investing activities		[redacted]	(16,331,811)
Financing activities		[redacted]	
Proceeds from long-term borrowings	13	[redacted]	1,200,000
Repayments on long-term borrowings	13	[redacted]	(16,726)
Dividends paid to shareholders	10	[redacted]	(2,991,673)
Net cash used in financing activities		[redacted]	(1,808,399)
Net (decrease)/increase in cash and cash equivalents		[redacted]	2,970,238
Movement in cash and cash equivalents		[redacted]	
At start of year		[redacted]	2,917,454
(Decrease)/increase		[redacted]	2,970,238
At end of year	20	[redacted]	5,887,692

1. General information

Safaricom Limited was incorporated in Kenya on 3 April 1997 under the Companies Act as a private limited liability company, and is domiciled in Kenya. It was converted into a public company with limited liability on 16 May 2002. On incorporation, 60% of the Company's ordinary issued share capital was held by Telkom Kenya Limited. Telkom Kenya Limited was then a state corporation under the State Corporations Act.

By virtue of the 60% shareholding held by the Government of Kenya, Safaricom is a state corporation within the meaning of the State Corporations Act (Chapter 446) Laws of Kenya, which defines a state corporation to include a company incorporated under the Companies Act which is owned or controlled by the Government or a state corporation.

The relationship between the Company and its shareholders is defined by the Company's Articles of Association and the Co-operation and Shareholders Agreement dated 25 January 1999. This Shareholders Agreement was amended ("the Amending Agreement") on 21 November 2007. This facilitates Government of Kenya's intention to offer shares of Safaricom to the public by way of this initial public offering of shares.

Under the terms of a share sale agreement dated 8 November 2007, Telkom Kenya Limited sold all its shares in the Company to the Government of Kenya free from all claims or encumbrances.

Through a special resolution of the Board of Directors on 20 December 2007, the ordinary shares of the Company as held by Telkom Kenya Limited were transferred to the Government of Kenya through the Permanent Secretary to the Treasury.

Further, the parties to the Amending Agreement agreed that following the initial public offer, Vodafone Kenya Limited and the Government of Kenya (or a Government of Kenya entity) could sell further shares in the Company to the public or to a strategic investor subject to obtaining all regulatory approvals and consents and to a right of first refusal in favour of the shareholder not wishing to sell.

In accordance with the Government of Kenya's policy of divesting its ownership in public enterprises, the Government of Kenya through the Treasury Department, on 28 March 2008 made available to the public 10,000,000,000 of the existing ordinary shares of par value Ksh 0.05 each, of the Company. This represents 25% of the total issued share capital of Safaricom from the Government of Kenya's shareholding in Safaricom Limited.

Following the sale of the 25% of the issued ordinary shares of the Company to the public, the Government of Kenya shall cease to have a controlling interest in Safaricom Limited as defined under the State Corporations Act. The Company shall therefore cease to be a state corporation and the provisions of the State Corporations Act shall no longer apply to it.

It is expected that trading in the Company's shares will commence on 9 June 2008.

The address of the registered office of the Company 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 certain critical accounting estimates. 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 2007, the following 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 comparative figures have been restated as required, in accordance with the relevant requirements.

- 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 relating to financial instruments. This standard does not have any impact on the classification or measurement of the Company's financial instruments.

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

The following amendment to an existing standard and new standard and interpretations will be mandatory for the Company's accounting periods beginning on or after 1 January 2008, but which the Company has not early adopted:

- *IFRIC 11 – Company and Treasury Share Transactions* – from 1 January 2008
- *IFRIC 12 – Service Concession Arrangements* – from 1 January 2008
- *IFRIC 13 – Customer Loyalty Programmes* – from 1 July 2008
- *IFRS 8 – Operating segments* – from 1 January 2009
- *IAS 23 – Borrowing costs (revised)* – from 1 January 2009.

The Directors have assessed the relevance of these amendments and interpretations with respect to the Company's operations and concluded that they are not relevant to the Company, other than IFRIC 13, IFRS 8 and IAS 23.

Summary of significant accounting policies (continued)

b) Functional currency and translation of foreign currencies

The Company's financial statements are presented in Kenya Shillings, being the currency of the primary economic environment in which the Company operates.

Foreign currency transactions are translated 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.

(c) Revenue recognition

The company is the principal in the sale of airtime for use in voice and data transmission. Phones, starter packs and other accessories are sold through dealers and retail centres spread across the country. Starter packs consist of a SIM card and information brochures. There is no right of return for SIM cards.

There are various pre-pay tariffs with varied off peak time and varied on-net and off-net costs which are available to our subscribers to suit their varied requirements. The tariffs are Saasa, Super Tariffic, Jambo and Super Taifa. Post pay tariffs are also available for subscribers who opt to pay their bills at the end of the month. Several propositions dubbed "Advantage" are available to suit both individuals and corporate customers.

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

Revenue arising from the different service plans and tariffs are recognised as and when the airtime is used by the customer.
All un-utilised airtime is accounted for as deferred revenue on the balance sheet.

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

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

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

Management makes an accrual for points that had not been redeemed as at the balance sheet date based on the historical redemption patterns established by subscribers. Based on the current redemption patterns, 85% of the customers redeem points through air time which costs Ksh 0.2 per point to the Company while 15% redeem points through merchandise at a cost of Ksh 0.65 per point to the Company. The cost excludes Value Added Tax (VAT) and Excise Duty.

Promotion costs are accounted for in which the period the promotion is carried out.

Summary of significant accounting policies (continued)

(d) Property and equipment

All categories of property 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 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
Equipment and motor vehicles	3 - 5 years
Leasehold improvements	Shorter of life of lease or useful life of the asset

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

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

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

(e) Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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

Summary of significant accounting policies (continued)

(f) Intangible assets

A network licence is a requirement of the Communications Commission of Kenya for mobile telephone companies. The licence is renewable for an additional 15 years upon their lapse.
Network licence fees are capitalised at cost and amortised over the period of the licence on a straight-line basis from commencement of the service of the network.

Currently, the Company has three licences under long term licences, as follows:

- The initial operating licence issued in July 1999 (for operation of mobile systems and the provision of mobile services (ML-99-0001));
- The international gateway licence issued in June 2006; and
- The 3G licence issued in October 2007.

The international gateway and 3G licences operate under the same umbrella as the original licence, 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 period 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 switched to a straight line basis and the remaining net book value was amortised over the remaining useful life.

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

(g) 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.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of inventories comprises purchase price and other incidental costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.
Network spares are used to refurbish the network. The Company has a contract with the supplier to repair faulty spares and return them in a near-new condition. For this service, a unit repair price is paid to the supplier based on the spares log.

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

Summary of significant accounting policies (continued)

(i) 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 estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. There are no bank overdrafts for any of the periods presented.

(k) Payables

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

(l) Share Capital

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

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

(m) Accounting for derivative financial instruments and hedging activities

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

(n) 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.

Summary of significant accounting policies (continued)

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.

(o) 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 nor loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

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

(p) 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 profit and loss account over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are 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 debt and equity market prices, 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.

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

Market risk

(i) Foreign exchange risk

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

The Company 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 2008, if the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, pre tax profit for the year would have been Ksh 237 million (2007: Ksh 18 million) lower/higher, mainly as a result of US dollar payables and bank balances.

At 31 March 2008, if the Shilling had weakened/strengthened by 5% against the Euro with all other variables held constant, pre tax profit for the year would have been Ksh 293 million (2007: Ksh 128 million) lower/higher, mainly as a result of Euro payables and bank balances.

(ii) Price risk

The Company does not hold investments that would be subject to price risk; hence this risk is not relevant.

(iii) Cash flow and fair value interest rate risk

The Company holds interest bearing assets in form of call and fixed deposits. The Company also has borrowings in the form of a syndicated loan at rates determined quarterly in advance. As at 31 March 2008, an increase/decrease of 10 basis points would have resulted in a decrease/increase in pre-tax profit of Ksh 10.5 million.

Financial risk management objectives and policies (continued)

(iv) Credit risk

Credit risk is managed on a Company-wide basis. Credit risk arises from cash equivalents, deposits with banks, as well as trade and other receivables. The Company's 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 Company. Dealers operate either on cash basis or on credit following successful application of the credit facility. All credit limits are supported by a bank guarantee and/or residual commissions. The credit risk associated with these dealers is low. This is supported by stringent review of account balances.

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

The Company currently has 302 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 Company to terminate their calls on the Company's network for visitors travelling into Kenya. Amounts due from the roaming partners are settled within 60 days unless a dispute arises. Disputes are handled by MACH, a roaming clearing house.

The Company has also signed interconnect agreements with partners such as Celtel Kenya Limited, Telkom Kenya Limited and Belgacom Telecommunications to terminate calls to and from other networks on the Company'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 Company.

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 Company's maximum exposure to credit risk as at 31 March 2008 is Ksh 5,291,505,000 (2007: Ksh 5,884,555,000) being the aggregate of cash equivalents and receivables, excluding prepayments.

Financial risk management objectives and policies (continued)

This is made up as follows:

Receivables

31 March 2008	Fully performing Ksh'000	Past due but not impaired Ksh'000	Impaired Ksh'000	Total Ksh'000
Dealers	[redacted]	262,186	[redacted]	772,550
Post-pay		905,864		946,679
Roaming and interconnect		229,254		1,241,516
Amounts due from related parties		-		428,758
Other receivables		-		855,388
Total		1,397,304		4,244,891
31 March 2007	[redacted]		[redacted]	
Dealers		121,670		362,946
Post-pay		787,516		672,089
Roaming and interconnect		112,692		318,638
Amounts due from related parties		135,381		472,426
Other receivables		-		501,968
Total		1,157,259		2,328,067

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid. The credit control department is actively following this debt. In addition, the Company has bank guarantees of Ksh 573 million and Ksh 362 million as at March 2008 and March 2007 respectively, which can be enforced in the event of customer default. Further, for dealers, the debt is partially covered by future residual commission payments.

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

The Company has an elaborate ageing system for monitoring its receivables. Dealers' transactions and credit positions are closely monitored. All fully performing balances are within 90 days. The other categories are mainly over 90 days.

Cash equivalents

	Fully performing Ksh'000
Cash equivalents as at:	
31 March 2008	1,046,614
31 March 2007	3,556,488

Cash equivalents are fully performing.

Financial risk management objectives and policies (continued)

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash to meet Company obligations. The treasury function reviews the cash forecast monthly and determines cash requirement. Cash generated from operations is healthy but if a heavy cash requirement is necessary a draw down of the syndicated loan can be made. The limit of the loan was Ksh 12 billion and the amount disbursed to date is Ksh 9.2 billion. The undrawn facility lapsed on 31 March 2008.

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

	Less than 1 month	Between 1 – 3 months	Between 3 – 12 months	Total
	Ksh'000	Ksh'000	Ksh'000	Ksh'000
At 31 March 2008:				
- borrowings: bank borrowings	360,000	[redacted]	6,840,000	[redacted]
- income tax payable	-		107,041	
- trade and other payables	2,011,401		15,720,720	
	2,371,401		22,667,761	
At 31 March 2007:				
- borrowings: shareholder loans	-	[redacted]	4,235,000	[redacted]
- borrowings: bank borrowings	-		6,453,739	
- income tax payable	-		754,046	
- trade and other payables	9,919,977		470,544	
- derivative financial instruments	39,740		-	
	9,959,717		11,913,329	

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's 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.

On 6 November, 2007, the Company adopted 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.

Financial risk management objectives and policies (continued)

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

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

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

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

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

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

The constitution of capital managed by Safaricom is as shown below:

	2008 Ksh'000	2007 Ksh'000
Share capital	2,000,000	[redacted]
Share premium	1,850,000	[redacted]
Retained earnings	36,792,593	[redacted]
Proposed dividends	2,000,000	[redacted]
Equity	42,642,593	[redacted]
Total borrowings	9,199,048	[redacted]
Less: cash and cash equivalents	(5,534,509)	[redacted]
Net debt	3,664,539	[redacted]
Total capital	46,307,132	[redacted]
Gearing	8%	[redacted]

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.

(i) Critical accounting estimates and assumptions

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.

(ii) 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 obsolescence of inventory.
Provision for bad debts is made after failure of the customer to pay and assessment of his ability to settle the debt in future.
In preparing its tax computation, management has assumed that the licence fee payments are tax deductible.

(iii) Critical judgement on going concern

The Company's current liabilities exceed its current assets by Ksh 12,356,282,000 at the balance sheet date. The current position is expected to be representative of net current liability positions in the near future. However, the Company continues to grow its revenue and generate cash annually as supported by the long term plans of the business.

Management reviews the cash forecast monthly and determines its cash requirements. The company aims to minimise funds tied up in working capital, but whilst ensuring that the company has sufficient financial ability to meet its liabilities as they fall due.

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.

5 Analysis of sales by category

	2008 Ksh'000	2007 Ksh'000
Voice	54,203,251	[redacted]
SMS and other data	4,607,085	
Equipment sales and other acquisition revenues	1,814,914	
Other	744,158	
	61,369,408	

6 Operating profit

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

	2008 Ksh'000	2007 Ksh'000
Depreciation on property and equipment (Note 15)	9,252,677	[redacted]
Employee benefits expenses (Note 7)	1,961,876	
Sales and advertising	2,212,743	
Amortisation of intangible assets (Note 17)	430,452	
Travel and accommodation	431,739	
Consultancy	212,718	
Utilities	141,151	
Computer support	266,653	
Operating lease rentals		
- buildings	187,010	
- sites (Note 16)	232,007	
Receivables – provision for impairment losses	106,176	
Write down of inventories	149,888	
Repairs and maintenance expenditure on property and equipment	125,677	
Auditor's remuneration	18,400	
Office upkeep	264,128	
Other operating expenses	845,378	
	16,838,673	

The value of inventories that have been expensed within cost of sales amount to Ksh 3,346,477,000 (2007: Ksh 1,925,756,000).

7 Employee benefits expense

The following items are included within employee benefits expense:

	2008 Ksh'000	2007 Ksh'000
Salaries and wages	1,852,799	[redacted]
Retirement benefits costs:		
- Defined contribution scheme	105,191	
- National Social Security Fund	3,886	
	1,961,876	

8 Finance income/(costs)

	2008 Ksh'000	2007 Ksh'000
Finance income		[redacted]
Foreign exchange gain on shareholders' loans	731,500	
Interest income	1,486,256	
	2,217,756	
Finance costs		
Interest expense	(588,535)	
Foreign exchange losses	(153,236)	
	(741,771)	
Net finance income/(costs)	1,475,985	

9 Income tax expense

	2008 Ksh'000	2007 Ksh'000
Current income tax	6,315,491	[redacted]
Deferred income tax (Note 14)	(223,617)	
Income tax expense	6,091,874	

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:

	2008 Ksh'000	2007 Ksh'000
Profit before income tax	19,945,160	[redacted]
Tax calculated at the statutory income tax rate of 30% (2007 – 30%)	5,983,548	
Tax effect of:		
Expenses not deductible for tax purposes	84,829	
Under-provision of deferred tax in prior year	23,497	
Income tax expense	6,091,874	

10 Earnings and dividends per share

Basic earnings per share is calculated on the profit attributable to the members of Safaricom Limited and on the shares in issue at the years ended 31 March 2008 and 2007.

The Company had no potentially dilutive shares outstanding at 31 March 2008 and 31 March 2007.

i) Basic and diluted earnings per share

	2008 Ksh'000	2007 Ksh'000
Profit for the year (Ksh '000)	13,853,286	[redacted]
Number of shares (thousands)	40,000,000	
Earnings per share (Ksh) - Basic	0.346	

Earnings and dividends per share (continued)

ii) Dividends per share

No interim dividend was paid during the year (2007: Nil). The directors recommend the payment of a final dividend of Ksh 2,000,000,000 (2007: Ksh 4,000,000,000).

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

	2008 Ksh'000	2007 Ksh'000
Dividends for the year (Ksh '000)	2,000,000	[redacted]
Number of shares (thousands)	40,000,000	
Dividends per share (Ksh)	0.050	

11 Share Capital

	Number of shares	Ordinary shares Ksh'000	Share premium Ksh'000
Balance as at 1 April 2006 and 2007 Ordinary shares (at Ksh 0.10 par value)	10,000	1	[redacted]
Effect of reduction in par value to Ksh 0.05 from Ksh 0.10 each	10,000	-	
Issue of bonus shares and appropriation of share premium	39,999,980,000	1,999,999	
Balance as at 31 March 2008	40,000,000,000	2,000,000	

	Number of shares	Ordinary shares Ksh'000
Balance as at 1 April 2006, 1 April 2007 and 31 March 2008 - Non-voting, redeemable preference shares (at Ksh 4 each)	5	[redacted]

By special resolution of the Company dated 4 March 2008, the par value of the ordinary shares of the Company part of which had been issued and fully paid, were subdivided from Ksh 0.10 each to Ksh 0.05 each.

Share capital (continued)

The authorised nominal share capital of the Company was increased from Ksh 2,000,000 divided into 39,999,600 ordinary shares of Ksh 0.05 each to Ksh 6,000,000,000 by the creation of 119,960,000,000 new shares of Ksh 0.05 each ranking pari passu in all respects with the existing ordinary shares in the capital of the Company.

The shareholders of the Company registered as at 21 December 2007 were subsequently allotted 39,999,980,000 bonus ordinary shares at the rate of 1,999,999 ordinary shares for every one ordinary share held. The consideration for the bonus shares allotted is the capitalisation of Ksh 1,999,999,000 of the share premium account as at 30 September 2007.

Each of the five non-voting non-participating deferred shares of Ksh 4 each were converted into non-voting redeemable preference shares of Ksh 4 each. 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.

As a result of this special resolution, the total authorised number of shares is as follows:
- 119,999,999,600 ordinary shares with a par value of Ksh 0.05 per share; and
- 5 non-voting non-participating redeemable preference shares of Ksh 4 each.

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

12 Derivative financial instruments

	2008 Ksh'000	2007 Ksh'000
Forward foreign exchange contracts - liability	-	[redacted]

The Company had entered into forward exchange contract agreements with a local bank to buy foreign currency at specified dates to enable it pay its foreign suppliers when the amounts are due. The contracts ran to 31 March 2008 and were settled gross.

13 Borrowings

The borrowings are made up as follows:

	2008 Ksh'000	2007 Ksh'000
Non-current		
Bank borrowings	6,480,000	[redacted]
Loans from shareholders (Note 25)	-	
	6,480,000	
Current		
Bank borrowings	2,719,048	
	9,199,048	

Borrowing (continued)

Movement in borrowings

	1.4.2007 Ksh'000	Repayments Ksh'000	Borrowing Ksh'000	31.3.2008 Ksh'000
Bank borrowings	6,200,000	[redacted]	2,999,048	[redacted]
Shareholders loans	4,235,000	[redacted]	-	[redacted]
Total	10,435,000	[redacted]	2,999,048	[redacted]

	1.4.2006 Ksh'000	Repayments Ksh'000	Borrowing Ksh'000	31.3.2007 Ksh'000
Bank borrowings	5,016,726	[redacted]	1,200,000	[redacted]
Shareholders loans	4,235,000	[redacted]	-	[redacted]
Total	9,251,726	[redacted]	1,200,000	[redacted]

The Company had a loan facility of Ksh 12 billion from a syndicate of international banks. The loan was secured by a fixed and floating charge over the property and assets, both present and future. The shareholders had guaranteed the loans and had also pledged 40% of their shares in the Company as security to the lenders. As at 31 March 2008, the total amount drawn down was Ksh 9.2 billion. The undrawn facility lapsed on 31 March 2008.

The loan period was five years and repayment on the principal will start in April 2008, with Ksh 2,719 million repayable within the next 12 months. The interest on the 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 8.16% (2007: 7.63%).

The carrying amounts of non current borrowings approximate to their fair value.

Shareholder loans

The shareholder loan comprised a loan of USD 33 million made by Telkom Kenya Limited and another of USD 22 million made by Vodafone Kenya Limited in May 2000. The conditions of the loans were that they would be converted into equity so they were considered to be investments hence not repayable to the lenders. The loans were non-interest bearing.

The loans were repaid in December 2007 translated at Ksh 63.70 to the USD resulting in a transaction gain of Ksh 731,500,000. This exchange difference has been dealt with in the profit and loss account.

14 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2007: 30%). The movement on the deferred income tax account is as follows:

	2008 Ksh'000	2007 Ksh'000
At start of year	1,156,272	[redacted]
Credit to profit and loss account (Note 9)	223,617	
At end of the year	1,379,889	

Deferred income tax assets and liabilities and deferred income tax charge/(credit) in the profit and loss account as at 31 March 2008 are attributable to the following items:

	1.4.2007 Ksh'000	(Credit)/ Charge to P&L Ksh'000	31.3.2008 Ksh'000
Deferred income tax assets	[redacted]		[redacted]
Property and equipment		(287,770)	
Unrealised exchange loss		(32,880)	
Provisions for doubtful debts and inventory		49,345	
		(271,305)	
Deferred income tax liabilities			
Unrealised exchange gains		47,688	
Net deferred income tax asset		(223,617)	

15 Property and equipment

	Network infrastructure	Capital work in progress	Leasehold Improvements	Vehicles & equipment	Total
	Ksh'000	Ksh'000	Ksh'000	Ksh'000	Ksh'000
At 1 April 2007					
Cost	[redacted]	5,469,446	[redacted]	3,891,063	[redacted]
Accumulated depreciation	[redacted]	-	[redacted]	(2,052,391)	[redacted]
Net book amount	[redacted]	5,469,446	[redacted]	1,838,672	[redacted]
Year ended 31 March 2008					
Opening net book amount	[redacted]	5,469,446	[redacted]	1,838,672	[redacted]
Additions	[redacted]	15,936,572	[redacted]	633,484	[redacted]
Transfers	[redacted]	(15,097,745)	[redacted]	702,978	[redacted]
Disposals	[redacted]	(205)	[redacted]	(7,695)	[redacted]
Depreciation charge	[redacted]	-	[redacted]	(901,864)	[redacted]
Closing net book amount	[redacted]	6,308,068	[redacted]	2,265,575	[redacted]
At 31 March 2008					
Cost	[redacted]	6,308,068	[redacted]	5,219,830	[redacted]
Accumulated depreciation	[redacted]	-	[redacted]	(2,954,255)	[redacted]
Net book amount	[redacted]	6,308,068	[redacted]	2,265,575	[redacted]

Notes continued

Property and equipment (continued)

	Network infrastructure Ksh'000	Capital work in progress Ksh'000	Leasehold improvements Ksh'000	Vehicles & equipment Ksh'000	Total Ksh'000
At 1 April 2006	[redacted]		[redacted]		[redacted]
Cost	[redacted]	4,995,302	[redacted]	2,312,431	[redacted]
Accumulated depreciation	[redacted]	-	[redacted]	(1,484,175)	[redacted]
Net book amount	[redacted]	4,995,302	[redacted]	828,256	[redacted]
Year ended 31 March 2007	[redacted]		[redacted]		[redacted]
Opening net book amount	[redacted]	4,995,302	[redacted]	828,256	[redacted]
Additions	[redacted]	4,012,011	[redacted]	1,171,999	[redacted]
Transfers	[redacted]	(3,537,867)	[redacted]	408,870	[redacted]
Disposals	[redacted]	-	[redacted]	(2,237)	[redacted]
Depreciation charge	[redacted]	-	[redacted]	(568,216)	[redacted]
Closing net book amount	[redacted]	5,469,446	[redacted]	1,838,672	[redacted]
At 31 March 2007	[redacted]		[redacted]		[redacted]
Cost	[redacted]	5,469,446	[redacted]	3,891,063	[redacted]
Accumulated depreciation	[redacted]	-	[redacted]	(2,052,391)	[redacted]
Net book amount	[redacted]	5,469,446	[redacted]	1,838,672	[redacted]

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.

Prepaid operating lease rentals (continued)

The analysis of prepaid operating lease rentals is as follows:

	2008 Ksh'000	2007 Ksh'000
At start of year	262,393	[redacted]
Additions	299,621	
Amortisation charge for the year	(232,007)	
At end of year	330,007	
Current portion reflected in prepayments	(322,891)	
Non current portion	7,116	

17 Intangible assets – Licence fees

	2008 Ksh'000	2007 Ksh'000
Cost		
At start of year	4,250,000	[redacted]
Additions	1,673,750	
At end of year	5,923,750	
Accumulated amortisation		
At start of year	1,881,917	
Charge for the year	430,452	
At end of year	2,312,369	
Net book value at end of year	3,611,381	

The addition in the year related to the 3G licence which was awarded in October 2007. The useful life of this licence is the remaining useful life of the original licence, ML-99-0001.

The 3G network has already been available to Nairobi subscribers, although commercial launch is planned for April/May 2008.

18 Inventories

	2008 Ksh'000	2007 Ksh'000
Network spare parts	1,446,862	[redacted]
Less: Provision for impairment losses	(401,123)	
	1,045,739	
Handsets and accessories	630,303	
Scratch cards	161,096	
Starter packs	410,321	
Stationery and other stocks	36,721	
	2,284,180	

Movements on the provision for impairment for losses are as follows:

	2008 Ksh'000	2007 Ksh'000
At start of year	251,235	[redacted]
Provision in the year	149,888	
At end of year	401,123	

19 Receivables and prepayments

	2008 Ksh'000	2007 Ksh'000
Trade receivables	3,373,732	[redacted]
Less: Provision for impairment losses	(412,987)	
	2,960,745	
Prepayments	823,858	
Amounts due from related companies (Note 25)	428,758	
Other receivables	855,388	
	5,068,749	

The carrying amounts of receivables and prepayments approximate their fair value.

Receivables and prepayments (continued)

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

	2008 Ksh'000	2007 Ksh'000
At start of year	306,811	[redacted]
Provision in the year	115,835	[redacted]
Receivables written off as uncollectible	(9,659)	[redacted]
At end of year	412,987	[redacted]

20 Cash and cash equivalents

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

	2008 Ksh'000	2007 Ksh'000
Cash at bank and in hand	4,487,895	[redacted]
Short term bank deposits	1,046,614	[redacted]
	5,534,509	[redacted]

The weighted average effective interest rate on short-term bank deposits at the year-end was 6.44% (2007: 5.0 %).

21 Payables and accruals

	2008 Ksh'000	2007 Ksh'000
Trade payables	10,118,657	[redacted]
Accrued expenses	8,936,961	[redacted]
Amounts due to related parties (Note 25)	1,323,757	[redacted]
Other payables	2,038,256	[redacted]
	22,417,631	[redacted]

Accrued expenses relate to network infrastructure equipment which has been received but not invoiced. Other payables include other accruals such as taxes payable and other payables such as customer deposits and deferred revenue.

22 Contingent liabilities

A guarantee of Ksh 8,000,000 has been given to banks against credit cards for staff use during business travel.

23 Commitments

Capital commitments

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

	2008 Ksh'000	2007 Ksh'000
Property and equipment	1,685,461	[redacted]
The East African Marine System (TEAMS)	69,133	
	1,754,594	

TEAMS (The East African Marine System) is an initiative spearheaded by the Government of Kenya to link the country to the rest of the world through a submarine fibre optic cable. The submarine fibre-optic cable shall link Mombasa, Kenya to Fujairah, United Arab Emirates.

Construction of the cable commenced in January 2008 on the Emirates' side and is expected to be completed in June 2009. The cable will be owned by TEAMS Limited and Emirates Telecommunication Establishment (Etisalat) at 85% and 15% respectively.

TEAMS Limited will be owned by Government of Kenya, Safaricom Limited, Telkom Kenya Limited and other local telecommunications companies.
The use of the undersea cable is expected to result in a reduction in costs of accessing the Internet within the East African countries by up to a 33% over five years and stimulate investment in the region.

The Company had committed to pay a deposit of US$ 1.1 million in April 2008 in order to participate in the project.

Operating lease commitments

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

	2008 Ksh'000	2007 Ksh'000
Not later than 1 year	287,607	[redacted]
Later than 1 year and not later than 5 years	1,236,571	
Later than 5 years	980,216	
	2,504,394	

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

	2008 Ksh'000	2007 Ksh'000
Profit before income tax	19,945,160	[redacted]
Adjustments for:		
Interest income (Note 8)	(1,486,256)	
Interest expense (Note 8)	588,535	
(Settlement)/changes in fair value loss on financial instruments (Note 12)	(39,740)	
Depreciation (Note 15)	9,252,677	
Prepayment of operating lease rentals (Note 16)	(299,621)	
Amortisation of prepaid operating lease rentals (Note 16)	232,007	
Amortisation of intangible assets (Note 17)	430,452	
Profit on sale of property and equipment	(4,820)	
Changes in working capital:		
– receivables and prepayments	(1,978,357)	
– inventories	(1,049,535)	
– payables and accrued expenses	10,027,485	
Cash generated from operations	35,617,987	

Related party transactions

Through a special resolution of the Board of Directors on 20 December 2007, the ordinary shares of the Company as held by Telkom Kenya Limited were transferred to the Government of Kenya through the Permanent Secretary to the Treasury.

At 31 March 2008, the Company has two shareholders: Government of Kenya and Vodafone Kenya Limited whose ultimate parent is Vodafone Group Plc incorporated in the United Kingdom.

By virtue of the 60% shareholding held by the Government of Kenya, Safaricom is a state corporation within the meaning of the State Corporations Act (Chapter 446) Laws of Kenya, which defines a state corporation to include a company incorporated under the Companies Act which is owned or controlled by the Government of Kenya or a state corporation.

The Company has roaming agreements with Vodafone International Holdings B.V. affiliated companies in many countries around the world. The Company also has a Kama Kawaida contract with Vodacom Tanzania Limited, a Company that is controlled by Vodacom Group (Pty) Limited, a company in which Vodafone Group Plc. has a 50% indirect interest.

Related party transactions (continued)

In March 2007, the Company, in conjunction with Vodafone Group Services Limited through Vodafone Marketing S.A.R.L., the licensee, launched M-PESA. This is an innovative new mobile payment solution that enables users to complete simple financial transactions by mobile phone.

Vodafone Group Services Limited, which owns the M-PESA solution, has entered into a Managed Services Agreement with the Company under which Vodafone agrees to provide the M-PESA solution to Safaricom as a managed service and Safaricom agrees to market and offer the M-PESA services throughout the country. To ensure protection of customers' funds, a limited company was established, the M-PESA Holding Company Limited.

M-PESA Holding Company Limited is a company whose primary purpose is to open a bank account that can be used to hold the customers' funds in trust and from which the M-PESA accounting software will operated to enable payments. The creation of this company ensures that the customers' funds at all times remain the property of the customer and are only held on trust by the MPESA Holding Company.

The Company signed an agreement with Vodafone Marketing S.A.R.L. (VMS), a company incorporated in Luxembourg. The agreement is effective from 1 October 2006 to 30 September 2010.

The agreement sets out the framework under which the two companies work together in Kenya with a view to increasing international roaming revenue by marketing, promoting and advertising Vodafone Global Products & Services under the Vodafone brand that was provided to Safaricom.

For the year ended 31 March 2008, Safaricom shall pay Vodafone a participation fee of 0.8% of the Company's total annual revenue for the six-months ended 30 September 2007 and 0.5% of the Company's total annual revenue for the six-months ended 31 March 2008 (capped at EUR 1.05 million).

For all other financial years during the term of the agreement, the Company shall pay Vodafone a participation fee of the lower of 0.5% of the Company's total annual revenue or EUR 2.1 million.

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

The following transactions were carried out with related parties:

i) Sale of services

	2008 Ksh'000	2007 Ksh'000
Telkom Kenya Limited	1,421,682	[redacted]
Vodafone International Holdings B.V.	157,980	
Vodacom Tanzania	126,538	
	1,706,200	

Related party transactions (continued)

ii) Purchase of services

Telkom Kenya Limited	964,935	[redacted]
Vodafone Marketing S.A.R.L.	1,107,719	
Vodacom Tanzania	155,933	
	2,228,587	

iii) Key management compensation

Salaries and other short-term employment benefits	277,644	[redacted]

iv) Directors' remuneration

Fees for services as a director	230	[redacted]
Other emoluments to non-executive directors	944	
	1,174	

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

	2008 Ksh'000	2007 Ksh'000
Amounts due from:		
- Telkom Kenya Limited	-	[redacted]
- Vodafone International Holdings B.V.	-	
- M-PESA Holding Company Limited	417,340	
- Vodacom Tanzania	10,713	
- Vodafone Kenya Limited	705	
	428,758	

Related party transactions (continued)

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

	2008 Ksh'000	2007 Ksh'000
Amounts due to:		
- Vodafone Group Services Limited	96,029	[redacted]
- Vodafone Ireland Marketing Limited	144,041	[redacted]
- Vodafone Marketing S.A.R.L.	712,239	[redacted]
- Vodafone (UK) Limited	86,688	[redacted]
- Telkom Kenya Limited	284,760	[redacted]
	1,323,757	[redacted]

vi) Loans from shareholders

- Telkom Kenya Limited	-	[redacted]
-Vodafone Kenya Limited	-	[redacted]
	-	[redacted]

The shareholder loan comprises a loan of USD 33 million made by Telkom Kenya Limited and another of USD 22 million made by Vodafone Kenya Limited in May 2000. The conditions of the loans were that they would be converted into equity so they were considered to be investments hence not repayable to the lenders. The loans are non-interest bearing. The loans were repaid in December 2007.

vii) Loans to directors of the company

There were no loans to directors of the Company at 31 March 2008 and 31 March 2007.

viii) Contingencies

The Company had no guarantees on bank loans to its related parties at 31 March 2008 and 31 March 2007.

26 Events after the balance sheet date

In accordance with the Government of Kenya policy of divesting its ownership in public enterprises, the Government of Kenya through the Treasury Department, on 28 March 2008, made available to the public 10,000,000,000 of the existing ordinary shares of par value Ksh 0.05 each, of Safaricom Limited. This represents 25% of the total issued share capital of Safaricom from the Government of Kenya's shareholding in the Company.

The Capital Markets Authority ("CMA") granted permission for the public offering and listing of the 40,000,000,000 issued ordinary shares of the Company on the Main Investment Market Segment at the Nairobi Stock Exchange ("NSE"). The Cabinet of the Government of Kenya also approved the pubic offering such that its shareholding after the conclusion of the Offer is expected to be 35%.

No objection was raised by the Board of Directors of the Company on the public offering.

The shares, as purchased by the public during the IPO, carry the right to participate in all future dividends to be declared and paid on the ordinary share capital of the Company, after the listing. The shares rank pari passu with the other ordinary shares of Safaricom and each ordinary share carries one vote at a general meeting of the Company.

Following the sale of the 25% of the issued ordinary shares of the Company to the public, the Government of Kenya shall cease to have a controlling interest in Safaricom Limited as defined under the State Corporations Act. The Company shall therefore cease to be a state corporation and the provisions of the State Corporations Act shall no longer apply to it.

It is expected that trading in the Company's shares will commence on 9 June 2008 on the Nairobi Stock Exchange. The proceeds from the public offering shall accrue, in whole, to the Government of Kenya.

Vodafone Kenya Limited, which currently owns 40% of the Company, is considered to be a foreign investor under the regulations. If foreign ownership in a company is 75% at the time of listing on the NSE, the foreign owner is allowed to maintain (or reduce) but not to increase its shares. Foreign investors may be allowed to increase their investment with prior written approval from the CMA if the shares reserved for local investors are not fully subscribed. However, as a result of these restrictions, there may be reduced liquidity in the Company's shares for certain investors.

Vodafone Kenya Limited, the other shareholder, has not disclosed an intention to dispose of any part of its 40% shareholding in the Company.

Vodafone Kenya Limited and the Government of Kenya, each having a significant ownership in the Company can, and, following completion of the Offer are each expected to continue to be able to, exercise control or influence over the Company's management and affairs, including:

- the composition of the Company's Board of Directors and through it, any determination with respect to the Company's business direction and policies, including the appointment and removal of officers and the declaration of dividends;
- the determination and allocation of business opportunities that may be suitable for the Company;
- the Company's acquisition or disposition of assets; and
- the Company's financing.

The Company intends to adopt an employee share option plan following the initial public offer. This employee share option plan will be funded through either open market purchases, if permitted, or from the issuance of authorised but not issued ordinary shares of the Company.

Principal shareholders and share distribution

At 31 March 2008, the Company has two shareholders: Government of Kenya and Vodafone Kenya Limited. The respective number of shares held as at 31 March 2008, are as follows:

	Name of shareholder	Number of shares	% shareholding
1.	Government of Kenya, through the Permanent Secretary to the Treasury	24,000,000,000	[redacted]
2.	Vodafone Kenya Limited	16,000,000,000	
		40,000,000,000	

Notice

Livingstone Associates

Certified Public Secretaries (Kenya)
"Kirungii"
Ring Road, Westlands
P. O. Box 30029 - GPO 00100
Nairobi
Kenya

Tel: + (254 - 20) 423 0000
+ (254 - 20) 444 1344/05-12
Fax: + (254 - 20) 444 8966
Dropping Zone No. 92
E-mail: admin@deloitte.co.ke

SAFARICOM LIMITED

NOTICE is hereby given that the Annual General Meeting for the year 2008 of the Company will be held at the Company's Boardroom, Safaricom House, Waiyaki Way, Westlands, Nairobi on Thursday 29 May 2008 at 5.00 p.m.

AGENDA

1. To consent to short notice.
2. To read the notice, the summary of Proxies and to confirm the quorum for the meeting.
3. To approve the minutes of the 2007 Annual General Meeting held on 11 September 2007.
4. To receive, consider and adopt the Financial Statements for the year ended 31 March 2008 together with the Directors' and Auditors' reports thereon.
5. To approve a first and final dividend for the Financial Year ended 31 March 2008 payable to the shareholders registered in the books of the Company as at 27 May 2008 as recommended by the Directors.
6. To elect directors, if any.
7. To approve the directors' fees as shown in the Accounts for financial year ended 31 March 2008.
8. To appoint Auditors for the financial year ending 31 March 2009 and to authorise the directors to fix their remuneration.

BY ORDER OF THE BOARD

JLG MAONGA
SECRETARY

Date: 29 May 2008

Note:

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

Partners: H. Gadhoke* J.L.G. Maonga
*British

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 to be held on Friday, 30 May 2008 and at any adjournment thereof.

As witness my/our hand this day of 2008

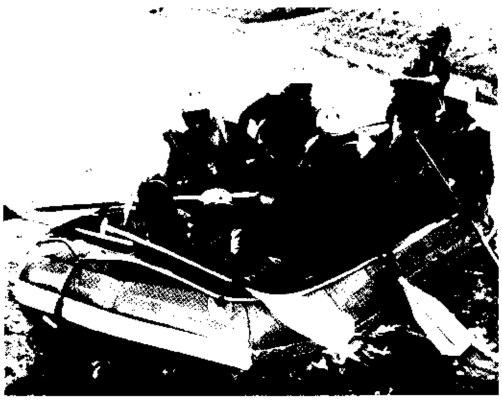
Signed ____________________________

Signed ____________________________

Note:

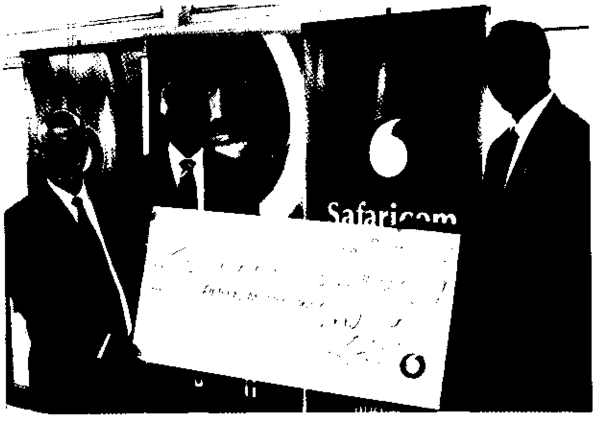
1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a limited Company, this form must be completed under its Common Seal or under the hand of an officer or attorney duly 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.

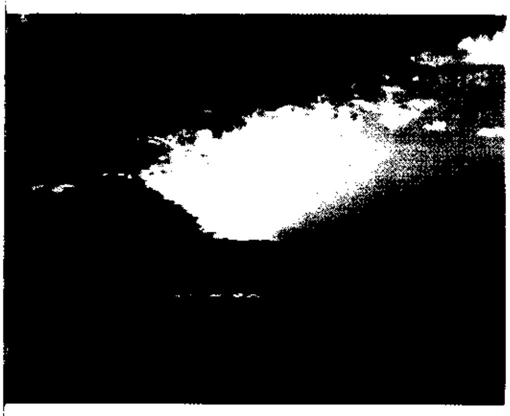


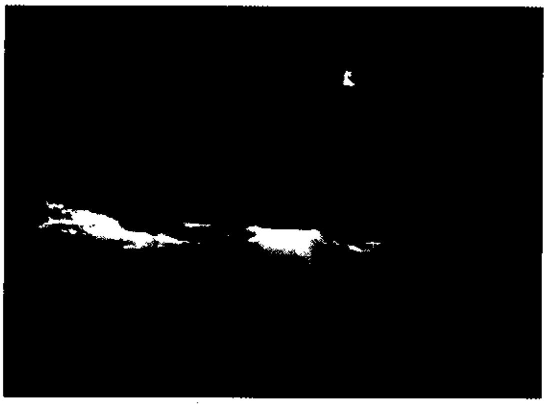


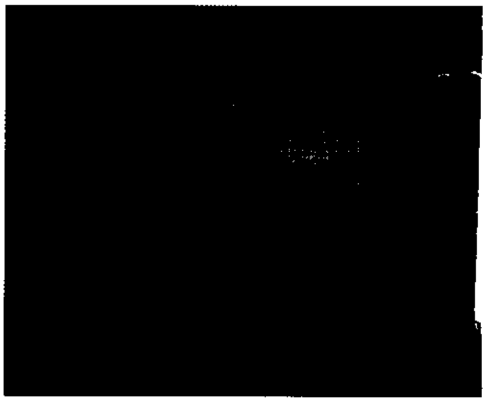





Safaricom





Safaricom