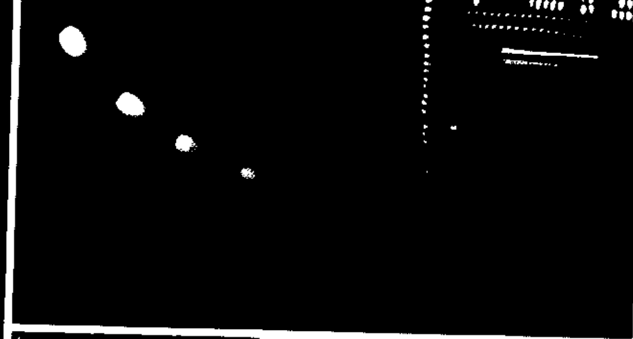
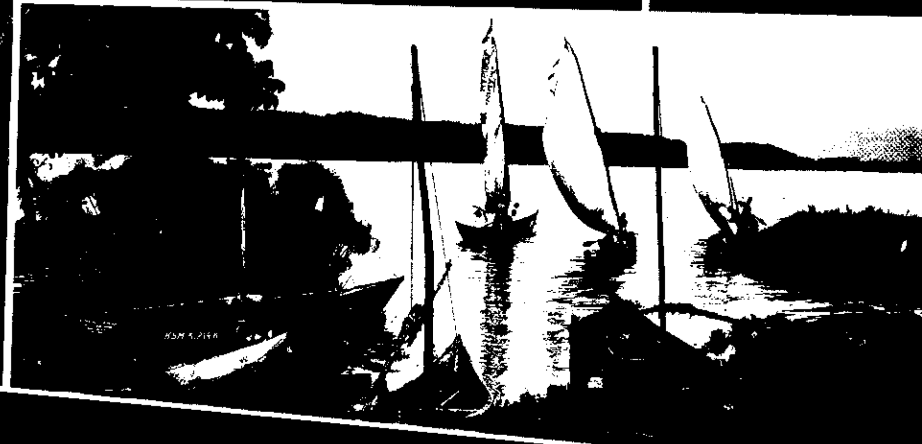




New products launched include: Voice SMS, Mobile Advertising, Missed Call Alert and SIMEX. We also launched pre-paid roaming top-up (PPRTU) service that enables Safaricom subscribers to top-up with our partners; MTN Uganda, Mango Uganda, Vodacom Tanzania and MTN Rwanda through vouchers while roaming in Eastern Africa.

The 3G network was launched in the first quarter and extends to cover Nairobi, Mombasa, Magadi, Eldoret and Naivasha with 301 3G-enabled base stations. In the second half of the year we acquired a 51% stake in One Communications Ltd. – a Wimax service provider. These services are underpinned by a robust distribution channel, with active participation of 180 dealers having a distribution footprint across the country of 500 retail outlets.

We have also launched direct corporate connectivity over Fibre for voice services to blue chip corporate clients to complement our mobile voice services, currently having over 40 clients.

Our retail outlet rollout includes an additional 10 outlets bringing the total to 23.

Our range of products offered has grown to include exciting laptop offers, selected accessories inclusive of 3G enabled devices and a wide variety of

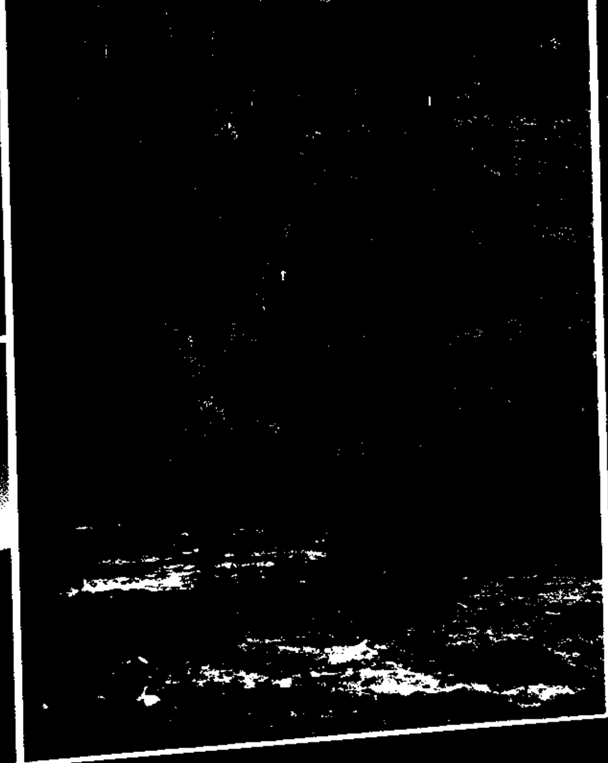
Safaricom staff remains the pillar against which we run our business, and throughout the year our efforts were geared towards making each and every employee appreciate their value and contribution in achieving the Safaricom vision of becoming the Best Company in Africa.

In acquiring the right talent for Safaricom, we have achieved great success in obtaining the right skills and creating a diverse workforce.

We moved our customer care team to their new work location in Mlolongo, which is in the outskirts of Nairobi – opening the doors of the Safaricom Jambo Contact Centre. This state-of-the-art centre has the capacity to seat 1,000 employees. In line with our commitment to provide a favorable work environment, our employees enjoy in-house medical services that are available on a 24-hour basis, a fully kitted gymnasium, children's crèche and recreational facilities. We also have fully operational resource centers at Jambo Contact Centre and Safaricom Head Office, which provide our employees with hard and electronic literature to serve their needs.

Focusing on our vision of becoming the Best Company in Africa, we will continue acquiring the right talent and taking proactive measures which include






06 Quick read

This year, the Safaricom Foundation celebrates five years of working with partners, enabling many thousands of young Kenyans to enjoy better classroom environments, experience the thrill of having quality textbooks and science laboratories and enjoy the use of modern computers. Many rural women now have access to quality healthcare during pregnancy with tens of thousands of Kenyans having attended free health clinics through the provision of mobile clinics - even specialized health care has been taken to the street children and slums of Nairobi. Hundreds of thousands of trees have been planted and environmentally important sites protected from human encroachment.

In the 2008/9 financial year, the Foundation committed Kshs. 210 million to various projects.

The Foundation undertook a strategic review and planning exercise and identified strategies to guide its support to the following focus areas:

Health, education, economic empowerment, environmental conservation, sports, music, arts and culture as well as disaster relief.

Staff participated in the Junior Achievement Job Shadow programme, provided logistical and administrative support during medical camps, planted trees in Ngare Ndare, participated in an anti-jigger campaign in Lewa, and partnered with Kenya Red Cross to distribute food in Yatta.

Customer Acquisition

M-PESA's success story can largely be attributed to the service's ability to connect with the customer in their day-to-day activities while positively making a difference in their lives. In recognition of this, M-PESA has won a total of 8 awards both locally and internationally in the past year, mostly recently being "Best Mobile Money Service" in the Best Mobile Services Category at the 2009 Global Mobile Awards in Barcelona.

M-PESA Agents

To bring M-PESA closer to the customer, we have increased our distribution network with particular focus in the rural areas. As a result, our agent network has grown to over 7,000 countrywide, with 5,000 new outlets coming on board this past year. M-PESA has aquired a host of new functionalities. These include:

- Pay Bill / Customer to Business Payments
- Business to Customer Payments
- ATM Withdrawal

Notice of the Annual General Meeting

NOTICE in accordance with provisions of Article 149 is hereby given that the Annual General Meeting for the year 2009 of the Company will be held at the Moi International Sports Center, Kasarani, Nairobi on Wednesday, 19th August 2009 at 11.00 a.m to conduct the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the Financial Statements for the year ended 31 March 2009 together with the Chairman's, Directors' and Auditors' reports thereon.

2. To approve a first and final dividend of 200% of the issued and paid up share capital of the Company (i.e Kshs 0.10 per share of Kshs 0.05 each) for the Financial Year ended 31 March 2009 as recommended by the Directors, payable on or about 9th November 2009 to the Shareholders on the Register of Members as at the closure of business on 19th August 2009.

3. Directors:-

a) In accordance with Articles 90 and 91 of the Company's Articles of Association, Mrs Susan Mudhune retires at this meeting and, being eligible, offers herself for re-election.

b) To note that in accordance with the provisions of Section 186(2) of the Companies Act, Mr Nicholas Nganga who has attained the age of 70 years retires as a Director at the conclusion of this meeting. In accordance with Sections 142 and 186 (5) of the Companies Act, the Permanent Secretary to the Treasury (PST) has given special notice of his intention to re-appoint Mr Nicholas Nganga as a Director in accordance with Article 89 (c) of the Company's Articles of Association.

4. To note that PricewaterhouseCoopers continue in office as Auditors by virtue of section 159 (2) of the Companies Act (Cap) 486 and to authorise the Directors to fix their remuneration for the ensuing financial year.

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass the following as an Ordinary resolution:-
"That the acquisition by the Company of a majority of the Shares (51%) of One Communications Limited thereby making it a subsidiary of the Company be and is hereby ratified."

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

"That the Articles of Association of the Company be and are hereby amended by deleting Article 138 in its entirety and replacing it with the following new article:-

Article 138- Method of payment of dividends
a) Any dividend or other money payable in cash or in respect of shares may be paid by

i) direct debit, bank transfer or other automated system of bank transfer, electronic or mobile money transfer system (for example and not by way of limitation via the Company's M-PESA mobile money transfer system) transmitted to such bank or electronic or mobile telephone address as shown in the share register of the Company or

ii) by cheque or warrant payable at such place of business as the Company shall specify in writing, sent by post to the address of the member or person entitled to it as shown in the share register of the Company or if two or more persons are registered as joint holders of the shares, to the registered address of the joint holder who is first named in the share register of the Company or in the case of two or more persons being entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons at such address as the persons being entitled to receive payment may in writing direct.

b) Every such cheque or warrant or funds transfer shall be made payable to or to the order of the person to whom it is sent or to such person who may be entitled to the same (as described in Article 138(a)(ii) aforesaid). Payment of the cheque or warrant, if purporting to be endorsed or enfaced, by the addressee or as the case may be, confirmation of payment having been made by the transmitting entity to the addressee of a direct debit, bank transfer or other automated system of bank transfer or via a mobile money transfer system, shall in each case be a good discharge to the Company. Every such payment whether by cheque or warrant or electronic funds transfer or mobile money payments system shall be sent at the risk of the person entitled to the money represented by it."

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

BY ORDER OF THE BOARD

09 Notes

1. member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his stead. A form of proxy may be obtained from the Company's website www.safaricom.co.ke, Safaricom House, Waiyaki Way, Westlands, Nairobi or from any of the Safaricom Shops countrywide.

A proxy need not be a member of the Company.

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

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

2. In accordance with Article 145 of the Companies Articles of Association a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company's website www.safaricom.co.ke or from the Registered Office of the Company Safaricom House, Waiyaki Way, Westlands, Nairobi. An abridged set of the Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statement for year ended 31 March 2009 have been published in two daily newspapers with nationwide circulation.

3. Registration of Members and proxies attending the Annual General Meeting will commence at 6. 30 am and will close at 11.15 am Production of a national identification card, a passport or other acceptable means of identification and the Member's share certificate or current central Depository Corporation statement of account for their shares in the Company will be required.

4. The preferred method of paying dividends of less than Kshs 35,000/= will be via the M-PESA mobile money transfer system. Members who are M-PESA Account Holders and will attend the Annual General Meeting are requested to provide details of their M-PESA registered mobile telephone number to which their dividend payment may be sent.

Shareholders who are M-PESA Account Holders but will not be attending the AGM may submit details of their M-PESA registered mobile telephone number together with their share account number and Identification details to Image Registrars of PO Box 9287-00100 Nairobi, after the 19th of August 2009 and subject to approval of M-PESA as a method of payment of dividends by the AGM

5. Transport will not be provided to the venue of the Annual General Meeting.

6. No refreshments or other items will be provided to those attending the Annual General meeting.

continually growing our products

Chairman

...d the Board of Safaricom ...ay, 2004 and was elected ...January, 2007. The holder ...m Makerere University, he ...ermanent Secretary in the ...nance, Foreign Affairs and ...een extensively involved in ... Currently, Mr. Nganga is ...rman of G4S Security and ...chair of the Council of the University of Nairobi.

Executive Director

Mr. Michael Joseph joined the board on 8 September 2008. He has extensive international experience in the implementation and operation of large wireless and wireline networks, including operations in Hungary, Spain, Brazil, Peru, Argentina, Korea, United States, Australia and the Middle East. Mr. Joseph has specialized in licence acquisition, construction of new networks, turnaround management and start-up of new operations during his career that spans over 40 years. He has guided the Company from a subscriber base of fewer than 20,000 to over 13.3 million as at the end of March 2009. Mr. Joseph has been the recipient of many awards, including CEO of the Year. Mr. Joseph reports to the Board of Safaricom.

Non Executive Director

Mr. James is a Chartered Accountant and member of the Institute of Chartered Accountants (Scotland). Prior to joining Vodafone, James held senior financial positions such as CFO of Celtel International BV and UbiNeticsHoldings Limited, Executive Vice President Finance at Marconi Plc, COO Marconi Finance Plc, Vice President Corporate Finance and Finance Director GEC Singapore and GEC Bangladesh. Mr. James is Vodafone's CFO of the Africa and Central Europe Region. He was appointed to the Board in November 2008.

Non Executive Director

Mr. Kinyua was appointed the Permanent Secretary, Treasury, on 1 July, 2004. Mr. Kinyua, holds a Bachelors degree and a Masters degree in Economics from the University of Nairobi. Mr. Kinyua is a career economist having held various senior positions in the Central Bank of Kenya, International Monetary Fund, Ministry of Planning and National Development Ministry of Agriculture and Ministry of Finance. He is also a non-executive director of various companies such as Kenya Commercial Bank Limited, Kenya Airways Limited and the NSSF. He is a non-executive ector of all state corporations and the other corporations with government shareholding.

Non Executive Director

Mr. Morten Lundal is the Vodafone Regional CEO for Central Europe and Africa. He joined Vodafone from Digi Telecommunications based in Kuala Lumpur, where he was CEO from [illegible] to 2008. Morten has over 20 years in Telecommunications and IT industries, gained at Telenor and Digi Telecommunications as well as holding consultancy positions within Gemini Consulting and A.T. Kearney, based in the US, UK and Norway. Morten holds a Master of Business and Economics (Oslo) and an MBA (IMD, Lausanne).

Non Executive Director

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

Non Executive Director

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

Non Executive Director

Ms. Susan Mudhune joined the Boar[illegible]
Safaricom on 20 May 2009. She hol[illegible]
Bachelor of Arts degree in education[illegible]
an MBA. She is a former chairman of[illegible]
Commercial Bank. A fellow of Kenya[illegible]
of Bankers (KIB), a director of Everea[illegible]
East Africa, a director of Kenya
Commercial Bank, a member of Inst[illegible]
Directors (K) and the national chairma[illegible]
Kenya Girl Guides Association.

Non Executive Director

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

He has over 20 years experience in Mobile Communication in a broad range of strategic and operational roles. He has extensive international experience having been a Regional Strategy Director, Regional Business Development Director and Regional Commercial and Strategy Director. Previously he was Marketing Director at Talkland and Strategy Director for Vodafone UK.

alternate to Michael Joseph

Mr. Christopher Tiffin joined the board on 5 December 2008. He was appointed as Chief Financial Officer from 25th August 2008. Mr. Tiffin joins Safaricom from Celtel Nigeria where he held the position of Chief Financial Officer, having served in that position since 2004. Prior to taking up his current position he held the position of Financial Analyst and Financial Manager with Tracker Network (PTY) Ltd South Africa and prior to that he held various financial positions with Vodacom (PTY) Ltd in South Africa.
Mr. Tiffin is a South African citizen and a Chartered Accountant.

Alternate Director to Mr. Joseph Kinyua

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

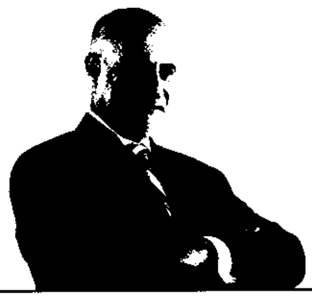
Alternate to Morten Lundal

Mr. Leslie Baillie joined the board on 5 December 2009. He was appointed to his current position of Chief Investor Relations Officer soon after the Company was listed on the Nairobi Stock Exchange in June 2008. Prior to this he served as the Chief Finance Officer, of Safaricom, a position held since Vodafone's original investment in mid-2000. He has extensive experience in the mobile telecommunications industry having joined Vodafone Group in the UK in 1986. During his time before joining Safaricom, he held several senior financial positions at director level in Vodafone companies covering networks, service provider, value added services, data and radio paging. He has been involved in two start up operations, in radio paging and in Safaricom. Mr. Baillie has led Safaricom through two fundraising exercises, the

Company Secretary

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

Safaricom's Executive Committee



Michael Joseph
Chief Executive Officer

Betty Mwangi Thuo
Chief New Products & Services Officer

Christopher D. Tiffin
Chief Finance Officer

Clare Ruto
Chief Corporate & Regulatory Officer

Eddie Irungu
Chief Risk & Strategy Officer

Francis Murabula
Chief Supply Chain & Administration Officer

John Barorot
Chief Technical Officer

Joseph Ogutu
Chief Human Resources Officer

Les Baillie
Chief Investor Relations Officer

I am pleased to present to you our Annual Report and Accounts for the financial year ended 31 March 2009, the first Annual Report since the IPO in June 2008 and I would therefore like to welcome all of our new shareholders. The Company has delivered strong financial results with a significant increase in subscribers, revenue and shareholders funds.

During the financial year, the Government of Kenya sold 10 billion ordinary shares of Safaricom at a par value of 5 cents (Ksh. 0.05) through an Initial Public Offering. This comprised 25% of the issued ordinary shares of Safaricom. This IPO was highly successful and subsequently won "the emerging markets deal of the year" from Institutional Investor; the most highly regarded international awards body, along with a host of other awards from the financial services industry.

Through challenging trading conditions, Safaricom again displayed why it is one of Africa's leading companies.

Following the IPO, the shareholder base increased to 842,613, of which the majority are Kenyan retail investors. The IPO was oversubscribed in all categories demonstrating the strength of the Company. The IPO raised Ksh. 51 billion for the Government of Kenya, far exceeding their projections and was the largest single source of funding for the Government during 2008.

Despite increased competition, rising operating costs and decreased consumer revenues Safaricom again displayed why it is considered one of Africa's leading companies. Together with staff and management, Safaricom delivered strong results and continues to generate shareholder value.

The following is a review of our achievements during the year and the economic conditions that affected the company and its performance during the financial year.

Economic Environment

During the financial year the economy experienced a severe downturn which affected most Kenyan companies, with the rate of growth declining from 7% to less than 2%. The effects of the high oil prices, the global economic crisis, high inflation, a weakening shilling and a severe drought combined to make this past year the hardest we have experienced. Despite these unfavourable factors, the telecommunications industry, led by Safaricom, continued to increase its contribution to the economy.

Safaricom retained its position as the largest contributor to the Treasury

Key Highlights of the financial year ended 31st March 2009

In a year characterized by intense competition leading to cuts of up to 40% in tariffs and declining disposable incomes brought on by spiraling inflation Safaricom continues to maintain its leadership in both subscriber market share, revenue share, network coverage and innovation.

Our subscriber base grew by over 3 million subscribers to 13.36 million in the year; maintaining our market leader position and contributing to the overall increase in market penetration to 47%.

In line with our strategy of growth, we continued to enhance and expand the network to over 1,800 base stations of which 301 were 3G enabled. We also acquired a 51% stake in One Communications Ltd – a Wimax service provider – to provide fixed and wireless data services to corporate, medium sized institutions and individual customers. The acquisition of One Communication Ltd. will be ratified by shareholders at the Annual General Meeting.

The M-PESA service continues to beat all expectations with over 6 million registered users and Kshs120.61 bn transferred person to person during the financial year. In addition, the service won several awards during the year including the "UN World Business & Development Award" as one among ten private companies recognized globally for their contribution to the achievement of millennium goals; and the "GSMA Global Mobile World Awards - Best Mobile Money Service".

Financial Performance

In this financial year and despite the challenging economic conditions, Safaricom achieved double digit revenue growth with revenue increasing to Ksh.70.48 billion, a growth of 14.8%. This growth in revenue was a function of customer ARPU which, despite declining, remained the highest in the industry, and the breadth and quality of the products and services offered to our subscribers. Data revenue increased by 83% driven by both broadband mobile services and M-PESA. EBITDA was resilient in the face of stiff competition at Ksh.27.9 billion - a 0.3% decline from the previous year.

Shareholders funds increased by 19.9% over the previous year to Ksh.51.1 billion. Total gross borrowings (excluding cash and cash equivalents) increased by 23.0% to Kshs11.31billion from Kshs 9.20 billion. As at 31 March 2009 the Company had total cash and cash equivalents of Kshs 4.36 billion. As a result the gearing ratio increased to 12.0% from 8.0%.

To sustain our growth strategy, gross tangible capital expenditure increased to Kshs 23.82 billion in the period increasing the total capital investment since inception to Kshs 119.79 billion. Other key investments included the acquisition of a customer relationship management system, new retail outlets and a new ultra modern call centre along Mombasa Road.

Given the strong results delivered in the financial year, the Board of Directors recommended the payment of a final dividend of Kshs 0.10 per share representing a total dividend payment of Kshs 4.00 billion, enabling shareholders to share in the success of the company.

Subject to shareholder approval we intend to offer retail investors the option of receiving their dividend using the M-PESA transfer system.

Corporate Governance

Safaricom Limited is committed to good corporate governance so as to give value to its shareholders and other stakeholders. The directors are committed to upholding transparency and accountability. To this end, the company has complied with Capital Market Authority Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya issued under Gazette Notice No. 3362 of 2002.

The Board has constituted two committees, an Audit Committee and a Nomination Committee. The Audit Committee is composed of three non executive independent Directors. Chaired by Mr. Tim Harrabin the other two members are Mrs. Esther Koimett and Mrs. Nancy Macharia. The committee

The Committee operates against Terms of Reference which were approved by the Board and reports back to the Board at each Board meeting.

The Nomination Committee consists of four Directors, three of whom are non executive independent Directors. The Committee members are Mr. Nicholas Nganga, Mrs. Esther Koimett, Mr. Robert Collymore and Mr. Michael Joseph

Board Changes

In the financial year 2008/2009 the following board members were appointed;

- Mr. Tim Harrabin;
- Mr. James Maclaurin; and
- Mr. Morten Lundal;

The following board members resigned during the year:

- Mr. Gavin Darby;
- Dr. Bitange Ndemo; and
- Mr. Suva Sivagnanasundaram;

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

Since the end of the financial year I am very happy to report that Mrs. Susan Mudhune agreed to join the Board on 20th May 2009. Her experience in the banking industry will bring significant benefits to the Company. In accordance with the Memorandum and Articles of Association, Mrs. Mudhune will seek re-election at the Annual General Meeting.

Future Prospects

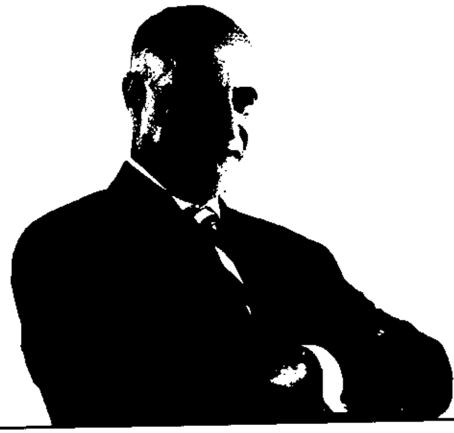
There is a significant opportunity for future growth in both voice and data services and we are resolute in maintaining our position as the market leader.

With mobile penetration forecasted at 65% over the next four years and internet penetration currently at less than 10%, there is significant opportunity for tapping into these high growth areas. Safaricom is well positioned to take advantage of these opportunities with the continued expansion of our existing 3G and Wimax infrastructure technologies, products and offerings which will be greatly enhanced with the landing of the submarine fibre optic cables – TEAMS (of which we have a 20% shareholding) and Seacom.

This is the beginning of a new and exciting journey in the success story that is Safaricom.

I am pleased to announce a strong set of results for the financial year ended 31 March 2009 despite depressed economic conditions and heightened competition with the entry of 2 new players. Safaricom continues to be the leading player in the industry, a position we are focused on maintaining in the long term through innovation and service that exceeds our customers' expectations.

Since its launch in 2000, Safaricom has consistently been a pacesetter and business leader not only in the telecommunications industry but across all business areas. We have received numerous local and international awards for our product innovation, service to our community and increasing contribution to Kenya's economy. We have received global recognition for our pioneering money transfer service, M-PESA.



EBITDA for the period was Kshs 27.9 billion reflecting a margin of 39.7%. This strong EBITDA included a foreign exchange loss of Kshs 0.68 billion compared to Kshs 0.12 billion in the previous period, excluding the foreign exchange loss EBITDA increased to Kshs 28.63 billion giving an EBITDA margin of 40.6%.

In June 2008, we launched our new vision, "To Be the Best Company in Africa". With numerous success stories behind us, significant investments in cutting edge technology, and a high performing & highly motivated team, we believe that we can set the standards for Africa, across industries and boundaries for unmatched customer service, exciting and life changing products, and social investment in the local community that has always been an integral part of our success. Safaricom also views itself as an integral player in the business environment, providing a strategic link between business and their customers. This can be displayed in the success of M-PESA and many of our other new and exciting initiatives.

Strong Results

All things considered – a slowing economy, rising inflation and falling discretionary spend of our subscribers – we produced strong results for the year. Revenue grew by 14.8% to Kshs 70.48 billion from Kshs 61.37 billion. The increase was driven by both voice revenue as the customer base increased during the year and by strong growth in the data business

Voice revenue continues to be the major contributor representing 83.4% of total revenue, however, data comprising SMS, M-PESA and other data increased by 83% and now represents 12.9% of revenue, increasing from last year's figure of 8.1% of revenue. Total M-PESA revenue in the year increased to Kshs 2.93 billion, 4.1% of total revenue.

Operating expenses increased to Kshs 32.79 billion compared to Kshs 26.07 billion during the same period last year. The relative increase reflects the increase in the costs of running the network particularly fuel & electricity costs; aggressive customer acquisition strategy resulting in higher commissions; and interconnection costs due to increased traffic volumes and outbound roaming costs related to "Kama Kawaida".

Profit before tax was Kshs15.30 billion in the period with net income remaining strong at Kshs10.54 billion. We maintained our position as the largest tax payer in Kenya remitting Kshs 25.90 billion in duties, taxes and license fees in the year. The total duties, taxes and fees paid since inception has now exceeded Kshs 112.80 billion.

Major Initiatives during the year

Safaricom is acknowledged as a leader in innovation. During the year we introduced various unique promotions including the highly popular "Jibambie" promotion that gave subscribers a discounted tariff based on the value of their top-up. The promotion was exceptionally popular with over 10 million subscribers taking part.

To tap and leverage the youth market we ran a successful campaign tariff promotion in 5 leading university campuses dubbed "Bei ya Campo" that resonated well with the campus fraternity.

New products launched during the year include Voice SMS, Mobile Advertising, Missed Call Alert, a service that enabled subscribers to know their missed calls even when their handset is not in use, SIMEX, an over-the-air service which allowed subscribers to replace their SIM cards through our national dealer network and pre-paid roaming top-up, a service that enables Safaricom subscribers to top-up with our partners, MTN Uganda, Mango Uganda, Vodacom Tanzania and MTN Rwanda, through vouchers while roaming in Eastern Africa.

The 3G network was commercially launched in the first quarter of the year and now extends to cover Nairobi, Mombasa, Magadi, Eldoret and Naivasha with 301 3G-enabled base stations. This is the first 3G network in Kenya and allows our customers to have access to high speed mobile data. In the second half of the year we acquired a 51% stake in One Communications Ltd. – a Wimax service provider. This service will complement our 3G offering and has enabled access to broadband mobile service with enhanced dedicated speeds and secure remote access.

Safaricom's vision "To Be the Best Company in Africa" is built on cutting edge technology and high performing staff.

We have created a robust distribution channel for mobile data services with active participation of 180 dealers with a distribution footprint across the country with 500 retail outlets. We have also launched direct corporate connectivity over fibre for voice services to blue chip corporate clients as a complement to our mobile voice services, we currently have over 40 links rolled out to corporate clients in the market.

We continued with our retail outlet rollout with an ultra modern design with an additional 10 outlets opened in the year bringing the total to 23. These retail outlets are spread across the country including Thika, Meru, Eldoret, Kitale, Kisii, Kisumu, Mombasa and Nairobi.

We have significantly improved the range of products offered through the retail centres as reflected by the exciting laptop offers, introduction of selected accessories inclusive of 3G enabled devices and a wide variety of handsets to cover all segments and tastes in the market.

We are implementing best practice in customer service through tracking and collecting of customer feedback and subsequently continuously improving our service process.

Customer delight is critical to our success and will be considered a key differentiator of operators. Completion and opening of the state-of-art Jambo Contact Centre along Mombasa Road has improved the level of customer care to our subscribers and welfare of our employees. The implementation of a Customer Relationship Management program further demonstrates our commitment to delivery of continuous improvement of customer service and satisfaction.

Looking to the future ... and to being the best company in Africa

Safaricom is well positioned to weather the challenges in the market from both an economic and competitive perspective, as well as to take advantage of the opportunities in our sphere of influence.

We will continue to expand our data services with the continued expansion of our existing 3G and Wimax infrastructure technologies, products and offerings which will be greatly enhanced with the landing of the submarine fibre optic cables, TEAMS and Seacom. We will also pursue and investigate further potential acquisitions to enhance the overall data services.

We are committed to leading the market in product innovation and relevant products for our subscribers. We will leverage our national voice and data footprint with usage stimulation campaigns for both voice and data.

This has already commenced with the SMS promotion "Lipua Ma Milioni" rewarding 60 subscribers with a million shillings each and the innovative "Okoa Jahazi"; an airtime credit advance service that enables subscribers to continue using our network in instances where they have run out of credit.

We congratulate our staff who are the key ingredient to making this all possible and acknowledge that any further growth and consolidation in the market place will rely heavily on the efforts and professionalism of our employees.

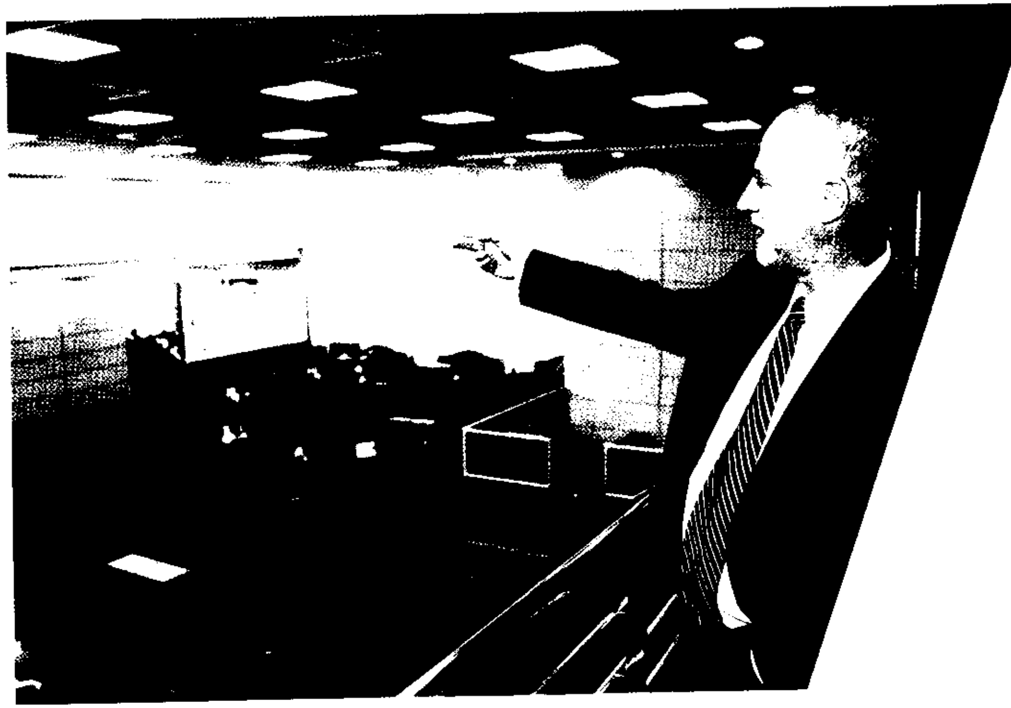
Our People - the pillar of our business

Safaricom staff remains the key to our future, and throughout the year our efforts were geared towards making each and every employee appreciate their value and contribution in achieving the Safaricom vision of becoming the Best Company in Africa.

In acquiring the right talent for Safaricom, we have achieved great success in obtaining the right skills and creating a diverse workforce. We have re-assessed our work environment and physical amenities to ensure that they take into consideration our workforce needs including the physically challenged, and we will continue to do more.

In order to ensuring our commitment to provide a favorable work environment for all employees, we take their views into account. In order to continuously understand the needs of our employees, we conducted a staff satisfaction survey where we identified our gaps in meeting employee expectations and we continue to focus our efforts in addressing these issues.

We moved our customer care team to their new work location in Mlolongo, which is in the outskirts of Nairobi – opening the doors of the Safaricom Jambo Contact Centre. This state-of-the-art centre has the capacity to seat 1,000 employees. In line with our commitment to provide a favorable work environment, our employees enjoy in-house medical services that are available on a 24-hour basis, a fully kitted gymnasium, children's crèche and recreational facilities. We also have fully operational resource centers at Jambo Contact Centre and Safaricom Head Office, which provide our employees with hard and electronic literature to serve their needs.



continually growing our technology

Our People - the pillar of our business

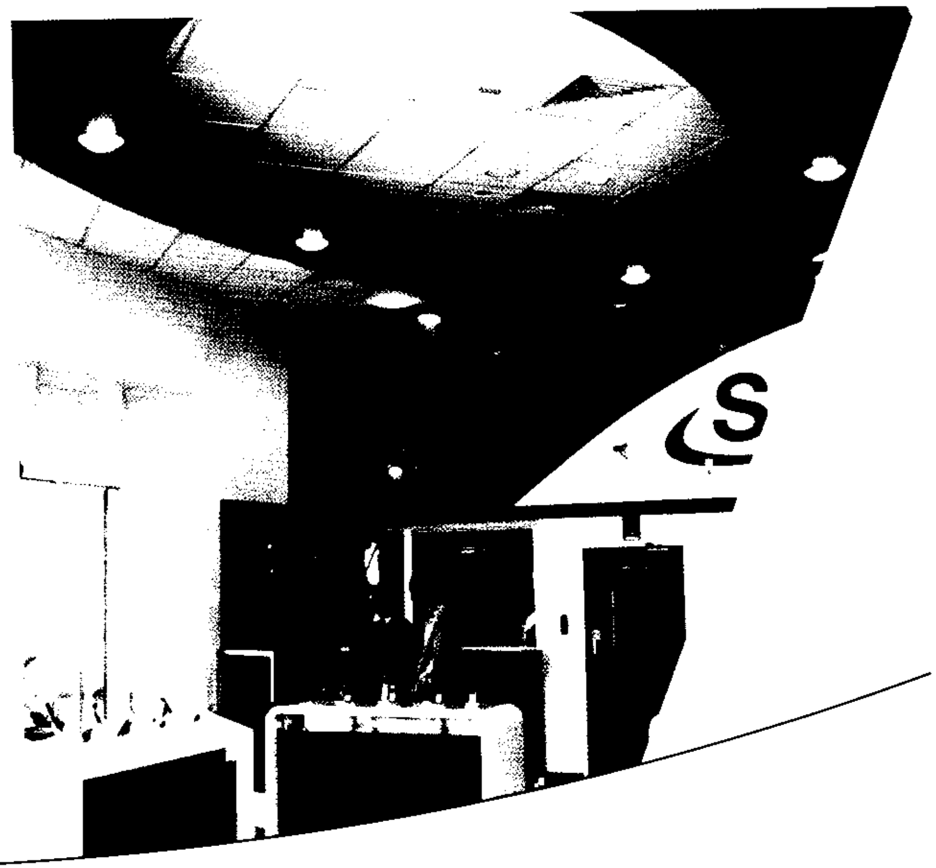
With the increase in competition and resulting demand for skilled workforce, we have implemented new retention strategies that focus on the individual employee. Through our management and leadership development program, we have ensured that our management team is equipped with the soft skills and business acumen required to deliver on our commitments to the business and our people.

Through robust staff retention strategies, Safaricom intends to consolidate its position as the number one mobile network provider whilst increasing returns to shareholders

We are ISO certified and we therefore continue to embrace our ISO certification principles by continuous review of our work processes in line with our objectives. The customer relationship management process is just one example of an area that we have critically reviewed and believe that the value acquired through this exercise will be passed on to the customer.

Focusing on our vision of becoming the Best Company in Africa, we will continue acquiring the right talent and taking proactive measures which include collaborating with the academic world to influence curricula in order to develop the right skills for the ever changing telecommunications industry. We have ongoing collaborative initiatives with Moi University and Jomo Kenyatta University of Agriculture and Technology (JKUAT).

We will also continue to develop our existing talent in line with the changing landscape of our industry and drive performance through our people. We continue to look at our organizational structures with a view to optimising on productivity in each service line and ensuring that we deliver in a cost effective manner.



25 The Safaricom Foundation - Corporate Social Responsibility

This year, the Safaricom Foundation celebrated five years of working with partners to help Kenyan communities improve their livelihoods. These five years have seen significant challenges and successes. Our work with partners has enabled many thousands of young Kenyans to enjoy better classroom environments; experience the thrill of having quality textbooks and science laboratories and have the use of modern computers; many rural women now have access to quality healthcare during pregnancy; tens of thousands of Kenyans have attended free health clinics; through the provision of mobile clinics specialized health care has been taken to the street children and slums of Nairobi; hundreds of thousands of trees have been planted and environmentally important sites protected from human encroachment. In the 2008/9 financial year, the Foundation committed Kshs 210 million to various projects.

The Foundation undertook a strategic review and planning exercise and identified strategies to guide its support to the following focus areas:

Health: The Foundation recognizes that for many Kenyans, access to affordable or specialized health care is a challenge, hence our response has been to partner with health service providers and communities to increase access to healthcare services, including specialized services.

Education: The Foundation has supported the construction and equipping of classrooms, libraries and laboratories in order to provide a satisfactory learning environment for children. Support from the Foundation to institutions providing learning opportunities for children with special needs have enabled them to acquire specialized learning equipment, and establish income generating projects. Some funding has also gone to providing sanitary facilities to help retain girls in schools.

Economic Empowerment: Communities in Kenya possess unique and innovative ideas aimed at providing sustainable sources of livelihood. However materializing these ideas is often stifled by such factors as lack of capital and of expertise. The Foundation partners with organizations and communities

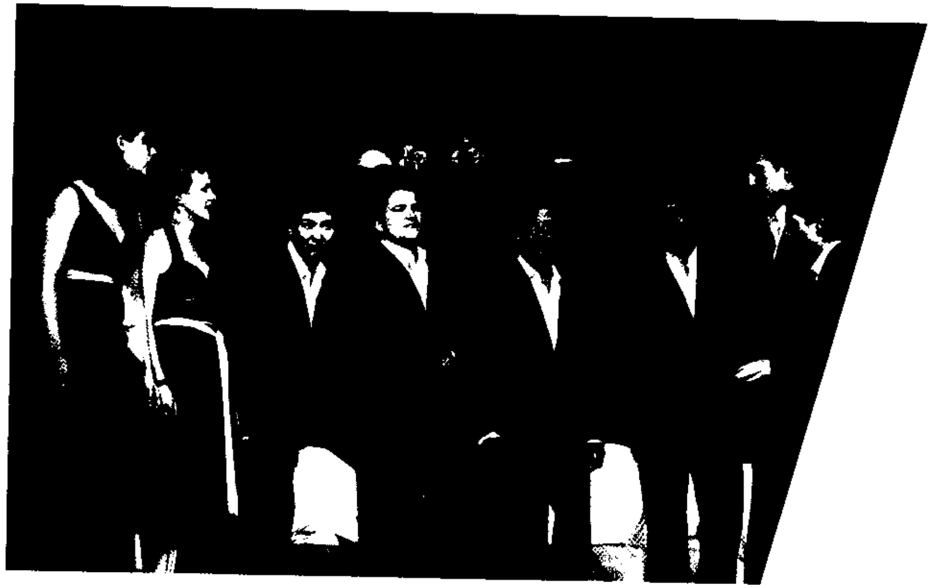
The Safaricom Foundation - Corporate Social Responsibility

Environmental Conservation: Providing sustainable support for the preservation of the Kenyan environment and the management of her natural resources.

Sports: Providing opportunities for the integration of education and life skills into sport as a means of promoting cohesion amongst groups and communities and also building our national pride.

Music, Arts and Culture: Preserving and promoting Kenya's national heritage in terms of art, music, theatre and culture as a whole.

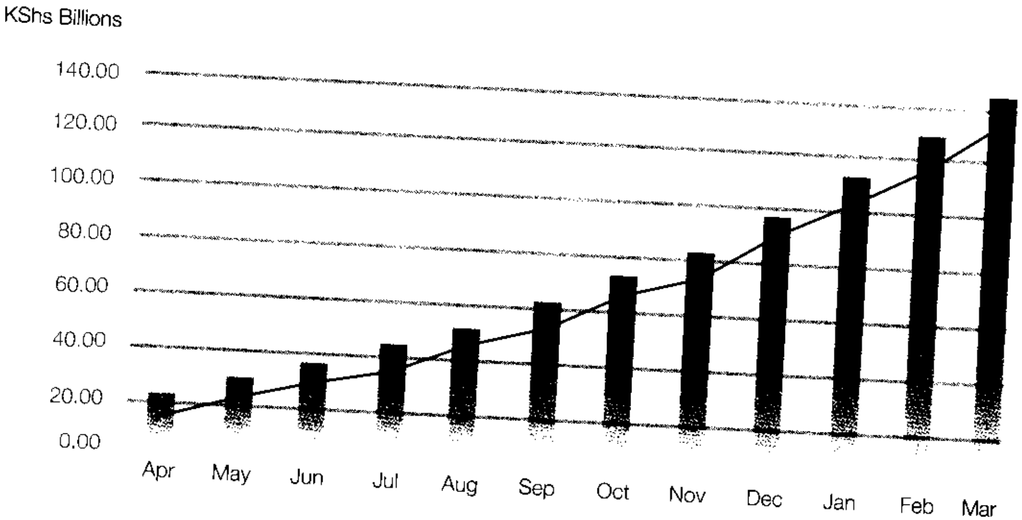
Disaster Relief: Projects supported under this focus area respond to disasters and humanitarian emergencies that have arisen. The Foundation has put in place structures that allow for shorter turnaround times, thus saving time and more importantly lives. The Foundation partners with Kenya Red Cross in its disaster relief efforts and provided Kshs10 million for the resettlement of Internally Displaced Persons in Eldoret and Kshs 10 million to support famine relief efforts



Staff participation has been key to the ability of the Foundation to connect with communities and to participate in the implementation and monitoring of their activities. This year, staff participated in the Junior Achievement Mentoring Job Shadow programme, provided logistical and administrative support during medical camps, planted trees in Ngare Ndare forest, participated in an anti-jigger campaign in Lewa, and partnered with Kenya Red Cross to distribute food in Yatta. In order to increase staff involvement with the Foundation, Safaricom introduced an initiative which allows all employees to take up to four paid days each year to work with the Foundation and its partners.

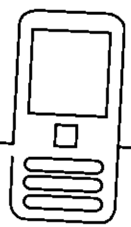
Safaricom has positioned itself as a responsible corporate within the market place and will continue to put its energy into people in the communities. Without the loyal support of the average Kenyan, Safaricom would not be in the position to report on its successes.

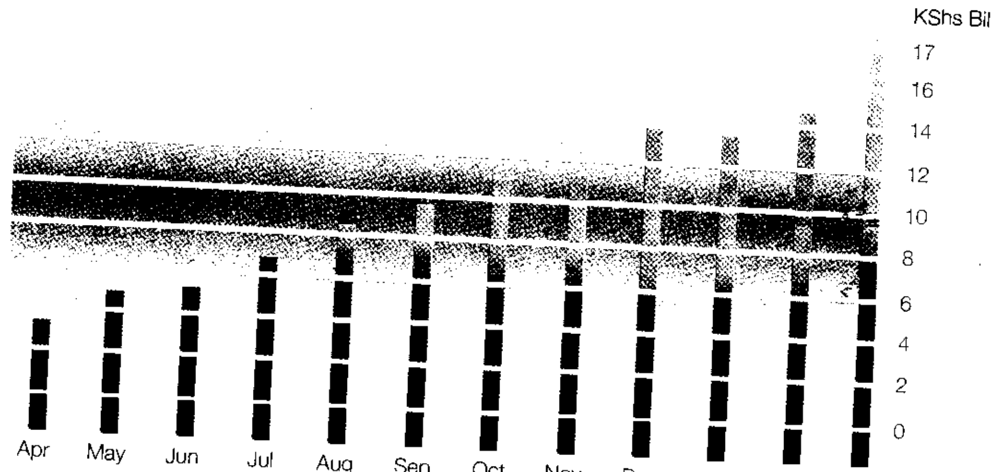
29 M-PESA - The success story continues



Cummulative value P2P transfers via M-PESA
2008 - 2009

Looking Forward
Mobile Money Transfer usage is expected to grow internationally in the next year, with M-PESA providing a bench mark to other countries. Competition is likely to increase, however, the strong customer base of M-PESA and wide distribution network of M-PESA Agents is a strong retention tool for Safaricom.





continually growing our company


Financial St

Director's Report

The directors submit their report together with the audited financial statements for the year ended 31 March 2009, which disclose the state of affairs of the group and of the company.

Principal activities

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

Results and dividend

The net profit for the year of Shs 10,536,760,000 has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 0.10 per share (2008: Shs 0.05) amounting to Shs 4,000,000,000 (2008: Shs 2,000,000,000).

Directors

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

N Nganga	Chairman
M Joseph	(appointed 8 September 2008)
R W Collymore	
N W Macharia	
J K Kinyua	
E Koimett (Alternate to J K Kinyua)	
T Harrabin	(appointed 1 December 2008)
J C G Maclaurin	(appointed 1 December 2008)
C Tiffin (Alternate to M Joseph)	(appointed 5 December 2008)
M Lundal	(appointed 7 September 2008)
L Baillie (Alternate to M Lundal)	(appointed 5 December 2008)
S Mudhune	(appointed 20 May 2009)
G J Darby	(resigned 1 December 2008)
B Ndemo	(resigned 2 September 2008)
S Sivagnanasundaram (Alternate to R W Collymore)	(resigned 1 December 2008)

Auditor

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

By order of the Board

Secretary

20/ May / 2009

33 Statement of Directors' Responsibilities

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's profit in accordance with International Financial Reporting Standards.

The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Director ____________ 20/ May / 2009

Director ____________ 20/ May / 2009

Report of the Independent Auditor
to the members of Safaricom Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Safaricom Limited (the company) and its subsidiaries (together, the group), as set out on pages 35 to 72. These financial statements comprise the consolidated balance sheet at 31 March 2009 and the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, together with the balance sheet of the company standing alone as at 31 March 2009 and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the group and of the company at 31 March 2009 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

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

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

iii) the company's balance sheet is in agreement with the books of account.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi
20 May 2009

Consolidated Profit and Loss Account

	Notes	Year ended 31 March 2009 KShs'000	2008 KShs'000
Revenue	5	**70,479,587**	61,369,408
Cost of sales		**(32,788,307)**	(26,066,380)
Gross profit		**37,691,280**	35,303,028
Other income		**16,270**	4,820
Distribution costs		**(2,424,117)**	(2,323,768)
Administrative expenses		**(4,303,178)**	(3,129,214)
Other expenses		**(14,804,976)**	(11,497,463)
Finance income	6	**142,913**	2,176,293
Finance costs	7	**(1,014,165)**	(588,536)
Profit before income tax	8	**15,304,027**	19,945,160
Income tax expense	10	**(4,767,267)**	(6,091,874)
Profit for the year (of which Shs 10,687,774,000 has been dealt with in the accounts of the Company)		**10,536,760**	13,853,286
Attributable to:			
Equity holders of the Company		**10,610,757**	13,853,286
Minority interest		**(73,997)**	-
		10,536,760	13,853,286
Earnings per share for profit attributable to the Equity holders of the Company-			
Basic and diluted (Shs per share)	11	**0.265**	0.346
Dividends:			
Proposed final dividend for the year	12	**4,000,000**	2,000,000

Dividend per share for profit attributable to the

	Notes	2009 KShs'000	2008 KShs'000
CAPITAL AND RESERVES			
Share capital	13	2,000,000	2,000,000
Share premium	13	1,850,000	1,850,000
Retained earnings		43,403,350	36,792,593
Proposed dividend	12	4,000,000	2,000,000
Attributable to company's equity holders		51,253,350	42,642,593
Minority interest		(106,270)	-
Total equity		51,147,080	42,642,593
Non-current liabilities			
Borrowings	14	4,774,580	6,480,000
Total equity and non-current liabilities		55,921,660	49,122,593
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	16	69,035,111	56,480,489
Intangible assets - Licences	17	3,047,424	3,611,381
Deferred income tax asset	15	1,873,652	1,379,889
Prepaid operating lease rentals	30	4,460	7,116
Intangible assets - Goodwill	29	219,151	-
		74,179,798	61,478,875
Current assets			
Inventories	19	2,929,683	2,284,180
Receivables and prepayments	20	9,010,114	5,068,749
Derivative financial instruments	21	100,314	-
Current income tax recoverable		1,100,786	-
Cash and cash equivalents	22	4,361,629	5,534,509
		17,502,526	12,887,438
Current liabilities			
Payables and accrued expenses	23	29,223,068	22,417,631
Current income tax payable		1,074	107,041
Borrowings	14	6,536,522	2,719,048
		35,760,664	25,243,720
Net current liabilities		(18,258,138)	(12,356,282)
		55,921,660	49,122,593

The financial statements on pages 35 to 72 were approved for issue by the board of directors on 20 May 2009 and signed on its behalf by:

Company Balance Sheet

	Notes	2009 KShs'000	2008 KShs'000
		Year ended 31 March	
CAPITAL & RESERVES			
Share capital	13	2,000,000	2,000,000
Share premium	13	1,850,000	1,850,000
Retained earnings		43,480,367	36,792,593
Proposed dividend	12	4,000,000	2,000,000
Total equity		51,330,367	42,642,593
Non-current liabilities			
Borrowings	14	4,680,000	6,480,000
		56,010,367	49,122,593
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	16	68,895,250	56,480,489
Intangible assets	17	3,033,686	3,611,381
Deferred income tax asset	15	1,860,612	1,379,889
Prepaid operating lease rentals	30	4,460	7,116
Investment in subsidiary	18	185,561	-
		73,979,569	61,478,875
Current assets			
Inventories	19	2,929,068	2,284,180
Receivables and prepayments	20	8,960,978	5,068,749
Derivative financial instruments	21	100,314	-
Current income tax recoverable		1,100,786	-
Cash and cash equivalents	22	4,261,508	5,534,509
		17,352,654	12,887,438
Current liabilities			
Payables and accrued expenses	23	29,011,135	22,417,631
Current income tax payable		-	107,041
Borrowings	14	6,310,721	2,719,048
		35,321,856	25,243,720
Net current liabilities		(17,969,202)	(12,356,282)
		56,010,367	49,122,593

The financial statements on pages 35 to 72 were approved for issue by the board of directors on 20 May 2009 and signed on its behalf by:

Consolidated Statement of changes in Equity

	Notes	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Proposed dividends KShs'000	Minority interest KShs'000	Total equity KShs'000
		Attributable to equity holders of the Company					
larch 2008							
start of year	13	1	3,849,999	24,939,307	4,000,000	-	32,789,307
ue of shares	13	1,999,999	(1,999,999)	-	-	-	-
		2,000,000	1,850,000	24,939,307	4,000,000	-	32,789,307
for the year		-	-	13,853,286	-	-	13,853,286
Dividends:							
aid for 2007		-	-	-	(4,000,000)	-	(4,000,000)
sed for 2008		-	-	(2,000,000)	2,000,000	-	
t end of year		2,000,000	1,850,000	36,792,593	2,000,000	-	42,642,593
March 2009							
start of year		2,000,000	1,850,000	36,792,593	2,000,000	-	42,642,593
Acquisition of tions Limited		-	-	-	-	(32,273)	(32,273)
t for the year		-	-	10,610,757	-	(73,997)	10,536,760
Dividends:							
Paid for 2008	12	-	-	-	(2,000,000)	-	(2,000,000)
final for 2009	12	-	-	(4,000,000)	4,000,000	-	-
At end of year		2,000,000	1,850,000	43,403,350	4,000,000	(106,270)	51,147,080

Company Statement
of changes in Equity

	Notes	Share capital KShs'000	Share premium KShs'000	Retained earnings KShs'000	Proposed dividends KShs'000	KS
Year ended 31 March 2008						
At start of year	13	1	3,849,999	24,939,307	4,000,000	32,7
Bonus issue of shares	13	1,999,999	(1,999,999)	-	-	
		2,000,000	1,850,000	24,939,307	4,000,000	32,78
Profit for the year		-	-	13,853,286	-	13,85
Dividends:						
- Paid for 2007	12	-	-	-	(4,000,000)	(4,00
- Proposed final for 2008	12	-	-	(2,000,000)	2,000,000	
At end of year		2,000,000	1,850,000	36,792,593	2,000,000	42,642
Year ended 31 March 2009						
At start of year		2,000,000	1,850,000	36,792,593	2,000,000	42,642
Profit for the year		-	-	10,687,774	-	10,687
Dividends:						
- Paid for 2008		-	-	-	(2,000,000)	(2,000
- Proposed final for 2009		-	-	(4,000,000)	4,000,000	
At end of year		2,000,000	1,850,000	43,480,367	4,000,000	51,330,

Year ended 31 March	Notes	2009 KShs'000	2008 KShs'000
Operating activities			
Cash generated from operations	24	30,104,429	35,617,987
Interest received	6	142,913	1,486,256
Interest paid	7	(861,010)	(588,535)
Income tax paid		(6,455,817)	(6,962,496)
Net cash generated from operating activities		22,930,515	29,553,212
Investing activities			
Purchase of property, plant and equipment	16	(23,817,063)	(23,014,160)
Purchase of intangible assets	17	-	(1,673,750)
Proceeds from disposal of property, plant and equipment		19,370	17,467
Acquisition of One Communications Limited net of cash acquired	29	(185,357)	-
Net cash used in investing activities		(23,983,050)	(24,670,443)
Financing activities			
Proceeds from borrowings		2,574,929	2,999,048
Proceeds from shareholder loans		72,550	-
Repayments on borrowings		(818,623)	(4,235,000)
Dividends paid to company's shareholders		(2,000,000)	(4,000,000)
Net cash used in financing activities		(171,144)	(5,235,952)
Net decrease in cash and cash equivalents		(1,223,679)	(353,183)
Movement in cash and cash equivalents			
At start of year		5,534,509	5,887,692
Decrease		(1,223,679)	(353,183)
At end of year	22	4,310,830	5,534,509

1. General information

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

The address of the registered office of the Company is:

L.R. No. 13263
Safaricom House, Waiyaki Way
PO Box 46350 – 00100
NAIROBI

The company's shares are listed on the Nairobi Stock Exchange.

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 (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Interpretations effective in 2009

In 2009, the following new interpretations became effective for the first time but have not had an impact on the company's financial statements:

- IFRIC 11 – IFRS 2 - Group and treasury share transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction
- IAS 39 and IFRS 7 – Reclassification of financial assets.

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

One new standard (IFRS 8 – Operating Segments) and numerous amendments to existing standards and new interpretations have been published and will be effective for the Group's accounting periods beginning on or after 1 January 2009 but the Group has not early adopted any of them.

The Directors have assessed the relevance of the new standard and interpretations, and amendments to existing standards with respect to the Group's operations and concluded that they are not relevant to the Group, other than IFRS 8, which will result in changes to the reportable segments and the amendments to IAS 1 – Presentation of Financial Statements, which will require non-owner changes in equity to be presented in a 'Comprehensive Statement of Income'.

(b) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

(c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'finance income or finance cost'. All other foreign exchange gains and losses are presented in the profit and loss account within 'other (losses)/gains – net'.

(d) Segment 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 Group to be comprised of one business and geographical segment. The financial statements are presented on the basis that risks and rates of return are related to this segment.

43 Notes (continued)

(e) Revenue recognition

The Group 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 Ongea, 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 Group 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 unutilised 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 Shs 10 spent on voice calls, short messages service (SMS) and data. These points can be redeemed for free airtime, SMS or merchandise such as phones.

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, 58% of the customers redeem points through airtime which costs Shs 0.12 per point to the Company while 42% redeem points through merchandise at a cost of Shs 0.5 per point to the Company. The cost excludes VAT and Excise Duty.

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

(f) Property, plant 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

(f) Property, plant and equipment (continued)

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

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

Capital work in progress, which represents additions to property 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.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in the operation (Note 18).

(ii) Network Licences

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

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

Currently, the Group has five long term licences with a standard life span of 15 years. These are as follows:

- The initial operating licence issued in July 1999 to Safaricom Limited (for operation of mobile systems and the provision of mobile services (ML-99-0001));
- The international gateway licence issued in June 2006 to Safaricom Limited;
- The 3G licence issued in October 2007 to Safaricom Limited;
- Local Loop Operator Licence (LLO) issued to Comtec Training and Management Services on 9 March 2006; and
- Digital Carrier Network Operation Licence (DCNO) issued to Comtec Integration Systems Limited on 9 March 2006.

The LLO and DCNO were acquired on 31 August 2008 when Safaricom Limited purchased 51% of the issued share capital of One Communications Limited, a WIMAX service provider (Note 29).

1. General information

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

The address of the registered office of the Company is:

L.R. No. 13263
Safaricom House, Waiyaki Way
PO Box 46350 – 00100
NAIROBI

The company's shares are listed on the Nairobi Stock Exchange.

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 (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Interpretations effective in 2009

In 2009, the following new interpretations became effective for the first time but have not had an impact on the company's financial statements:

- IFRIC 11 – IFRS 2 - Group and treasury share transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction
- IAS 39 and IFRS 7 – Reclassification of financial assets.

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

One new standard (IFRS 8 – Operating Segments) and numerous amendments to existing standards and new interpretations have been published and will be effective for the Group's accounting periods beginning on or after 1 January 2009 but the Group has not early adopted any of them.

The Directors have assessed the relevance of the new standard and interpretations, and amendments to existing standards with respect to the Group's operations and concluded that they are not relevant to the Group, other than IFRS 8, which will result in changes to the reportable segments and the amendments to IAS 1 – Presentation of Financial Statements, which will require non-owner changes in equity to be presented in a 'Comprehensive Statement of Income'.

(b) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

(c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'finance income or finance cost'. All other foreign exchange gains and losses are presented in the profit and loss account within 'other (losses)/gains – net'.

(d) Segment 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 Group to be comprised of one business and geographical segment. The financial statements are presented on the basis that risks and rates of return are related to this segment.

(e) Revenue recognition

The Group 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 Ongea, 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 Group 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 unutilised airtime is accounted for as deferred revenue on the balance sheet.

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(f) Property, plant and equipment (continued)

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(i) Goodwill

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- Local Loop Operator Licence (LLO) issued to Comtec Training and Management Services on 9 March 2006; and
- Digital Carrier Network Operation Licence (DCNO) issued to Comtec Integration Systems Limited on 9 March 2006.

The LLO and DCNO were acquired on 31 August 2008 when Safaricom Limited purchased 51% of the issued share capital of One Communications Limited, a WIMAX service provider (Note 20).

(g) Intangible assets (continued)

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 date for the initial operating licence was 1 July 1999 as indicated in the contractual agreement with the regulator. Initial amortisation of the licence was calculated in proportion to the average actual customers of the network in the relevant period against total planned customers at maturity. As at 31 March 2002, the network was considered mature and the amortisation policy changed to a straight line basis and the remaining net book value is being amortised over the remaining useful life.
The start up date for the LLO and DCNO licences was 9 March 2006 and they are both amortised over 15 years as per the licence agreements.

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

(h) Impairment of non-financial assets

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

(i) 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.

(j) Accounting for leases

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

(k) 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 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 spare log.

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

46 Notes
(continued)

(l) Receivables

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

(m) Payables

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

(n) 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.

(o) 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.

(p) Employee benefits

(i) Retirement benefit obligations

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

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

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

The Board of Directors approved the Employee Share Option Purchase (ESOP Scheme during the year, however the ESOP has not yet been implemented. Management plan to implement the policy once all regulatory approvals are obtained.

(ii) Other entitlements

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

(q) 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.

(q) Income tax (cont'd)

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.

(r) Borrowings

Borrowings are recognised initially at fair value including ransaction 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Dividends

Dividends payable to the Company's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

%

3 Critical accounting estimates and judgements

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

(i) Critical accounting estimates and assumptions

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

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill and the key assumptions made are set out in Note 29.

Income taxes

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

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

In the process of applying the Group's accounting policies, management has made judgements in determining:
- the classification of financial assets and leases
- whether land and buildings meet the criteria to be classified as investment property
- whether assets are impaired.

3 Critical accounting estimates and judgements (continued)

(iii) Critical judgement on going concern

The Group's current liabilities exceed its current assets by Shs 18,258,138,000 at the balance sheet date. This position is expected to remain a net liability in the near future. However, the Group continues to grow its revenue and to generate sufficient cash to meet its obligations as they arise and in line with the long term plans of the business. Management reviews the cash forecast monthly and determines its cash requirements.

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

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

4 Financial risk management

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group'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.

Market risk

(i) Foreign exchange risk

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

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

At 31 March 2009, if the Shilling had weakened/strengthened by 10% against the US Dollar with all other variables held constant, consolidated post tax profit for the year would have been Shs 110 million (2008: Shs 474 million) lower/higher, mainly as a result of US Dollar denominated trade payables.

At 31 March 2009, if the Shilling had weakened/strengthened by 10% against the Euro with all other variables held constant, consolidated post tax profit for the year would have been Shs 371 million (2008: Shs 586 million) lower/higher, mainly as a result of Euro denominated trade payables.

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The Group holds interest bearing assets in form of call and fixed deposits. The Group also has borrowings in the form of a syndicated loan at rates determined quarterly in advance. As at 31 March 2009, an increase/decrease of 10 basis points would have resulted in a decrease/increase in pre-tax profit of Shs 10.2 million (2008: Shs 7.1 million).

4 Financial risk management (continued)

Credit risk

Credit risk is managed on a Group-wide basis. Credit risk arises from cash equivalents, deposits with banks, as well as trade and other receivables. The Group credit controller assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

Dealers comprise the distribution network for the Group. Dealers operate either on a cash basis or on credit following successful application of the credit facility. All credit limits are supported by a bank guarantee and/or residual 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 ensures that once the limit has been reached the customer account is closed. This minimises the credit risk associated with these customers. Most of the overdue balances arose before this feature was introduced. Collection efforts are in place.

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

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

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

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

The Group's maximum exposure to credit risk as at 31 March 2009 is Shs 12 million (2008: Shs 9.7 million).

4 Financial risk management (continued)

Credit risk

The amount that best represents the Group's and Company's maximum exposure to credit risk at 31 March 2009 is made up as follows:

	Group 2009 KShs'000	2008 KShs'000	Company 2009 KShs'000
Cash equivalents	4,357,787	5,534,317	4,257,671
Trade receivables	3,809,964	2,960,745	3,791,578
Amounts due from related companies	2,506,184	428,758	2,514,082
Derivative financial instruments	100,314	-	100,314
Other receivables	1,282,719	855,388	1,244,071
	12,056,968	9,779,208	11,907,716

None of the above assets are either past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced):

	Group 2009 KShs'000	2008 KShs'000	Company 2009 KShs'000
Past due but not impaired:			
- by up to 30 days	533,881	759,930	517,156
- by more than 30 days	1,502,609	637,374	1,519,334
Total past due but not impaired	2,036,490	1,397,304	2,036,490

A further analysis of receivables is presented below:

Receivables

31 March 2009 - Group	Fully performing KShs'000	Past due but not impaired KShs'000	Impaired KShs'000
Dealers	951,401	320,233	(167,084)
Post-pay	552,508	507,701	(339,408)
Roaming and interconnect	835,918	1,199,628	(50,933)

4 Financial risk management (continued)

31 March 2008 - Group	Fully performing KShs'000	Past due but not impaired KShs'000	Impaired KShs'000	Total KShs'000
Dealers	611,691	262,186	(101,327)	772,550
Post-pay	292,694	905,864	(251,879)	946,679
Roaming and interconnect	1,072,043	229,254	(59,781)	1,241,516
Amounts due from related parties	428,758	-	-	428,758
Other receivables	855,388	-	-	855,388
Total	3,260,574	1,397,304	(412,987)	4,244,891
31 March 2009 - Company				
Dealers	951,401	320,233	(167,084)	1,104,550
Post-pay	552,508	507,701	(339,408)	720,801
Roaming and interconnect	835,918	1,199,628	(50,933)	1,984,613
Amounts due from related parties	2,514,082	-	-	2,514,082
Other receivables	1,235,143	8,928	-	1,244,071
Total	6,089,052	2,036,490	(557,425)	7,568,117
31 March 2008 - Company				
Dealers	611,691	262,186	(101,327)	772,550
Post-pay	292,694	905,864	(251,879)	946,679
Roaming and interconnect	1,072,043	229,254	(59,781)	1,241,516
Amounts due from related parties	428,758	-	-	428,758
Other receivables	855,388	-	-	855,388
Total	3,260,574	1,397,304	(412,987)	4,244,891

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 Group has bank guarantees of Shs 769

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 Group has an elaborate ageing system for monitoring its receivables. Dealers'

4 Financial risk management (continued)

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash to meet Group 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 special facility can be arranged with one of the Group's banks.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the 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 and 3 months	Between 3 and 12 months	More than 12 months	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
(a) Group					
At 31 March 2009:					
- borrowings	720,000	2,110,793	3,705,729	4,774,580	11,311,102
- trade and other payables	4,287,569	4,374,197	20,561,302	-	29,223,068
- income tax payable	-	-	1,074	-	1,074
	5,007,569	6,484,990	24,268,105	4,774,580	40,535,244
At 31 March 2008:					
- borrowings	360,000	1,999,048	360,000	6,480,000	9,199,048
- trade and other payables	2,011,401	4,685,510	15,720,720	-	22,417,631
- income tax payable	-	-	107,041	-	107,041
	2,371,401	6,684,558	16,187,761	6,480,000	31,723,720
(b) Company					
At 31 March 2009:					
- borrowings	720,000	2,110,793	3,479,928	4,680,000	10,990,721
- trade and other payables	4,287,569	4,374,197	20,349,369	-	29,011,135
	5,007,569	6,484,990	23,829,297	4,680,000	40,001,856
At 31 March 2008:					
- borrowings	360,000	1,999,048	360,000	6,480,000	9,199,048
- trade and other payables	2,011,401	4,685,510	15,720,720	-	22,417,631

4 Financial risk management (continued)

Capital management

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

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

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

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

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

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

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.

	Group 2009 KShs'000	2008 KShs'000
Total borrowings	**11,311,102**	9,199,048
Less: cash and cash equivalents	**(4,361,629)**	(5,534,509)
Net debt	**6,949,473**	3,664,539
Total equity	**51,147,180**	42,642,593
Total capital	**58,096,653**	46,307,132
Gearing ratio	12%	8%

5 Analysis of sales by category	Group 2009 KShs'000	2008 KShs'000
Voice	**58,795,295**	54,203,252
SMS and other data	**9,097,022**	4,972,475
Equipment sales and other acquisition revenues	**2,310,037**	1,814,914
Other	**277,233**	378,767
	70,479,587	61,369,408

6 Finance income	Group 2009 Shs'000	2008 Shs'000
Interest income	**142,913**	1,486,256
Foreign exchange gain on cash and borrowings	**-**	690,037
	142,913	2,176,293

7 Finance costs	Group 2009 KShs'000	2008 KShs'000
Interest expense	**(861,010)**	(588,535)
Foreign exchange losses on cash and borrowings	**(145,119)**	-
Other financing costs	**(8,036)**	(1)
	(153,155)	(1)
Net finance costs	**(1,014,165)**	(588,536)

8 Expenses by nature

The following items have been charged in administrative, distribution and other expenses, in arriving at profit before income tax:

	Group 2009 KShs'000	2008 KShs'000
Depreciation on property, plant and equipment (Note 16)	11,292,736	9,252,677
Amortisation of intangible assets (Note 17)	578,366	430,452
Repairs and maintenance expenditure on property, plant and equipment	113,591	125,677
Operating lease rentals		
- buildings	276,329	187,010
- sites	296,174	232,007
Receivables – provision for impairment losses	157,847	115,835
Stock adjustments	6,964	149,888
Employee benefits expenses (Note 9)	2,882,879	1,961,876
Auditor's remuneration	18,690	18,400
Sales and advertising	2,286,185	2,212,743
Consultancy	235,424	212,718
Site/facilities costs	182,689	141,151
Travel and accommodation	367,317	431,739
Computer maintenance	461,060	266,653
Office upkeep	342,438	264,128
Other operating expenses	1,353,977	845,378
Net foreign exchange losses, other than on borrowings and cash and cash equivalents	679,605	102,113
	21,532,271	16,950,445

9 Employee benefits expense

	Group 2009 KShs'000	2008 KShs'000
The following items are included within employee benefits expense:		
Salaries and wages	2,729,976	1,852,799
Retirement benefits costs:		
- Defined contribution scheme	147,585	105,191
- National Social Security Funds	5,318	3,886
	[illegible]	[illegible]

10 Income tax expense

	Group 2009 KShs'000	2008 KShs'000
Current income tax	**5,247,990**	6,315,491
Deferred income tax (Note 15)	**(480,723)**	(223,617)
Income tax expense	**4,767,267**	6,091,874

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

	Group 2009 KShs'000	2008 KShs'000
Profit before income tax	**15,304,027**	19,945,160
Tax calculated at the statutory income tax rate of 30% (2008: 30%)	**4,591,208**	5,983,548
Tax effect of:		
Income not subject to tax	**(300)**	-
Expenses not deductible for tax purposes	**134,843**	85,829
(Over)/Under-provision of deferred tax in prior year	**(2)**	22,497
Effect of change in tax rate	**(2,398)**	-
Deferred income tax not recognised	**43,916**	-
Income tax expense	**4,767,267**	6,091,874

Following the listing of 25% of the Company's issued share capital at the Nairobi Stock Exchange, the company's tax rate will reduce to 27% in the year ending 31 March 2010 for a period of 3 years.

11 Earnings per share

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

	2009	2008
Profit attributable to equity holders of the Company (Shs thousands)	**10,610,757**	13,853,286
Number of ordinary shares (thousands)	**40,000,000**	40,000,000

12 Dividends per share

nterim dividend was paid during the year (2008: Nil). The directors recommend payment of a final dividend of Shs 0.10 per share (2008: Shs 0.05) amounting to Shs 4,000,000,000 (2008: Shs 2,000,000,000).

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

	2009	2008
Dividends for the year (Shs' 000)	**4,000,000**	2,000,000
Number of ordinary shares (thousands)	**40,000,000**	40,000,000
Dividends per share (Shs)	**0.10**	0.05

13 Share capital

	Number of shares (Thousands)	Ordinary shares KShs'000	Share premium KShs'000
Balance at 1 April 2007	10	1	3,849,999
Effect of reduction in par value to Shs 0.05 from Sh 0.10 each	10	-	-
Issue of bonus shares and appropriation of share premium	39,999,980	1,999,999	(1,999,999)
Balance at 1 April 2008	40,000,000	2,000,000	1,850,000
Balance at 31 March 2009	40,000,000	2,000,000	1,850,000

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

The total number of non-voting redeemable preference shares is 5 with a par value of Shs 4 per share. These shares have the right to preference in the pay-

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

The Company's shares commenced trading at the Nairobi Stock

14 Borrowings

The borrowings are made up as follows:

	Group 2009 KShs'000	2008 KShs'000	Company 2009 KShs'000	2008 KShs'000
Non-current				
Bank borrowings	**4,680,000**	6,480,000	**4,680,000**	6,480,000
Shareholders' loan	**94,580**	-	**-**	-
	4,774,580	6,480,000	**4,680,000**	6,480,000
Current				
Bank borrowings	**6,485,723**	2,719,048	**6,310,721**	2,719,048
Bank overdraft	**50,799**	-	**-**	-
	6,536,522	2,719,048	**6,310,721**	2,719,048
Total borrowings	**11,311,102**	9,199,048	**10,990,721**	9,199,048

Included in borrowings is a loan of Shs 8,590,794,000 from a syndicate of banks. The borrowings are secured by a fixed and floating charge over the property and assets of the Company, both present and future. Included in the syndicated loan balances is Shs 510,794,000 which is denominated in United States Dollars. Interest on the Kenya Shilling denominated syndicated loan balance is payable quarterly at a margin of 1% over the reference 91 day treasury bill rate. Interest on the US Dollar denominated loan balance is payable quarterly in advance at a margin of 1.2% over the LIBOR rate.

The Group also has a loan facility of Shs 2,399,928,000 from a local bank. This loan is unsecured. Interest on the facility is payable monthly at a margin of 1.3% over the reference 91 day treasury bill rate.

The Group also has a facility of Shs 175 million that has been provided by a local bank in favour of One Communications Limited, a subsidiary of Safaricom Limited. The facility has been guaranteed by Safaricom Limited. The minority shareholders of One Communications Limited (Telkom Management Partners (K) Limited) have provided Safaricom with a co-guarantee to the extent of 49% of the loan. In addition, they have provided their shares in One Communications Limited to serve as

One Communications Limited has overdraft facilities of Shs 600 million with a l bank. The facilities are secured by a guarantee from Safaricom Limited.

A shareholders loan Shs 94.58 million has been provided to One Communicat Limited by the minority shareholders. The loan is unsecured and interest free a not payable within the next 12 months.

The weighted average effective interest rates at the year end were 8.28% (2008: 8.16%).

The carrying amounts of bank borrowings and bank overdrafts approximate to their fair value.

None of the borrowings was in default at any time during the year.

15 Deferred income tax

Deferred income tax is calculated using the
l income tax rate of either 27% or 30% (2008: 30%),
depending on the period of expected realisation.
nt on the deferred income tax account is as follows:

	Group 2009 KShs'000	2008 KShs'000
At start of year	**(1,379,889)**	(1,156,272)
Credit to profit and loss account (Note 10)	**(480,723)**	(223,617)
On acquisition of One Communications Limited	**(13,040)**	-
At end of year	**(1,873,652)**	(1,379,889)

The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group 2009 KShs'000	2008 KShs'000	Company 2009 KShs'000	2008 KShs'000
Deferred income tax assets	**(1,935,679)**	(1,427,600)	**(1,922,639)**	(1,427,600)
Deferred income tax liabilities	**62,027**	47,711	**62,027**	47,711
	(1,873,652)	(1,379,889)	**(1,860,612)**	(1,379,889)

deferred income tax assets and liabilities and deferred
e tax charges/(credits) in the profit and loss account
are attributable to the following items:

Year ended 31 March 2009 - Group	1.4.2008 KShs'000	Charged/ (credited) to P/L KShs'000	**On acquisition of subsidiary KShs'000**	31.3.2009 KShs'000
Deferred income tax liabilities				
Unrealised exchange gains	**47,711**	14,316	-	62,027
	47,711	14,316	-	62,027
Deferred income tax assets				
Property, plant and equipment:	**(1,257,529)**	(380,046)	-	(1,637,575)
Unrealised exchange loss	**(63,717)**	(113,788)	-	(177,505)
Provisions for doubtful debts and inventory	**(106,354)**	(1,205)	-	(107,559)
om fair value adjustment on acquisition of subsidiary	-	-	**(13,040)**	(13,040)

15 Deferred income tax (continued)

Year ended 31 March 2008 - Group	1.4.2007 KShs'000	(Credit)/Charge to P&L KShs'000	31.3.2008 KShs'000
Deferred income tax assets			
Property and equipment	(968,759)	(288,770)	(1,257,529)
Unrealised exchange loss	(31,837)	(31,880)	(63,717)
Provisions for doubtful debts and inventory	(155,699)	49,345	(106,354)
	(1,156,295)	(271,305)	(1,427,600)
Deferred income tax liabilities			
Unrealised exchange gains	23	47,688	47,711
Net deferred income tax asset	(1,156,272)	(223,617)	(1,379,889)

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

	2009 KShs'000	2008 KShs'000
Deferred income tax assets		
Property, plant and equipment:	(1,637,575)	(1,257,529)
Unrealised exchange loss	(177,505)	(63,717)
Provisions for doubtful debts and inventory	(107,559)	(106,354)
Total deferred income tax assets	(1,922,639)	(1,427,600)
Deferred income tax liabilities		
Unrealised exchange gains	62,027	47,711
Total deferred income tax liabilities	62,027	47,711
Net deferred income tax asset	(1,860,612)	(1,379,889)

16 Property, plant and equipment

(a) Group	Network infrastructure KShs'000	Capital work in progress KShs'000	Leasehold improvements KShs'000	Vehicles & equipment KShs'000	Total KShs'000
At 1 April 2007					
Cost	55,452,777	5,469,446	1,002,204	3,891,063	65,815,490
Accumulated depreciation	(20,412,506)	-	(618,940)	(2,052,391)	(23,083,837)
Net book amount	35,040,271	5,469,446	383,264	1,838,672	42,731,653
Year ended 31 March 2008					
Opening net book amount	35,040,271	5,469,446	383,264	1,838,672	42,731,653
Additions	6,333,637	15,936,572	110,467	633,484	23,014,160
Transfers	14,302,667	(15,097,745)	92,100	702,978	-
Disposals	(37)	(205)	(4,710)	(7,695)	(12,647)
Depreciation charge	(8,262,868)	-	(87,945)	(901,864)	(9,252,677)
Closing net book amount	47,413,670	6,308,068	493,176	2,265,575	56,480,489
At 31 March 2008					
Cost	76,089,044	6,308,068	1,200,061	5,219,830	88,817,003
Accumulated depreciation	(28,675,374)	-	(706,885)	(2,954,255)	(32,336,514)
Net book amount	47,413,670	6,308,068	493,176	2,265,575	56,480,489
Year ended 31 March 2009					
Opening net book amount	47,413,670	6,308,068	493,176	2,265,575	56,480,489
Additions	6,812,345	16,339,980	125,392	539,346	23,817,063
Transfers	10,533,136	(13,229,899)	557,823	2,138,940	-
Acquisition of One Communications Limited	31,297	-	-	2,098	33,395
Disposal	(264)	-	(2,836)	-	(3,100)
Depreciation charge	(9,750,558)	-	(225,837)	(1,316,341)	(11,292,736)
Closing net book amount	55,039,626	9,418,149	947,718	3,629,618	69,035,111
At 31 March 2009					
Cost	93,374,278	9,418,149	1,832,437	7,868,714	112,493,578
Accumulated depreciation	(38,334,652)	-	(884,719)	(4,239,096)	(43,458,467)

16 Property, plant and equipment (continued)

(b) Company	Network infrastructure KShs'000	Capital work in progress KShs'000	Leasehold improvements KShs'000	Vehicles & equipment KShs'000	Total KShs'000
At 31 March 2008					
Cost	76,089,044	6,308,068	1,200,061	5,219,830	88,817,003
Accumulated depreciation	(28,675,374)	-	(706,885)	(2,954,255)	(32,336,514)
Net book amount	47,413,670	6,308,068	493,176	2,265,575	56,480,489
At 31 March 2009					
Cost	93,240,249	9,418,149	1,832,437	7,851,504	112,342,339
Accumulated depreciation	(38,325,080)	-	(884,718)	(4,237,291)	(43,447,089)
Net book amount	54,915,169	9,418,149	947,719	3,614,213	68,895,250

The bank borrowings are secured by a floating and fixed charge over the property and assets, both present and future.

17 Intangible assets

(a) Group	Goodwill KShs'000	Licence Fees KShs'000	Total KShs'000
At 1 April 2007			
Cost	-	4,250,000	4,250,000
Accumulated amortisation and impairment	-	(1,881,917)	(1,881,917)
Net book amount	-	2,368,083	2,368,083
Year ended 31 March 2008			
Opening net book amount	-	2,368,083	2,368,083
Additions	-	1,673,750	1,673,750
Amortisation	-	(430,452)	(430,452)
Closing net book amount	-	3,611,381	3,611,381
At 31 March 2008			
Cost	-	5,923,750	5,923,750

17 Intangible assets (cont'd)

(a) Group	Goodwill	Licence Fees	Total
Year ended 31 March 2009			
Opening net book amount	-	3,611,381	3,611,381
Additions			
Acquisition of One Communication Limited (Note 29)	219,151	14,409	233,560
Amortisation		(578,366)	(578,366)
Closing net book amount	219,151	3,047,424	3,266,575
At 31 March 2009			
Cost	219,151	5,941,964	6,161,115
Accumulated amortisation and impairment	-	(2,894,540)	(2,894,540)
Net book amount	219,151	3,047,424	3,266,575

(b) Company	Licence Fees KShs'000
At 31 March 2008	
Cost	5,923,750
Accumulated amortisation and impairment	(2,312,369)
Net book amount	3,611,381
At 31 March 2009	
Cost	5,923,750
Accumulated amortisation and impairment	(2,890,064)
Net book amount	3,033,686

(continued)

18 Investment in subsidiaries (at cost)

The Group's interest in its subsidiaries, all of which are unlisted and all of which have the same year end as the company, were as follows:

	Country of incorporation	% interest Held	2009 KShs'000	Compan 200 KShs'00
One Communications Limited (Note 29)	Kenya	51	**185,561**	

Through its 51% shareholding in One Communications Limited, Safaricom Limited indirectly controls the subsidiaries listed below which are incorporated in Kenya and are fully owned by One Communications Limited. The companies are dormant but hold the indicated licences issued by the Communications Commission of Kenya.

Name of subsidiary	Licence
Comtec Training and Management Services Limited	Local Loop Operator License (LLO)
Comtec Integration Systems Limited	Digital Carrier Network Operation (DCNO)
Flexible Bandwidth Services Limited	Internet Service Provider (renewable annually)

19 Inventories	Group 2009 KShs'000	2008 KShs'000	Company 2009 KShs'000	2008 KShs'00
Network spare parts	**1,588,809**	1,446,862	**1,588,809**	1,446,86
Less: Provision for impairment losses	**(288,877)**	(401,123)	**(288,877)**	(401,12
	1,299,932	1,045,739	**1,299,932**	1,045,73
Handsets and accessories	**1,243,314**	630,303	**1,242,699**	630,30
Scratch cards	**132,636**	161,096	**132,636**	161,09
Starter packs	**240,714**	410,321	**240,714**	410,32
Stationery and other stocks	**13,087**	36,721	**13,087**	36,72
	2,929,683	2,284,180	**2,929,068**	2,284,18

The cost of inventories recognised as an expense and included in the consolidated 'cost of sales' amounted to

20 Receivables and prepayments

	Group 2009 KShs'000	Group 2008 KShs'000	Company 2009 KShs'000	Company 2008 KShs'000
Trade receivables	4,367,389	3,373,732	4,349,003	3,373,732
Less: Provision for impairment losses	(557,425)	(412,987)	(557,425)	(412,987)
	3,809,964	2,960,745	3,791,578	2,960,745
Prepayments	1,411,247	823,858	1,411,247	823,858
Amount due from related companies (Note 25)	2,506,184	428,758	2,514,082	428,758
Other receivables	1,282,719	855,388	1,244,071	855,388
	9,010,114	5,068,749	8,960,978	5,068,749

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

	Group and Company 2009 KShs'000	Group and Company 2008 KShs'000
At start of year	412,987	306,811
Provision in the year	157,847	115,835
Receivables written off during the year as uncollectible	(13,409)	(9,659)
At end of year	557,425	412,987

The carrying amounts of the above receivables and prepayments approximate their fair values

21 Derivative financial instruments

	Group 2009 KShs'000	Group 2008 KShs'000	Company 2009 KShs'000	Company 2008 KShs'000
Forward foreign exchange contracts - asset	100,314	-	100,314	-

The Group had entered into forward exchange contracts with local banks to buy foreign currency at specified dates to enable it pay its foreign suppliers when the amounts are due.

22 Cash and cash equivalents

	Group 2009 KShs'000	Group 2008 KShs'000	Company 2009 KShs'000	Company 2008 KShs'000

22 Cash and cash equivalents (continued)

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

	Group 2009 KShs'000	2008 KShs'000
Cash and bank balances as above	4,361,629	5,534,509
Bank overdrafts (Note 14)	(50,799)	-
	4,310,830	5,534,509

23 Payables and accrued expenses	Group 2009 KShs'000	2008 KShs'000	Company 2009 KShs'000	2008 KShs'000
Trade payables	11,923,192	10,118,657	11,703,629	10,118,657
Amounts due to related companies (Note 25)	1,132,329	1,323,757	1,132,329	1,323,757
Accrued liabilities - Network infrastructure	4,829,941	2,861,810	4,829,941	2,861,810
- Inventory	892,399	480,460	892,399	480,460
- Other expenses	7,120,630	5,594,691	7,120,630	5,594,691
Other payables	3,324,577	2,038,256	3,332,207	2,038,256
	29,223,068	22,417,631	29,011,135	22,417,631

Other payables include other accruals such as taxes payable and other payables such as customer deposits and deferred revenue. The carrying amounts of the above payables and accrued expenses approximate to their fair values.

24 Cash generated from operations

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

	Group 2009 KShs'000	2008 KShs'000
Profit before income tax	15,304,027	19,945,160
Adjustments for:		
Interest income (Note 6)	(142,913)	(1,486,256)
Interest expense (Note 7)	861,010	588,535
Unrealised exchange loss on syndicated loan	111,746	-
Changes in fair value of financial instruments (Note 21)	(100,314)	(39,740)
Depreciation (Note 16)	11,292,736	9,252,677
Change in prepaid operating lease rentals	2,656	(4,629)
Amortisation of intangible assets (Note 17)	578,366	430,452
Profit on sale of property, plant and equipment	(16,270)	(4,820)
Changes in working capital		
- receivables and prepayments	(3,861,290)	(2,041,342)

25 Related party transactions

At 20 December 2007, the company had two shareholders: Government of Kenya (GoK) 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 GoK at the time, the Company was 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.

Through a special resolution of the Board of Directors on 20 December 2007, the ordinary shares of the Company held by Telkom Kenya Limited (TKL) were transferred to the GoK through the Permanent Secretary to the Treasury. TKL is a state corporation under the Act.

Under the terms of a share sale agreement dated 8 November 2007 between the GoK and TKL, TKL sold all its shares in the Company to the GoK free from all claims or encumbrances.

Further, the parties to the Amending Agreement agreed that following the initial public offer, Vodafone Kenya Limited and the GoK (or a GoK 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 GoK's policy of divesting its ownership in public enterprises, the GoK 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 Shs 0.05 each, of the Company. This represented 25% of the total issued share capital of the Company from the GoK's shareholding in the Company.

Following the sale of the 25% of the issued ordinary shares of the Company to the public, the GoK ceased to have a controlling interest in the Company as defined under the State Corporations Act. The Company therefore ceased to be a state corporation.

The Company's shares commenced trading on 9 June 2008 at the Nairobi Stock Exchange.

The company has roaming agreements with Vodafone 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.

In March 2007, the Company, in conjunction with the Vodafone Group Services Limited through Vodafone Marketing SARL, the licencee, launched M-PESA. This is an innovative mobile payment solution that enables users to complete simple financial transactions by mobile phone. The Company also uses the M-PESA platform to sell airtime to M-PESA account holders.

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 the Company as a managed service and the Company agrees to market and offer the M-PESA services throughout the country.

25 Related party transactions (continued)

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

The Company signed an agreement with Vodafone Marketing SARL (VMS), a company incorporated in Luxembourg. The agreement is effective from 1 October 2006 to 30 September 2010. 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 Group Products and Services under the Vodafone brand that was provided to Safaricom.

For the year ended 31 March 2009, Safaricom shall pay VMS a participation fee of 0.5% of the Company's annual turnover. (2008: 0.8% of the Company's total annual revenue for six months ended 30 September 2007 and 0.5% of the Company's total revenue for the six months ended 31 March 2008)

For all other financial years during the term of the agreement, the company shall pay VMS a participation fee of the lower of 0.5% of the company's total annual revenue or Euro 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 for the procured products.

The following transactions were carried out with related parties:

i) Sale of goods and services	Group 2009 KShs'000	2008 KShs'000
Telkom Kenya Limited	-	1,421,682
Vodafone International Holdings B.V.	218,398	157,980
Vodacom Tanzania Limited	274,633	126,538
Commissions earned from M-PESA	2,926,709	365,390
	3,419,740	2,071,590

ii) Purchase of goods and services	Group 2009 KShs'000	2008 KShs'000
Vodafone Group Services Limited	189,265	-
Vodafone Ireland Marketing Limited	126,177	-
Telkom Kenya Limited	-	964,935
Vodafone (UK) Limited	310,527	-
Vodafone Marketing S.A.R.L.	586,373	1,107,719
Vodacom Tanzania Limited	387,389	155,933
	1,599,731	2,228,587

25 Related party transactions (continued)

iii) Key management compensation

	Group 2009 KShs'000	2008 KShs'000
Salaries and other short-term employment benefits	433,174	277,644
Termination benefits	5,107	-
	438,281	277,644

iv) Directors' remuneration

	2009 Shs'000	2008 Shs'000
Fees for services as a director	1,310	230
Other emoluments to directors	112,695	944
Total remuneration of directors of the Company	114,005	1,174

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

	Group 2009 KShs'000	2008 KShs'000	Company 2009 KShs'000	2008 KShs'000
Amounts due from:				
- Vodafone (UK) Limited	77,616	417,340	77,616	417,340
- M-PESA Holding Company Limited	2,254,592	-	2,254,592	-
- Vodacom Tanzania Limited	173,271	10,713	173,271	10,713
- Vodafone Kenya Limited	705	705	705	705
- One Communications Limited	-	-	7,898	-
	2,506,184	428,758	2,514,082	428,758

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

	Group 2009 KShs'000	2008 KShs'000	Company 2009 KShs'000	2008 KShs'000
Amounts due to:				
- Vodafone Group Services Limited	94,632	96,029	94,632	96,029
- Vodafone Ireland Marketing Limited	63,088	144,041	63,088	144,041
- Vodafone Marketing S.A.R.L.	283,952	712,239	283,952	712,239
- Vodafone (UK) Limited	64,711	86,688	64,711	86,688
- M-PESA Holding Company Limited	462,836	-	462,836	-

25 Related party transactions (continued)

vii) Loans to directors of the company

There were no loans to directors of the Company at 31 March 2008 and 31 March 2009.

26 Contingent liabilities

At 31 March 2009, a guarantee of Ksh 8,000,000 has been given to Barclays Bank of Kenya against credit cards for senior staffs' use during travel and a guarantee of Shs 27,489,600 to various suppliers for services regularly provided to the company.

27 Commitments

Capital commitments

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

	Group 2009 KShs'000	2008 KShs'000	Company 2009 KShs'000	2008 KShs'000
Property and equipment	**4,069,428**	1,685,461	**4,042,595**	1,685,461
The East African Marine Systems (TEAMS)	**1,681,405**	69,133	**1,681,405**	69,133
	5,750,833	1,754,594	**5,724,000**	1,754,594

TEAMS (The East African Marine System) is an initiative spear-headed 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 Tele-communication Establishment (Etisalat) at 85% and 15% respec-tively.

TEAMS Limited will be owned by Government of Kenya, Safari-com Limited, Telkom Kenya Limited and other local telecommuni-cations 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 33% over five years and to stimulate investment in the region.

28 Operating lease commitments

	Group 2009 KShs'000	2008 KShs'000	Company 2009 KShs'000
Not later than 1 year	**371,134**	287,607	**347,374**
Later than 1 year and not later than 5 years	**1,410,785**	1,236,571	**1,410,701**
Later than 5 years	**1,044,167**	980,216	**1,044,167**
	2,826,086	2,504,394	**2,802,242**

29 Business combination

On 31 August 2008, the Company acquired 51% of the issued share capital of One Communications Limited, a WIMAX service provider.

Details of net assets acquired and goodwill are as follows:	KShs'000
Purchase consideration	
- cash paid	178,698
- direct costs relating to the acquisition	6,863
Total purchase consideration	185,561
Fair value of identifiable net liabilities acquired (see below)	33,590
Goodwill	219,151

The goodwill is attributable to the business potential and the technical reputation of the group and its employees.

The assets and liabilities arising from the acquisition as at 31 August 2008 are as follows:

	Acquiree's carrying amount KShs'000	Fair value adjustments KShs'000	Fair value KShs'000
Cash and cash equivalents	204	-	204
Property, plant and equipment	33,395	-	33,395
Intangible assets	14,409	-	14,409
Deferred tax	-	13,040	13,040
Receivables	83,058	(2,983)	80,075
Trade and other payables	(84,797)	(192)	(84,989)
Tax payable	(1,074)	-	(1,074)
Contingent liabilities	-	(270)	(270)
Borrowings	(120,653)	-	(120,653)
Net liabilities at acquisition	(75,458)	9,595	(65,863)
Net liabilities acquired (51%)			(33,590)
Goodwill on acquisition			219,151
Total purchase price			185,561

30 Prepaid operating lease rentals – Group and Company

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

The analysis of prepaid operating lease rentals is as follows:

	2009 KShs'000	2008 KShs'000
At start of year	**330,007**	262,393
Additions	**346,997**	299,621
Amortisation charge for the year	**(296,174)**	(232,007)
At end of year	**380,830**	330,007
Current portion reflected in prepayments	**(376,370)**	(322,891)
Non current portion	**4,460**	7,116

Principal Shareholders

The ten largest shareholdings in the company and the respective number of shares held at 31 March 2009 are as follows:

Name of shareholder	Number of shares
1. Vodafone Kenya Limited	16,000,000,000
2. Permanent Secretary-The Treasury	14,000,000,000
3. Pictet & Cie, Geneva	214,699,000
4. National Social Security Fund - Uganda	160,278,800
5. Genesis Investment Management, London	126,571,400
6. Stanlib	113,266,223
7. Bond Trading SARL	96,639,600
8. Social Security Fund of Rwanda	96,605,000
9. Barclays (Kenya) Nominees Limited a/c 1256	76,881,200
10. Barclays (Kenya) Nominees Limited a/c 9230	73,213,100

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
Less than 1,000 shares	465,106	288,051,763	0.72
1,001 to 10,000 shares	304,969	931,513,225	2.33
10,001 to 100,000 shares	52,047	1,374,921,826	3.44
100,001 to 1,000,000 shares	5,976	1,505,857,331	3.76
1,000,001 to 10,000,000 shares	682	1,966,478,437	4.92
10,000,001 to 100,000,000 shares	126	3,318,361,995	8.30
100,000,001 to 1,000,000,000 shares	4	614,815,423	1.54
1,000,000,001 to 100,000,000,000 shares	2	30,000,000,000	75.00
Total	828,912	40,000,000,000	100.00

Proxy Form

I/WE ______________________________

OF ______________________________

Being a member of the above Company, hereby appoint:

OF ______________________________

OF ______________________________

failing whom, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday, 19 August 2009 and at any adjournment thereof.

As witness my/our hand this 19th day of August 2009.

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. All proxies should be sent by Post to Image Registrars of PO Box 9287-00100 Nairobi. Alternatively, duly signed proxies can be scanned and emailed to info@image.co.ke in PDF format.
   Proxies must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting.

continually growing our people