

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



**REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF
SAFARICOM LIMITED FOR THE YEAR
ENDED 31 MARCH 2008**

SAFARICOM LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

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The directors submit their report together with the audited financial statements for the year ended 31 March 2008, which disclose the state of affairs of Safaricom Limited ("the Company").

PRINCIPAL ACTIVITIES

The principal activity of the Company is the provision of mobile phone services.

RESULTS AND DIVIDEND

The profit for the year of Shs 13,853,286,000 (2007: Shs 12,010,431,000) has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 2,000,000,000 (2007: Shs 4,000,000,000) to be ratified at the next annual general meeting.

DIRECTORS

The directors who held office at the date of this report were:

N. Nganga	Chairman
G.J. Darby	
R.W. Collymore	
N.W. Macharia	
S Sivagnanasundaram*	(appointed 11 September 2007)
J. Kinyua	(appointed 28 February 2008)
B. Ndemo	(appointed 28 February 2008)
E. Koimett**	(resigned 28 February 2008)
S. Kirui	(resigned 20 December 2007)

* Appointed as alternate for G.J. Darby and R.W. Collymore

** Appointed on 28 February 2008 as alternate for J Kinyua

By order of the Board



John L. G. Maonga
SECRETARY

27 May 2008

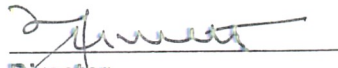
The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Company keeps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

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

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



Director



Director

27 May 2008



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF SAFARICOM LIMITED FOR THE YEAR ENDED 31 MARCH 2008

The financial statements of Safaricom Limited set out on pages 5 to 42 which comprise the balance sheet as at 31 March 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Directors' responsibility for the financial statements

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

Responsibility of the Controller and Auditor General

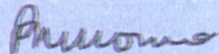
My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

Opinion

In my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Company as at 31 March 2008 and of its profit and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the Kenya Companies Act, Cap 486 of the Laws of Kenya.



P.N. KOMORA, CBS.

CONTROLLER AND AUDITOR GENERAL

Nairobi

30 May 2008

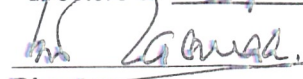
Profit and loss account

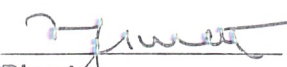
	Notes	Year ended 31 March	
		2008	2007
		Shs'000	Shs'000
Sales	5	61,369,408	47,447,490
Cost of sales		(26,066,380)	(18,155,340)
Gross profit		35,303,028	29,292,150
Other income		4,820	17,250
Distribution costs		(2,323,768)	(1,389,832)
Administrative expenses		(3,129,214)	(2,147,902)
Other expenses		(11,385,691)	(7,983,147)
Operating profit	6	18,469,175	17,788,519
Finance income	8	2,217,756	258,218
Finance cost	8	(741,771)	(853,998)
Profit before income tax		19,945,160	17,192,739
Income tax expense	9	(6,091,874)	(5,182,308)
Profit for the year		13,853,286	12,010,431
Proposed dividends	10	2,000,000	4,000,000
Earnings per share for profit attributable to the equity holders of the Company - basic (Shs per share)	10	0.346	0.300
Dividend per share for profit attributable to the equity holders of the Company - basic (Shs per share)	10	0.050	0.100

Balance sheet

	Notes	2008 Shs'000	2007 Shs'000
CAPITAL EMPLOYED			
Share capital	11	2,000,000	1
Share premium	11	1,850,000	3,849,999
Retained earnings		36,792,593	24,939,307
Proposed dividend	10	2,000,000	4,000,000
Shareholders' funds		42,642,593	32,789,307
Non-current liabilities			
Borrowings	13	6,480,000	10,435,000
		49,122,593	43,224,307
REPRESENTED BY:			
Non-current assets			
Property and equipment	15	56,480,489	42,731,653
Intangible assets	17	3,611,381	2,368,083
Deferred income tax	14	1,379,889	1,156,272
Prepaid operating lease rentals	16	7,116	2,487
		61,478,875	46,258,495
Current assets			
Inventories	18	2,284,180	1,234,645
Receivables and prepayments	19	5,068,749	3,027,407
Cash and cash equivalents	20	5,534,509	5,887,692
		12,887,438	10,149,744
Current liabilities			
Payables and accrued expenses	21	22,417,631	12,390,146
Current income tax		107,041	754,046
Derivative financial instruments	12	-	39,740
Borrowings	13	2,719,048	-
		25,243,720	13,183,932
Net current liabilities		(12,356,282)	(3,034,188)
		49,122,593	43,224,307

The financial statements on pages 5 to 41 were approved for issue by the board of directors on 27 May 2008 and signed on its behalf by:


 Director


 Director

Safaricom Limited
 Financial statements
 For the year ended 31 March 2008

Statement of changes in equity

	Notes	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 March 2007						
At start of year	11	1	3,849,999	16,928,876	2,991,673	20,778,876
Profit for the year		-	-	12,010,431	-	12,010,431
Dividends:						
- Final for 2006 paid	10	-	-	-	(2,991,673)	(2,991,673)
- Proposed for 2007	10	-	-	(4,000,000)	4,000,000	-
At end of year		1	3,849,999	24,939,307	4,000,000	32,789,307
Year ended 31 March 2008						
At start of year	11	1	3,849,999	24,939,307	4,000,000	32,789,307
Bonus issue of shares	11	1,999,999	(1,999,999)	-	-	-
Profit for the year		2,000,000	1,850,000	24,939,307	4,000,000	32,789,307
Dividends:				13,853,286	-	13,853,286
- Paid for 2007	10	-	-	-	(4,000,000)	(4,000,000)
- Proposed for 2008	10	-	-	(2,000,000)	2,000,000	-
At end of year		2,000,000	1,850,000	36,792,593	2,000,000	42,642,593

Cash flow statement

	Notes	Year ended 31 March	
		2008 Shs'000	2007 Shs'000
Operating activities			
Cash generated from operations	24	35,617,987	26,289,379
Interest received	8	1,486,256	258,218
Interest paid	8	(588,535)	(434,968)
Income tax paid		(6,962,496)	(5,002,181)
Net cash generated from operating activities		29,553,212	21,110,448
Investing activities			
Purchase of property and equipment	15	(23,014,160)	(16,337,975)
Purchase of intangible assets	17	(1,673,750)	(15,000)
Proceeds from disposal of property and equipment		17,467	21,164
Net cash used in investing activities		(24,670,443)	(16,331,811)
Financing activities			
Proceeds from long-term borrowings	13	2,999,048	1,200,000
Repayments on long-term borrowings	13	(4,235,000)	(16,726)
Dividends paid to shareholders	10	(4,000,000)	(2,991,673)
Net cash used in financing activities		(5,235,952)	(1,808,399)
Net (decrease)/increase in cash and cash equivalents		(353,183)	2,970,238
Movement in cash and cash equivalents			
At start of year		5,887,692	2,917,454
(Decrease)/increase		(353,183)	2,970,238
At end of year	20	5,534,509	5,887,692

Notes

1 General information

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

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

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

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

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

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

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

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

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

The address of the registered office of the Company is:

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

Notes (continued)

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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Adoption of new and revised standards

In 2007, the following new and revised standards and interpretations became effective for the first time and have been adopted by the Company where relevant to its operations. The comparative figures have been restated as required, in accordance with the relevant requirements.

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

- *IFRS 7, Financial Instruments: Disclosures*. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification or measurement of the Company's financial instruments.

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Functional currency and translation of foreign currencies

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

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

(c) Revenue recognition

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

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

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

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

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Property and equipment

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

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

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

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

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

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

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

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

(e) Segmental reporting

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Intangible assets

A network licence is a requirement of the Communications Commission of Kenya for mobile telephone companies. The licence is renewable for an additional 15 years upon their lapse.

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

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

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

The international gateway and 3G licences operate under the same umbrella as the original licence, ML-99-0001. The useful life of these licences is fifteen years as long as the original licence is in force. As such they are amortised within the remaining useful life of the original licence.

The start-up period was 1 July 1999 as indicated in the contractual agreement with the regulator. Initial amortisation of the licence was calculated in proportion to the average actual customers of the network in the relevant period against total planned customers at maturity. As at 31 March 2002, the network was considered mature and the amortisation policy switched to a straight line basis and the remaining net book value was amortised over the remaining useful life.

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

(g) Accounting for leases

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

(h) Inventories

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Receivables

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

(j) Cash and cash equivalents

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

(k) Payables

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

(l) Share Capital

Ordinary shares are classified as equity.

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

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

Non-participating preference shares have the right to preference in the payment of the paid up par value in the event of liquidation of the Company and may be redeemed at any time by the Board of the Company subject to the provisions of the Companies Act.

(m) Accounting for derivative financial instruments and hedging activities

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(n) Employee benefits

(i) Retirement benefit obligations

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

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

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

(ii) Other entitlements

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

(o) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

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

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

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

(p) Borrowings

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(c) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared.

3 Financial risk management objectives and policies

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

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

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

Market risk

(i) Foreign exchange risk

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

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

At 31 March 2008, if the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, pre tax profit for the year would have been Shs 237 million (2007: Shs 18 million) lower/higher, mainly as a result of US dollar payables and bank balances.

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

(ii) Price risk

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

Notes (continued)

3 Financial risk management objectives and policies (continued)

(iii) Cash flow and fair value interest rate risk

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

(iv) Credit risk

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

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

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

The Company currently has 302 signed international roaming agreements in place. The roaming strategy targets countries which historically have had the most visitors to Kenya, including UK, Italy, Spain, Sweden, South Africa, and Kenya's neighbouring countries. Roaming partners have entered into an agreement with the Company to terminate their calls on the Company's network for visitors travelling into Kenya. Amounts due from the roaming partners are settled within 60 days unless a dispute arises. Disputes are handled by MACH, a roaming clearing house.

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

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

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

Notes (continued)

3 Financial risk management objectives and policies (continued)

(iv) Credit risk (continued)

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

Receivables

31 March 2008	Fully performing Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
Dealers	609,691	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	3,974,092	1,397,304	(412,987)	4,244,891
31 March 2007				
Dealers	356,024	121,670	(114,748)	362,946
Post-pay	40,432	787,516	(155,859)	672,089
Roaming and interconnect	242,150	112,692	(36,204)	318,638
Amounts due from related parties	337,045	135,381	-	472,426
Other receivables	501,968	-	-	501,968
Total	1,477,619	1,157,259	(306,811)	2,328,067

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

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

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

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

Notes (continued)

3 Financial risk management objectives and policies (continued)

(iv) Credit risk (continued)

Cash equivalents

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

Cash equivalents are fully performing.

Liquidity risk

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

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

	Less than 1 month Shs'000	Between 1 - 3 months Shs'000	Between 3 - 12 months Shs'000	Total Shs'000
At 31 March 2008:				
- borrowings: bank borrowings	360,000	1,999,048	6,840,000	9,199,048
- income tax payable	-	-	107,041	107,041
- trade and other payables	2,011,401	4,685,510	15,720,720	22,417,631
	<u>2,371,401</u>	<u>6,684,558</u>	<u>22,667,761</u>	<u>31,723,720</u>
At 31 March 2007:				
- borrowings: shareholder loans	-	-	4,235,000	4,235,000
- borrowings: bank borrowings	-	-	6,453,739	6,453,739
- income tax payable	-	-	754,046	754,046
- trade and other payables	9,919,977	1,999,625	470,544	12,390,146
- derivative financial instruments	39,740	-	-	39,740
	<u>9,959,717</u>	<u>1,999,625</u>	<u>11,913,329</u>	<u>23,872,671</u>

Notes (continued)

3 Financial risk management objectives and policies (continued)

Capital risk management

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

On 6 November, 2007, the Company adopted a dividend policy that permits dividends to be paid if the Board of Directors finds that the payments are sustainable, after taking into account the sufficiency of distributable reserves and liquidity in order to ensure the Company's operational needs and/or business growth are not limited by the unavailability of funds, as well as the Company's known contingencies and compliance with any funding facility covenants.

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

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.

Notes (continued)

3 Financial risk management objectives and policies (continued)

Capital risk management (continued)

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

	2008 Shs'000	2007 Shs'000
Share capital	2,000,000	1
Share premium	1,850,000	3,849,999
Retained earnings	36,792,593	24,939,307
Proposed dividends	2,000,000	4,000,000
	<hr/>	<hr/>
Equity	42,642,593	32,789,307
Total borrowings	9,199,048	10,435,000
Less: cash and cash equivalents	(5,534,509)	(5,887,692)
	<hr/>	<hr/>
Net debt	3,664,539	4,547,308
	<hr/>	<hr/>
Total capital	46,307,132	37,336,615
	<hr/>	<hr/>
Gearing	8%	12%
	<hr/>	<hr/>

4 Critical accounting estimates and judgements

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

(i) Critical accounting estimates and assumptions

Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes (continued)

4 Critical accounting estimates and judgements (continued)

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

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

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

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

In preparing its tax computation, management has assumed that the licence fee payments are tax deductible.

(ii) Critical judgement on going concern

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

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

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

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

5 Analysis of sales by category

	2008 Shs'000	2007 Shs'000
Voice	54,203,251	41,507,957
SMS and other data	4,607,085	4,042,807
Equipment sales and other acquisition revenues	1,814,914	1,340,490
Other	744,158	556,236
	<hr/>	<hr/>
	61,369,408	47,447,490
	<hr/>	<hr/>

Notes (continued)

6 Operating profit

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

	2008 Shs'000	2007 Shs'000
Depreciation on property and equipment (Note 15)	9,252,677	6,393,676
Employee benefits expenses (Note 7)	1,961,876	1,522,666
Sales and advertising	2,212,743	1,150,773
Amortisation of intangible assets (Note 17)	430,452	326,164
Travel and accommodation	431,739	243,047
Consultancy	212,718	367,206
Utilities	141,151	187,932
Computer support	266,653	190,012
Operating lease rentals		154,584
- buildings	187,010	160,416
- sites (Note 16)	232,007	101,235
Receivables – provision for impairment losses	106,176	251,235
Write down of inventories	149,888	
Repairs and maintenance expenditure on property and equipment	125,677	30,226
Auditor's remuneration	18,400	11,050
Office upkeep	264,128	143,176
Other operating expenses	845,378	44,862
	16,838,673	11,520,881

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

7 Employee benefits expense

The following items are included within employee benefits expense:

	2008 Shs'000	2007 Shs'000
Salaries and wages	1,852,799	1,448,589
Retirement benefits costs:		
- Defined contribution scheme	105,191	71,331
- National Social Security Fund	3,886	2,746
	1,961,876	1,522,666

Notes (continued)

8 Finance income/(costs)	2008	2007
	Shs'000	Shs'000
Finance income		
Foreign exchange gain on shareholders' loans	731,500	-
Interest income	1,486,256	258,218
	<u>2,217,756</u>	<u>258,218</u>
Finance costs		
Interest expense	(588,535)	(434,968)
Foreign exchange losses	(153,236)	(419,030)
	<u>(741,771)</u>	<u>(853,998)</u>
Net finance income/(costs)	<u>1,475,985</u>	<u>(595,780)</u>
9 Income tax expense		
Current income tax	6,315,491	5,402,128
Deferred income tax (Note 14)	(223,617)	(219,820)
Income tax expense	<u>6,091,874</u>	<u>5,182,308</u>

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

	2008	2007
	Shs'000	Shs'000
Profit before income tax	19,945,160	17,192,739
Tax calculated at the statutory income tax rate of 30% (2007 – 30%)	5,983,548	5,157,822
Tax effect of:		
Expenses not deductible for tax purposes	84,829	24,486
Under-provision of deferred tax in prior year	23,497	-
Income tax expense	<u>6,091,874</u>	<u>5,182,308</u>

Notes (continued)

10 Earnings and dividends per share

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

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

i) Basic and diluted earnings per share

	2008 Shs'000	2007 Shs'000
Profit for the year (Shs '000)	13,853,286	12,010,431
Number of shares (thousands)	40,000,000	40,000,000
Earnings per share (Shs) - Basic	0.346	0.300

ii) Dividends per share

At the next annual general meeting a dividend in respect of the year ended 31 March 2008 amounting to Shs 2,000,000,000 (2007: Shs 4,000,000,000) is to be ratified.

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

	2008 Shs'000	2007 Shs'000
Dividends for the year (Shs '000)	2,000,000	4,000,000
Number of shares (thousands)	40,000,000	40,000,000
Dividends per share (Shs)	0.050	0.100

Notes (continued)

11 Share capital	Number of shares	Ordinary shares Shs'000	Share premium Shs'000
Balance as at 1 April 2006 and 2007			
Ordinary shares (at Shs 0.10 par value)	10,000	1	3,849,999
Effect of reduction in par value to Shs 0.05 from Shs 0.10 each	10,000	-	-
Issue of bonus shares and appropriation of share premium	39,999,980,000	1,999,999	(1,999,999)
Balance as at 31 March 2008	40,000,000,000	2,000,000	1,850,000
		Number of shares	Ordinary shares Shs'000
Balance as at 1 April 2006, 1 April 2007 and 31 March 2008			
- Non-voting, redeemable preference shares (at Shs 4 each)		5	-

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

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

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

Each of the five non-voting non-participating deferred shares of Shs 4 each were converted into non-voting redeemable preference shares of Shs 4 each. These shares have the right to preference in the payment of the paid up par value in the event of liquidation of the Company and may be redeemed at any time by the Board of the Company subject to the provisions of the Companies Act.

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

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.

Notes (continued)

12 Derivative financial instruments	2008 Shs'000	2007 Shs'000
Forward foreign exchange contracts - liability	-	39,740

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

13 Borrowings

The borrowings are made up as follows:

	2008 Shs'000	2007 Shs'000
Non-current		
Bank borrowings	6,480,000	6,200,000
Loans from shareholders (Note 25)	-	4,235,000
	<u>6,480,000</u>	<u>10,435,000</u>
Current		
Bank borrowings	2,719,048	-
	<u>9,199,048</u>	<u>10,435,000</u>

Movement in borrowings

	1.4.2007 Shs'000	Repayments Shs'000	Borrowing Shs'000	31.3.2008 Shs'000
Bank borrowings	6,200,000	-	2,999,048	9,199,048
Shareholders loans	4,235,000	(4,235,000)	-	-
Total	<u>10,435,000</u>	<u>(4,235,000)</u>	<u>2,999,048</u>	<u>9,199,048</u>
	1.4.2006 Shs'000	Repayments Shs'000	Borrowing Shs'000	31.3.2007 Shs'000
Bank borrowings	5,016,726	(16,726)	1,200,000	6,200,000
Shareholders loans	4,235,000	-	-	4,235,000
Total	<u>9,251,726</u>	<u>(16,726)</u>	<u>1,200,000</u>	<u>10,435,000</u>

Notes (continued)

13 Borrowings (continued)

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

The loan period was five years and repayment on the principal will start in April 2008, with Shs 2,719 million repayable within the next 12 months. The interest on the loan is payable quarterly at a margin of 1% over the reference 91 day treasury bill rate.

Weighted average effective interest rates at the year end were 8.16% (2007: 7.63%).

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

Shareholder loans

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

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

14 Deferred income tax

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

	2008 Shs'000	2007 Shs'000
At start of year	1,156,272	936,452
Credit to profit and loss account (Note 9)	223,617	219,820
	<hr/>	<hr/>
At end of the year	1,379,889	1,156,272
	<hr/>	<hr/>

Notes (continued)

14 Deferred income tax (continued)

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

	1.4.2007 Shs'000	(Credit)/ Charge to P&L Shs'000	31.3.2008 Shs'000
Deferred income tax assets			
Property and equipment	(968,759)	(287,770)	(1,256,529)
Unrealised exchange loss	(31,837)	(32,880)	(64,717)
Provisions for doubtful debts and inventory	(155,699)	49,345	(106,354)
	<u>(1,156,295)</u>	<u>(271,305)</u>	<u>(1,427,600)</u>
Deferred income tax liabilities			
Unrealised exchange gains	23	47,688	47,711
	<u>(1,156,272)</u>	<u>(223,617)</u>	<u>(1,379,889)</u>

Notes (continued)

15 Property and equipment

	Network infrastructure Shs'000	Capital work in progress Shs'000	Leasehold improvements Shs'000	Vehicles & equipment Shs'000	Total Shs'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



Notes (continued)

15	Property and equipment (continued)	Network infrastructure Shs'000	Capital work in progress Shs'000	Leasehold improvements Shs'000	Vehicles & equipment Shs'000	Total Shs'000
	At 1 April 2006					
	Cost	41,271,148	4,995,302	902,563	2,312,431	49,481,444
	Accumulated depreciation	(14,655,215)	-	(550,771)	(1,484,175)	(16,690,161)
	Net book amount	26,615,933	4,995,302	351,792	828,256	32,791,283
	Year ended 31 March 2007					
	Opening net book amount	26,615,933	4,995,302	351,792	828,256	32,791,283
	Additions	11,068,455	4,012,011	85,510	1,171,999	16,337,975
	Transfers	3,114,866	(3,537,867)	14,131	408,870	-
	Disposals	(1,692)	-	-	(2,237)	(3,929)
	Depreciation charge	(5,757,291)	-	(68,169)	(568,216)	(6,393,676)
	Closing net book amount	35,040,271	5,469,446	383,264	1,838,672	42,731,653
	At 31 March 2007					
	Cost	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

Notes (continued)

16 Prepaid operating lease rentals

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

The analysis of prepaid operating lease rentals is as follows:

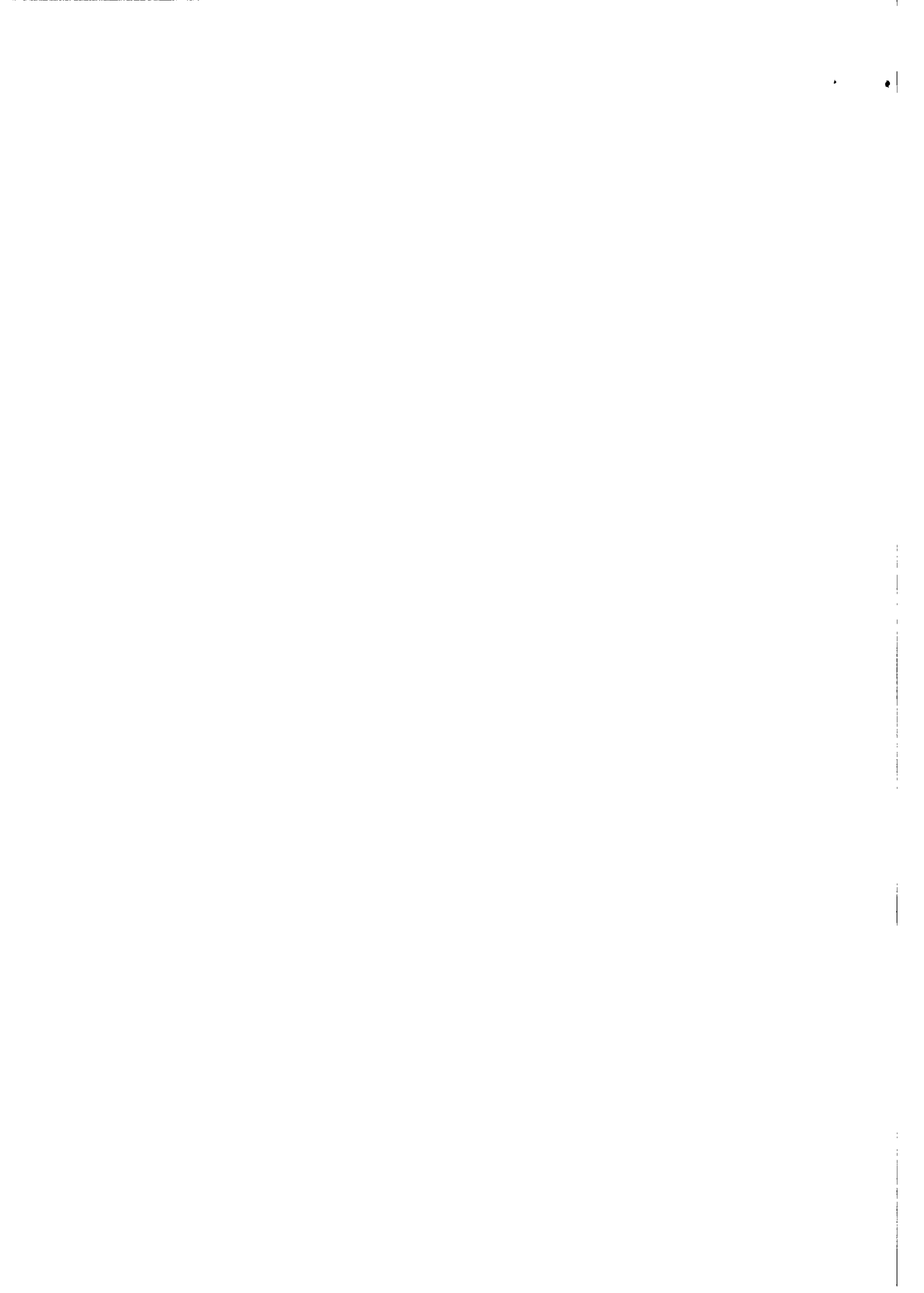
	2008 Shs'000	2007 Shs'000
At start of year	262,393	206,633
Additions	299,621	216,176
Amortisation charge for the year	(232,007)	(160,416)
	<hr/>	<hr/>
At end of year	330,007	262,393
Current portion reflected in prepayments	(322,891)	(259,906)
	<hr/>	<hr/>
Non current portion	7,116	2,487
	<hr/>	<hr/>

17 Intangible assets – Licence fees

Cost		
At start of year	4,250,000	4,235,000
Additions	1,673,750	15,000
	<hr/>	<hr/>
At end of year	5,923,750	4,250,000
	<hr/>	<hr/>
Accumulated amortisation		
At start of year	1,881,917	1,555,753
Charge for the year	430,452	326,164
	<hr/>	<hr/>
At end of year	2,312,369	1,881,917
	<hr/>	<hr/>
Net book value	3,611,381	2,368,083
	<hr/>	<hr/>

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

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



Notes (continued)

18 Inventories	2008 Shs'000	2007 Shs'000
Network spare parts	1,446,862	912,980
Less: Provision for impairment losses	(401,123)	(251,235)
	<hr/>	<hr/>
	1,045,739	661,745
Handsets and accessories	630,303	294,395
Scratch cards	161,096	97,774
Starter packs	410,321	168,574
Stationery and other stocks	36,721	12,157
	<hr/>	<hr/>
	2,284,180	1,234,645
	<hr/>	<hr/>

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

	2008 Shs'000	2007 Shs'000
At start of year	251,235	150,000
Provision in the year	149,888	101,235
	<hr/>	<hr/>
At end of year	401,123	251,235
	<hr/>	<hr/>

19 Receivables and prepayments

Trade receivables	3,373,732	1,660,484
Less: Provision for impairment losses	(412,987)	(306,811)
	<hr/>	<hr/>
	2,960,745	1,353,673
Prepayments	823,858	699,340
Amounts due from related companies (Note 25)	428,758	472,426
Other receivables	855,388	501,968
	<hr/>	<hr/>
	5,068,749	3,027,407
	<hr/>	<hr/>

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

Notes (continued)

19 Receivables and prepayments (continued)

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

	2008 Shs'000	2007 Shs'000
At start of year	306,811	112,955
Provision in the year	115,835	206,860
Receivables written off as uncollectible	(9,659)	(13,004)
	<hr/>	<hr/>
At end of year	412,987	306,811
	<hr/>	<hr/>

20 Cash and cash equivalents

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

	2008 Shs'000	2007 Shs'000
Cash at bank and in hand	4,487,895	2,331,204
Short term bank deposits	1,046,614	3,556,488
	<hr/>	<hr/>
	5,534,509	5,887,692
	<hr/>	<hr/>

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

21 Payables and accruals

	2008 Shs'000	2007 Shs'000
Trade payables	10,118,657	3,564,727
Accrued expenses	8,936,961	6,243,667
Amounts due to related parties (Note 25)	1,323,757	314,464
Other payables	2,038,256	2,267,288
	<hr/>	<hr/>
	22,417,631	12,390,146
	<hr/>	<hr/>

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

Notes (continued)

22 Contingent liabilities

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

23 Commitments

Capital commitments

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

	2008 Shs'000	2007 Shs'000
Property and equipment	1,685,461	580,278
The East African Marine System (TEAMS)	69,133	-
	1,754,594	580,278

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

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

TEAMS Limited will be owned by Government of Kenya, Safaricom Limited, Telkom Kenya Limited and other local telecommunications companies.

The use of the undersea cable is expected to result in a reduction in costs of accessing the Internet within the East African countries by up to a 33% over five years and stimulate investment in the region.

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

Operating lease commitments

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

	2008 Shs'000	2007 Shs'000
Not later than 1 year	287,607	208,108
Later than 1 year and not later than 5 years	1,236,571	929,535
Later than 5 years	980,216	251,653
	2,504,394	1,389,296

Notes (continued)

24 Cash generated from operations

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

	2008 Shs'000	2007 Shs'000
Profit before income tax	19,945,160	17,192,739
Adjustments for:		
Interest income (Note 8)	(1,486,256)	(258,218)
Interest expense (Note 8)	588,535	434,968
(Settlement)/changes in fair value loss on financial instruments (Note 12)	(39,740)	39,740
Depreciation (Note 15)	9,252,677	6,393,676
Prepayment of operating lease rentals (Note 16)	(299,621)	(216,176)
Amortisation of prepaid operating lease rentals (Note 16)	232,007	160,416
Amortisation of intangible assets (Note 17)	430,452	326,164
Profit on sale of property and equipment	(4,820)	(17,235)
Changes in working capital		
– receivables and prepayments	(1,978,357)	545,355
– inventories	(1,049,535)	(133,623)
– payables and accrued expenses	10,027,485	1,821,573
	<hr/>	<hr/>
Cash generated from operations	35,617,987	26,289,379
	<hr/>	<hr/>

Notes (continued)

25 Related party transactions

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

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

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

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

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

Vodafone Group Services Limited, which owns the M-PESA solution, has entered into a Managed Services Agreement with the Company under which Vodafone agrees to provide the M-PESA solution to Safaricom as a managed service and Safaricom agrees to market and offer the M-PESA services throughout the country.

M-PESA Holding Company Limited is a company whose primary purpose is to operate a bank account that is used to hold customers' funds in trust and from which the M-PESA accounting software operates to enable payments. This company ensures that the customers' funds, at all times, remain the property of the customer.

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

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

Notes (continued)

25 Related party transactions (continued)

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

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

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

The following transactions were carried out with related parties:

i) Sale of services	2008	2007
Telkom Kenya Limited	1,421,682	1,497,297
Vodafone International Holdings B.V.	157,980	137,998
Vodacom Tanzania	126,538	-
	<hr/>	<hr/>
	1,706,200	1,635,295
	<hr/>	<hr/>
ii) Purchase of services		
Telkom Kenya Limited	964,935	429,250
Vodafone Marketing S.A.R.L.	1,107,719	28,751
Vodacom Tanzania	155,933	-
	<hr/>	<hr/>
	2,228,587	458,001
	<hr/>	<hr/>
iii) Key management compensation		
Salaries and other short-term employment benefits	277,644	177,466
	<hr/>	<hr/>
iv) Directors' remuneration		
Fees for services as a director	230	450
Other emoluments to non-executive directors	944	1,479
	<hr/>	<hr/>
	1,174	1,929
	<hr/>	<hr/>

Notes (continued)

25 Related party transactions (continued)

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

	2008 Shs'000	2007 Shs'000
Amounts due from:		
- Telkom Kenya Limited	-	455,994
- Vodafone International Holdings B.V.	-	16,432
- M-PESA Holding Company Limited	417,340	-
- Vodacom Tanzania	10,713	-
- Vodafone Kenya Limited	705	-
	428,758	472,426
Amounts due to:		
- Vodafone Group Services Limited	96,029	29,146
- Vodafone Ireland Marketing Limited	144,041	43,717
- Vodafone Marketing S.A.R.L.	712,239	241,601
- Vodafone (UK) Limited	86,688	-
- Telkom Kenya Limited	284,760	-
	1,323,757	314,464
vi) Loans from shareholders		
- Telkom Kenya Limited	-	2,541,000
- Vodafone Kenya Limited	-	1,694,000
	-	4,235,000

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

vii) Loans to directors of the company

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

viii) Contingencies

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

Notes (continued)

26 Events after the balance sheet date

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

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

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

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

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

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

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

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

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

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

Notes (continued)

26 Events after the balance sheet date (continued)

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

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Safaricom Limited
Principal shareholders and share distribution
At 31 March 2008

Principal shareholders and share distribution

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

Name of shareholder	Number of shares	% shareholding
1. Government of Kenya, through the Permanent Secretary to the Treasury	24,000,000,000	60%
2. Vodafone Kenya Limited	16,000,000,000	40%
	<hr/>	<hr/>
	40,000,000,000	100%
	<hr/> <hr/>	<hr/> <hr/>

