Financial Results 2008

SAFARICOM LIMITED Summarised audited results for the twelve months to 31st March 2008			
	2008	2007	% Increase
	KshBn	KshBn	
Revenues	61.369	47.447	29.3
EBITDA	28.152	24.508	14.9
Operating Profit	18.469	17.788	3.8
Net Income	13.853	12.010	15.3
Gross Capital Expenditure	23.014	16.33.	40.9
Cash From Operating Activities	29.553	21.110	40.0
Net Borrowings	9.199	10.435	(11.8)
	000s	000s	
Opening Subscribers	6.081	3.944	54.2
Net Additions	4.150	2.137	94.2
Closing Subscribers	10.231	6.081	68.2
	Ksh	Ksh	
Average Revenue Per User	616	799	(22.9)

Financial Results-Profit and Loss Account

Ksh Bn		2008		2007		% Increase
Revenue	Voice	54.203		41.508		30.6
	SMS & Data	4.607		4.043		14.0
	Acquisition	1.815		1.340		35.4
	Other	0.744		0.556		33.8
	Total		**61.369**		**47.447**	**29.3**
Expenses	Operating	(26.066)		(18.155)		43.6
	Selling, General and Admin	(7.156)		(4.801)		49.1
	Total		**(33.222)**		**(22.956)**	**44.7**
Other operating income			0.005		0.017	
28.152			28.152		24.508	14.9
% of Revenue			45.9%		51.7%	
Depreciation & Amortisation			(9.683)		(6.720)	44.1
Operating Profit			18.469		17.788	3.8
% of Revenue			30.1%		37.5%	
Financing Costs			1.476		(0.596)	
Profit before Tax			19.945		17.192	16.0
Taxation			(6.092)		(5.182)	17.6
Profit After tax			13.853		12.010	15.3
% of Revenue			22.6%		25.3%	

Financial Results-Cash flow

Ksh Bn	2008		2007		% Increase
Cash from Operating Activities					
Generated from operations	35.618		26.289		35.5
Interest received/(paid)	0.898		(0.177)		
	(6.962)		(5.002)		39.2
Net from Operating Activities		**29.554**		**21.110**	**40.0**
Investing Activities					
Net purchases of fixed assets	(22.997)		(16.317)		40.9
Payment of licenses	(1.674)		(0.015)		49.1
Net investing Activities		**(24.670)**		**(16.332)**	**51.1**
Financing Activities					
Borrowing during the year	2.999		1.200		149.9
Repayment of loans	(4.235)		(0.016)		
Dividend paid	(4.000)		(2.991)		33.7
Net Financing Activities		**(5.235)**		**(1.808)**	**189.5**
(Decrease)/Increase in cash		**(0.353)**		**2.971**	**(111.9)**
Movement in cash					
Cash at start of year		5.887		2.917	101.8
(Decrease)/Increase		(0.353)		2.971	
Cash at end of year		**5.534**		**5.887**	**(6.0)**

Financial Results-Balance Sheet

Ksh Bn	2008		2007		% Increase
Capital Employed					
Shareholders’ funds	42.643		32.789		30.1
Noncurrent borrowings	6.480		10.435		(37.9)
Total		**49.123**		**43.224**	**13.6**
Represented by					
Noncurrent assets		61.478		46.258	32.9
Current assets					
Inventories	2.284		1.235		85.0
Receivables and prepayments	5.069		3.027		67.4
Cash and cash equivalents	5.534		5.887		(6.0)
Total		12.887		10.149	(27.0)
Current liabilities					
Payables and accrued expenses	22.416		12.390		80.9
Current income tax	0.107		0.754		(85.8)
Derivative financial instrument	0.000		0.039		
Borrowings	2.719		0.000		100.0
Total		25.243		13.183	91.5
Net current liabilities		12.356		3.034	307.2
Total		**49.123**		**43.224**	**13.6**

Financial Results For The Year Ended 31st March 2008

The Board of Directors of Safaricom Limited is pleased to announce the results for the financial year ended31 March 2008. Against a background of increasing competition and rising costs

Safaricom has yet again delivered another year of exceptional performance and increased shareholder value. During the year Safaricom embarked on a growth strategy which increased the subscriber base considerably and once again produced record levels of revenue and profit. This growth necessitated an increased capital expenditure and increased costs of acquiring these customers but has produced a solid base for the future. During the year Safaricom operated in an economic environment characterised by rising costs, a volatile foreign exchange market, challenging pre and post election conditions and a tougher regulatory regime. These challenges were managed by strict cost control, a robust foreign exchange exposure management and a firm focus on our customers. During the last quarter of the financial year in parts of the country we experienced disruption in both our network and distribution channels but overall the effect on the business was minimal, largely due to the dedication of our staff who reacted very positively to the problems.

Key highlights of the twelve months ended 31st March 2008

Overall Safaricom outperformed against its financial and operating targets during the year

- The subscriber base increased by 68% to 10.2m from 6.1m
- Market share increased from 73% to 84%
- Turnover increased by 29% to Ksh61.4bn
- EBITDA increased by 15% to Ksh28.1bn
- Pre Tax Profits increased by 16% to Ksh19.9bn
- Strong growth in the M-Pesa service with over 2m registered users
- Capital expenditure increased by 41% to Ksh23bn
- Increased geographical footprint of the Safaricom network across the country
- Acquisition of a 3G license
- Proposed dividend of Ksh2bn

It has been another successful year, with subscriber numbers increasing by 68% to 10.2m from 6.1m at the end of March 2007. The market share over the same period increased to 84% from 72% at end of previous year amidst increased competitor activities.
Revenues for the period grew strongly by 29.3% to Ksh61.369bn from Ksh47.447bn as we continued to expand the network throughout the country and introduced new and innovative products. The Average Revenue Per user (ARPU) however reduced in the year as more consumers with lower spending power were acquired in the expansion especially into the rural areas coupled with reduced tariffs during the year.

Blended Average Revenue Per User (ARPU) for prepaid and post paid reduced to Ksh616 from Ksh799 in the previous year. The increased revenues contributed to an increase of 14.9% in the EBITDA to Ksh28.152bn from Ksh24.508bn realised in the previous year. The EBITDA margin revenue however reduced to 45.9% of revenue from 51.7% for March 2007 as the costs for acquisition of the subscribers increased in the period in line with our strategy. Profit before income tax registered an impressive growth to Ksh19.945bn, an increase of 16% from Ksh17.193bn in the previous period. This is yet again the highest profit before tax results announced by any company in the East African Region after a similar record was achieved in the previous year.

As a result of the increased profit the tax charge increased to Kshs6.092bn, an increase of 17.6% over Ksh5.182bn for the period ending March 2007. The effective tax rate was 30.5%, marginally increasing from 30.1% in the previous year. The total overall direct and indirect taxes paid to the Treasury for the period increased to Ksh24.1bn from Ksh18.4bn paid in the previous year. This ensures that Safaricom remains one of the highest taxpayers in the country and therefore continues to significantly support the economy.

Profit after tax grew to Ksh13.853bn, an increase of 15.3% over the previous year's profit of Ksh12.010bn.
The directors recommend approval of a dividend of Ksh2.0bn

Major initiatives during the year

During the year Safaricom continued an aggressive growth campaign both to increase its subscriber base, by launching a series of promotions and investing heavily in subscriber acquisition, and to increase the core network capacity and coverage in rural areas. In order to support this growth capital expenditure increased to Ksh23bn, bringing the total expenditure since launch to Ksh88.8bn.

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

- The highly successful and innovative M-PESA money transfer service was launched at the beginning of the financial year and was the first of its kind anywhere in the world. It has received wide acceptance from our customers and registered subscribers at 31st March 2008 were over 2 million with person to person transfers during March 2008 exceeding Ksh3bn. This service has given many of our unbanked subscribers an efficient and very cost effective way of transferring money around the country. Blackberry® messaging services launched towards the beginning of the year have received wide acceptance from subscribers both at individual and corporate level and the recent introduction of a low cost prepay service has further enhanced the product offering enabling more subscribers to access this service.

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

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

  Between 21st August 2007 and 4th November 2007, the company ran the largest promotion ever undertaken in the country dubbed "Kwachua Millioni" where subscribers won a combined amount of Ksh100m.

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

In June 2007, we launched new tariff structures in response to the need to make calling rates more affordable to our customers and to meet their requirement for more flexibility. These tariffs contributed to the significant growth in the subscribers during the year. To cater for this growth we also introduced four new prefixes (0710, 0711, 0712 and 0713) into the market.

In recognition of its continued innovation and success, Safaricom was awarded the prestigious "Most Respected Company in East Africa" award in November 2007. In addition we continued our success in the COYA awards, winning 3 awards and also awarded the "MSK Warrior Award" in

December 2007. In the same month we were also awarded the coveted ISO 9001:2000 certificate on quality management systems.

Detailed Operating Results for the twelve month period ended 31st March 2008

As of 31 March 2008, the Company had 10.2 million total subscribers consisting of 10.1 million prepaid and 118.5 thousand post-paid subscribers. This compared to 6.1 million subscribers, as of 31 March 2007, a growth in the year of 68%. The strong growth in subscribers has been driven by strong marketing efforts with initiatives such as reduced tariff rates, wide acceptance of low denominated top up vouchers, wider rural network coverage, strong retail availability and low cost handsets offerings.

During the period, blended ARPU decreased to Ksh616, compared to Ksh799 in the previous year. Pre-paid and post-paid ARPU decreased to Ksh554 and Ksh3,872, respectively, compared to Ksh691 and Ksh5,492, respectively in the previous year. This reflects the marginal effect of additional subscribers with lower spending power as the network is rolled out to the rural areas coupled with reduced calling rates as we continue to offer cost effective communications for our customers.

In the period overall churn decreased to 22.4%, compared to 32.9% in the previous period. Pre-Pay and PostPay churn decreased to 22.7% and 2.3%, respectively, compared to 33.4% and 6.6%, respectively, in the
previous period. This decrease was driven by providing a low cost and effective procedure for replacing lost and stolen SIM cards and also the introduction of our Bonga loyalty program.

Financial Results – Profit & Loss Account

Revenue increased to Ksh61.369bn in the period compared to Ksh47.447bn during the same period in 2007. The increase was driven by voice revenue as the customer base increased during the year. Voice revenue increased by 30.6% between 2007 and 2008 whilst SMS & data increased by 14.0%, acquisition increased by 35.4% and others by 33.8% between 2007 and 2008.

Operating expenses increased to Ksh26.066bn or 42.5% of revenue in the year to 31 March 2008, compared to Ksh18.155bn or 38.2% of revenue during the same period in 2007. The relative increase in costs in the year reflects the combined increase in cost of running the network, the planned effect of the
aggressive customer acquisition strategy, the cost of customer retention initiatives and some one off expenses relating to computer licenses due to the increase in the customer base.

Selling, general and administrative expenses increased to Ksh7.156bn representing 12% of sales in the period compared to Ksh4.801bn, 10% of revenue, during the same period in 2007. The increase cost was mainly driven by a higher headcount, increased cost of running additional retail outlets and costs of publicity in customer acquisitions efforts.

Gross profit and EBITDA increased to Ksh35.303bn and Ksh28.152bn, respectively in the period compared to Ksh29.292bn and Ksh24.508bn respectively in the previous period, reflecting gross profit and EBITDA margins of 57.7% and 45.9%, respectively. The EBITDA margin decline from the previous period was due to the planned strategy of subscriber growth, with the associated additional expenditure on publicity and acquisition costs.

Depreciation and amortization increased to Ksh9.683bn in the period compared to Ksh6.720bn during the same period in 2007. The charges have increased in line with the continued high capital investments incurred over the past few years. This year’s charge includes an impairment of Ksh919m due to the replacement of the company’s billing system necessitated by the increased subscriber base.

Net financing income arose from a one off foreign exchange gain of Ksh732m resulting from the repayment of the dollar denominated shareholder loans and a one off interest charge to Telkom Kenya of Ksh1.235bn resulting from the non payment of interconnect charges by Telkom Kenya, offset by net interest charges of Ksh588 m. In the previous year financing costs related only to net interest charges and foreign exchange losses on normal trading.

Profit before tax increased to Ksh19.945bn in the period, compared to Ksh17.192bn during the same period in 2007. The company's tax charge was Ksh6.092bn compared to Ksh5.182bn in the prior period, representing an increase of 18%.

Net income increased to Ksh13.853bn in the period, compared to Ksh12.010bn during the same period in 2007, an increase of 15.3%.

The directors recommend approval of a dividend of Ksh2.0bn

Financial Results – Cash flow

Operating cash flow remained strong during the year enabling the company to expand the network coverage further and ensure that the core network and billing systems were able to cope with the increased subscriber base. During the year a dividend of Ksh4bn was paid, the dollar denominated shareholder loans of Ksh4.235bn were repaid and a further drawdown on the financing of Ksh3bn was made.Net cash provided by operating activities increased to Ksh29.553bn in the period, compared to Ksh21.110bn during the same period in 2007. The increase in cash generated from operating activities was attributable to the improved operating performance as a result of the increase in the subscriber base.

Net cash used in investing activities increased to Ksh24.671bn in the period compared to Ksh16.332bn during the same period in 2007. Capital expenditure increased to Ksh23.014bn in the period compared to Ksh16.338bn during the same period in 2007. This increase was as a result of the aggressive expansion of the core network and switching capacity and acceleration in the rollout of sites in order to meet the growth in subscriber base and associated traffic.

Net cash used in financing activities increased to Ksh5.236bn in the period, compared to Ksh1.808bn during the same period in 2007. This increase was due to the payment of a higher dividend in 2008 than in the 2007, the repayment of the shareholders' loans offset by additional borrowings under the financing facility.
The company paid a dividend of Ksh4bn representing an increase of 34% over the prior year. The dividend payable to Telkom Kenya was utilised to offset their outstanding debt under the interconnect agreement.

Financial Results – Balance Sheet

To prepare for the IPO the share capital of the Company was amended in the last quarter of the financial year. 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 Ksh0.10 each to Ksh0.05 each. The authorised nominal share capital of the Company was increased from Ksh2,000,000 divided into 39,999,600 ordinary shares of Ksh0.05 each to Ksh6,000,000,000 by the creation of 119,960,000,000 new shares of Ksh0.05 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

Ksh1,999,999,000 of the share premium account.

Each of the five non-voting non-participating deferred shares of Ksh4 each were converted into non-voting redeemable preference shares of Ksh4 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 Ksh0.05 per share; and
- 5 non-voting non-participating redeemable preference shares of Ksh4 each.

The issued share capital comprises 40,000,000,000 ordinary shares with a par value of Ksh0.05 each and 5 non-voting non-participating redeemable preference shares of Ksh4 each.

Shareholder funds continued to increase over the period and grew to Ksh42.642bn an increase of 30% over the previous year. Total borrowings reduced by 11.8% to Ksh9.199bn from Ksh10.435. As of 31 March 2008, the Company had total cash and cash equivalents of Ksh5.535bn and total borrowings of Ksh9.199bn, compared to Ksh5.888bn and Ksh10.435bn respectively in the previous period. During the third quarter of the financial year, the outstanding dollar denominated shareholder loans of Ksh4.235bn were repaid and a further Ksh3bn was drawn down from the syndicated loan facility for network expansion.

Capital expenditure remained high in the year and net tangible fixed assets increased by 32% to Ksh56.481bn. Net intangible assets increased by Ksh1.243bn representing the payment for the 3G licence
of US$25m.

The directors recommend approval of a dividend of Ksh2.0bn.

Future Outlook

The coming year will see the entry of two new players into the mobile market and the introduction of a unified licence. Mobile penetration, which is currently around 34% is expected to increase over the next 4 years to a level of around 60%. This implies that there is high potential for further industry subscriber expansion over the next few years.

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

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