

# Safaricom Limited H1-FY15 Presentation



**Safaricom**

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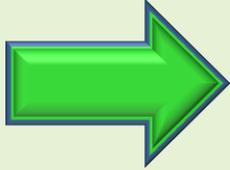
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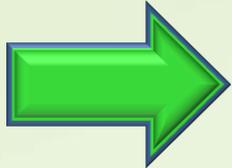
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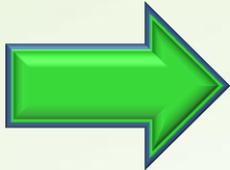
# Contents



**H1 FY15 Highlights**



H1 FY15 Financial Review



Strategic Focus and Guidance

# H1 FY15 Highlights

- Strong commercial and financial performance across all segments and metrics
- Continued investment and innovation in network and services
  - Capex investment of Kshs 12.37bn, up 18%
    - Significant improvements in voice and data service quality based on our ongoing Best Network in Kenya program
    - 1,500km of nationwide metro fibre completed to date and 1,650km ongoing
    - 139,600 Lipa na M-PESA merchants recruited of which 32,300 actively using the service
- Strong growth of 27% in non-voice service revenue, now 40% of total revenue
- Maintained position as Kenya's most admired brand, with an overall equity score of 86%\*, a Youthfulness score of 80%\* and a Net Promoter Score (NPS) of 52%\*\*
- Sustained progress on our initiative to transform lives, especially in financial inclusion

\*Internally commissioned research performed by Millward Brown

\*\*Internally commissioned research performed by TNS



# Strong financial performance

TOTAL REVENUE



+15% to Kshs 79.3bn

SERVICE REVENUE



+14% to Kshs 75.6bn

NON-VOICE SERVICE REVENUE  
(SMS, BROADBAND & M-PESA)



+27% to Kshs 31.9bn

EBITDA



+16% to Kshs 33.5bn

NET INCOME



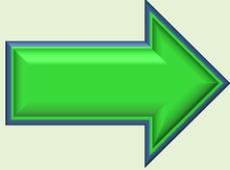
+31% to Kshs 14.7bn

FREE CASH FLOW

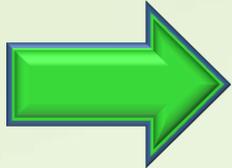


+13% to Kshs 15.5bn

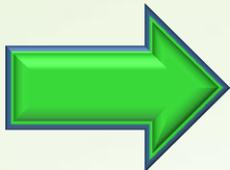
# Contents



H1 FY15 Highlights



**H1 FY15 Financial Review**

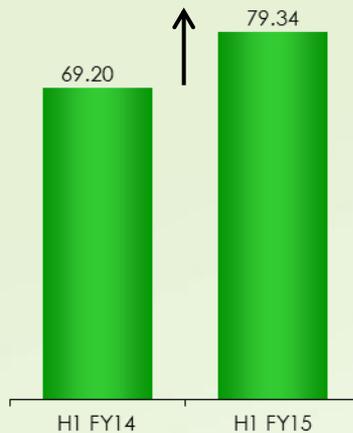


Strategic Focus and Guidance

# Delivering on strategy: Strong financial results

## Total revenue Kshs. Billion

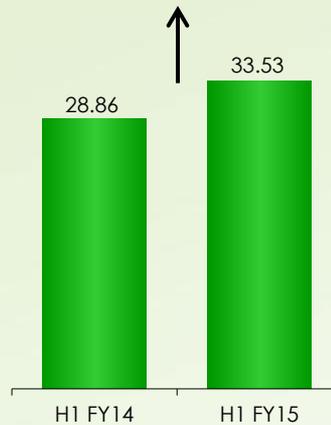
**+14.6%**



More subscribers using our products and services. Increasing ARPU across Data, SMS and M-PESA

## EBITDA Kshs. Billion

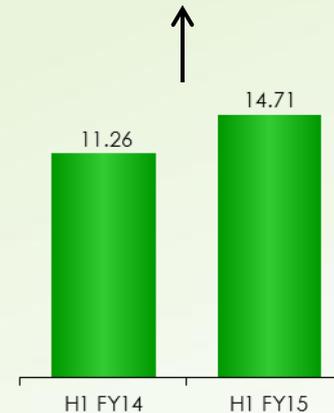
**+16.2%**



14.6% growth in revenue. Robust first half EBITDA margin at 41.97%

## Net income Kshs. Billion

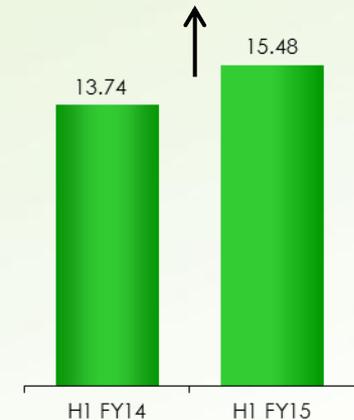
**+30.6%**



Driven by growth in EBITDA

## Free cash flow Kshs. Billion

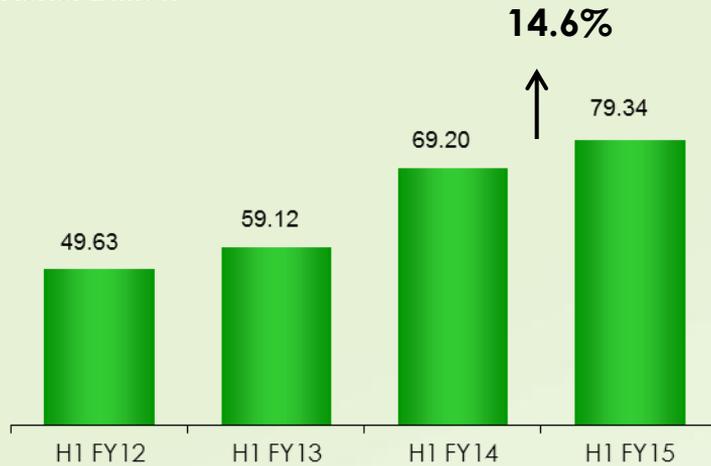
**+12.7%**



Positive impact of favourable trading results

# Strong revenue growth in the period

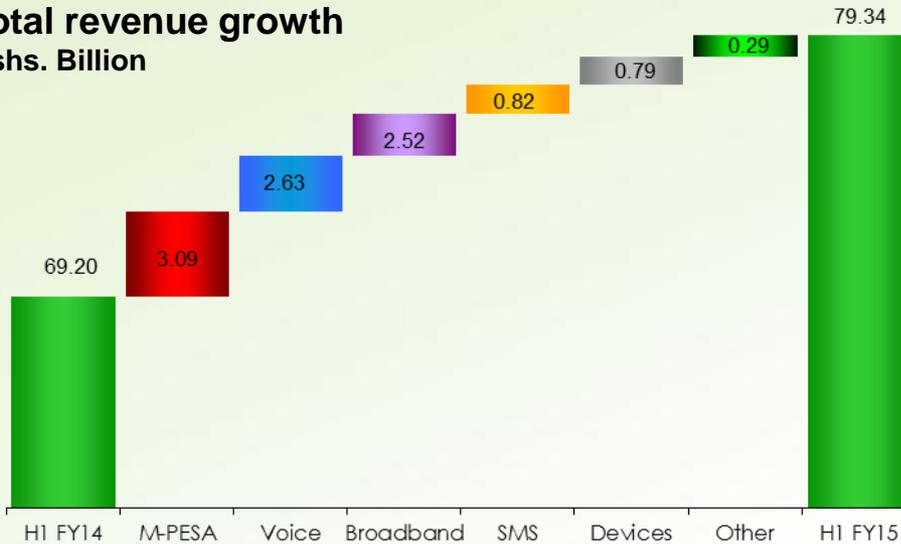
**H1 FY15 Total revenue**  
Kshs. Billion



- 14.6% growth in total revenue
- 4.9% growth in customer base to 21.85m customers (20.82m in H1 FY14)
- Voice service revenue growth of 6.4% and non-voice service revenue growth of 26.6%

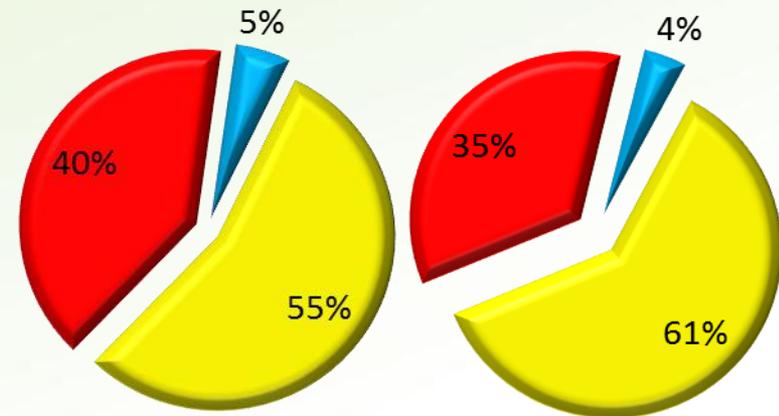
**Total revenue breakdown**  
Kshs. Billion

**Total revenue growth**  
Kshs. Billion



**H1 FY15**

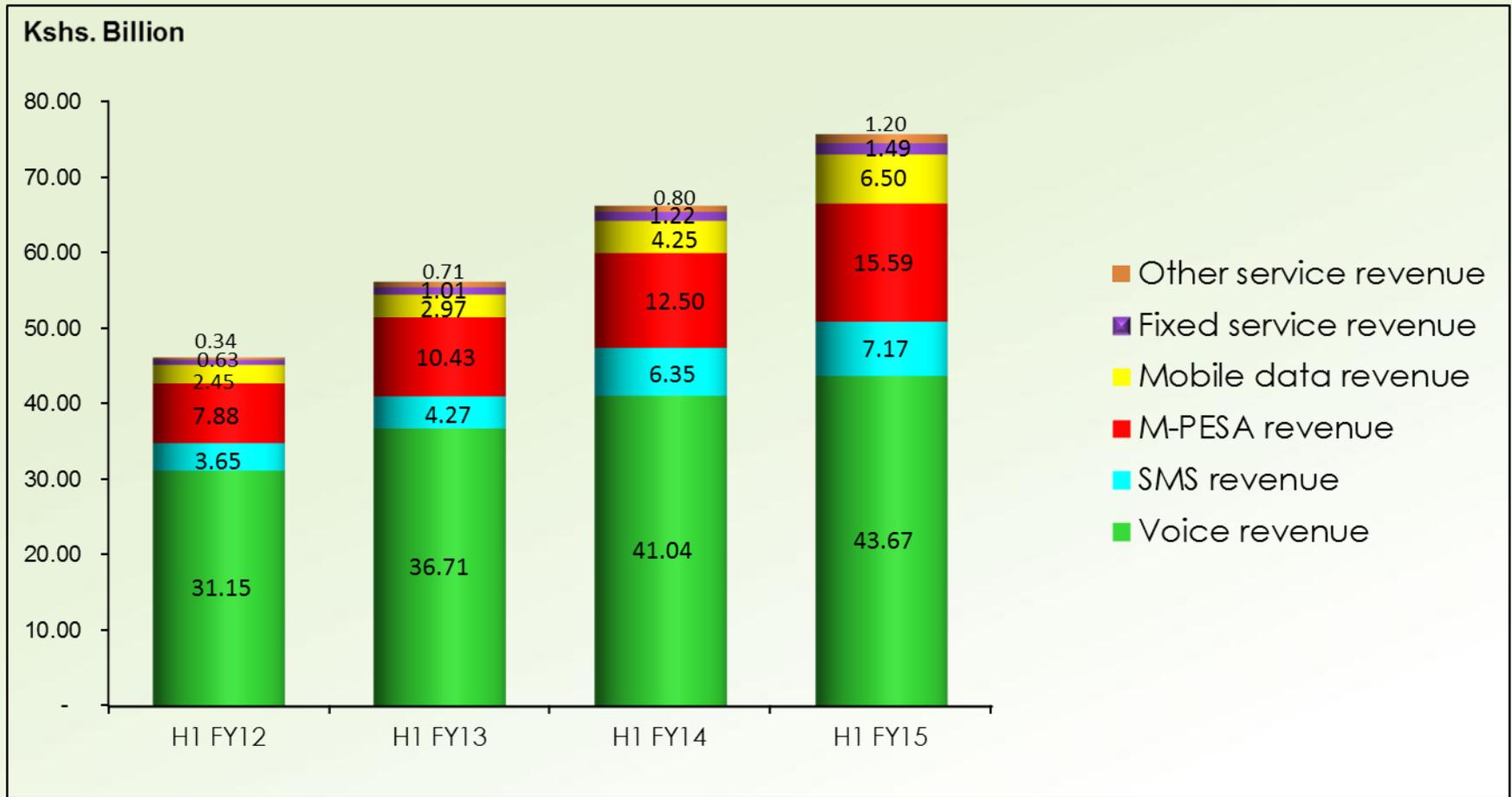
**H1 FY14**



■ Voice ■ Non-voice ■ Devices

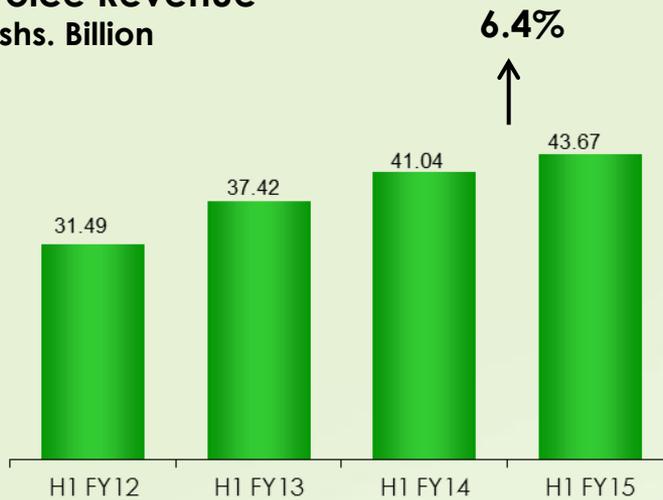


# Service revenue: Growth across all segments

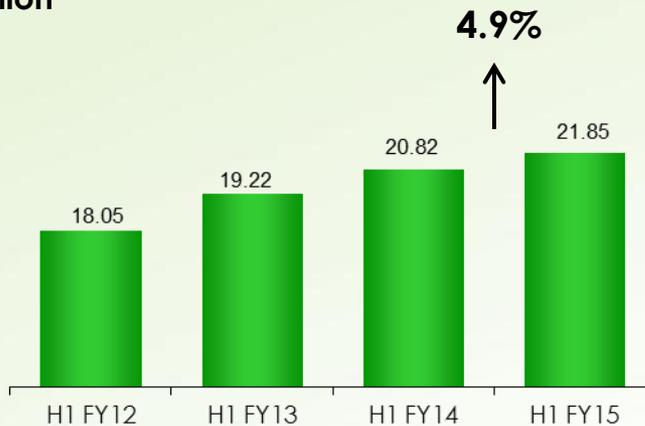


# Voice: Sustained growth momentum

**Voice Revenue**  
Kshs. Billion



**Customers**  
Million



- 6.4 % growth in voice service revenue
- 4.9 % growth in customers
- Improved prepay airtime distribution
  - Top-up cards distributed in over 270,000 retail outlets and 42 own retail shops
  - 36.6% of airtime top-ups directly through M-PESA
- 29.3% increase in emergency top ups (Okoa Jahazi)
- Average blended rate per minute is Kshs 3.03\* for national outgoing calls

\*on top of which VAT of 16% and excise tax 10% is loaded

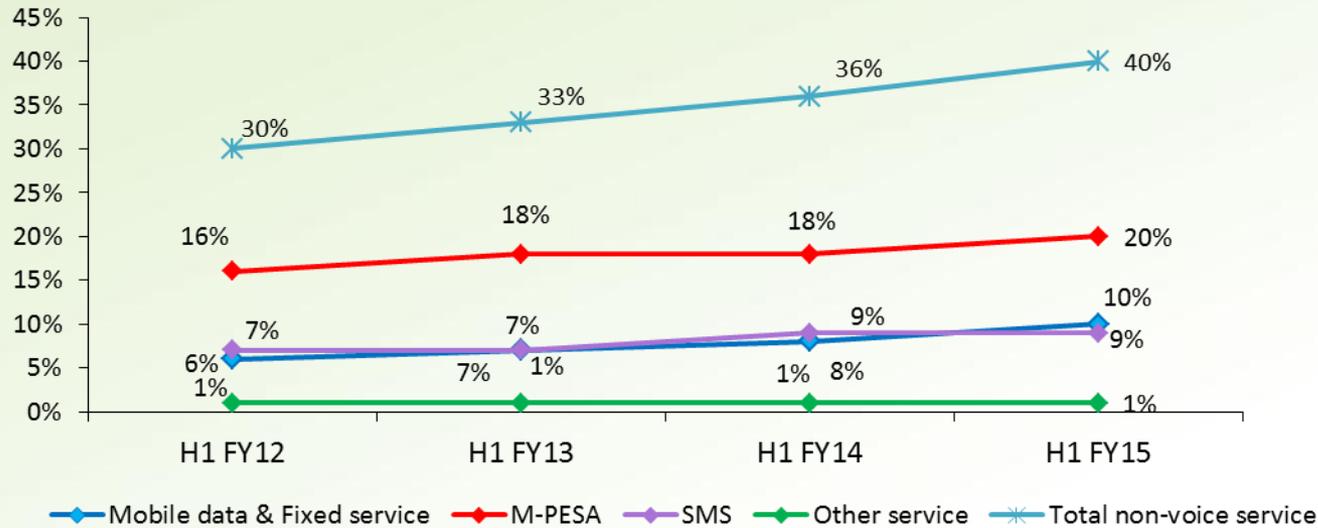
# Strong growth in non-voice service revenue

## Non - Voice Revenue Kshs. Billion



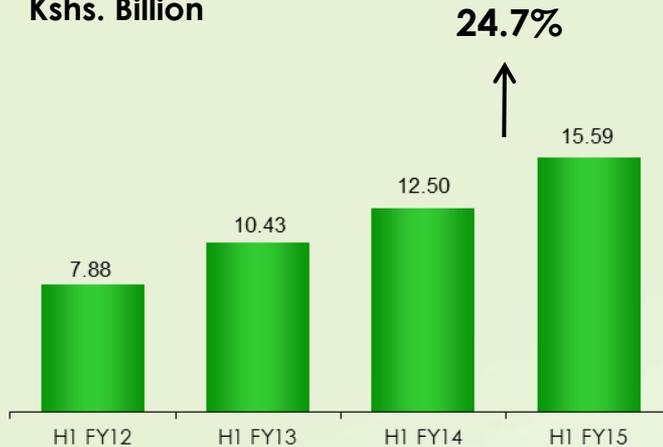
- Non-voice service revenue grew 26.6%, now 40.2% of total revenue
- Revenue growth of:
  - SMS +12.9%
  - Mobile data +52.9%
  - Fixed service +22.1%
  - M-PESA +24.7%
  - Other service revenue +31.1% (*Okoa Jahazi*)

Data/M-PESA/SMS/Other service revenue contribution to total revenue



# M-PESA: Driving financial inclusion

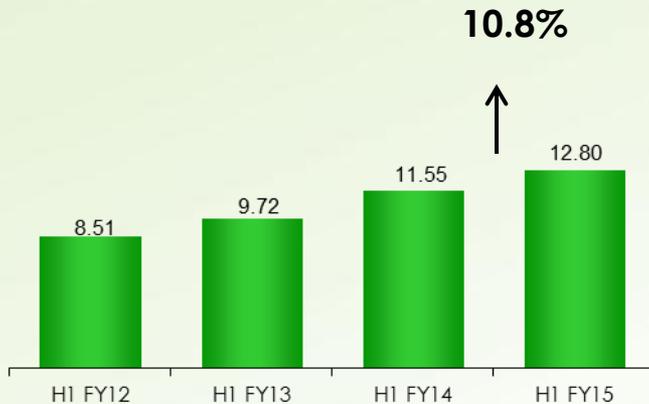
## M-PESA Revenue Kshs. Billion



- 24.7% growth in M-PESA revenue, driven by:
  - 10.8% increase in 30 day active users to 12.80m
  - 5.88 chargeable transactions per month per 30 day active user (10.9% growth)

- Kshs 121.3bn of real time payments per month\*
  - Person to Person: Kshs 92.8bn per month (20% growth)
  - Person to Business: Kshs 14.6bn per month (64% growth)
  - Business to Person: Kshs 13.9bn per month (83% growth)

## 30-day Active M-PESA Customers Million

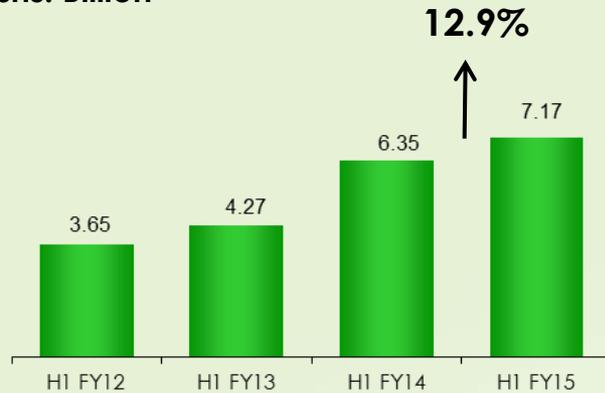


- 2% growth in M-PESA agents compared to a similar period last financial year; now at 80,330 M-PESA agent outlets.
- M-Shwari: Increased active customers to 4.5m, 30 day active customer to 2.4m, Kshs 4.1bn on deposit and Kshs 1.6bn on loan with NPLs at 2.2%

\*Monthly average for the last six months

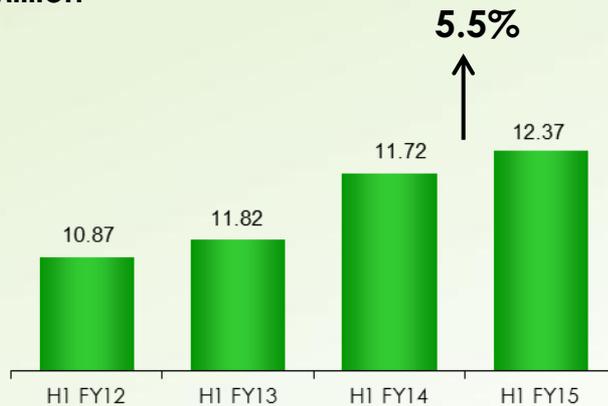
# SMS: Attractive bundles & active users driving growth

## SMS Revenue Kshs. Billion



- 12.9% growth in SMS revenue, driven by;
  - 5.5% growth in 30 day active SMS users to 12.37m
  - 38.9% increase in active SMS bundle users to 3.50m
  - 34.6% growth in SMS usage per customer while average blended rate per SMS declined by 19% due to purchase of bundles

## SMS Customers Million



**SMS MORE FOR LESS**  
SMS all day with Daily SMS Bundles  
**DIAL \*188# TO SUBSCRIBE**

10/- FOR 200 SMS

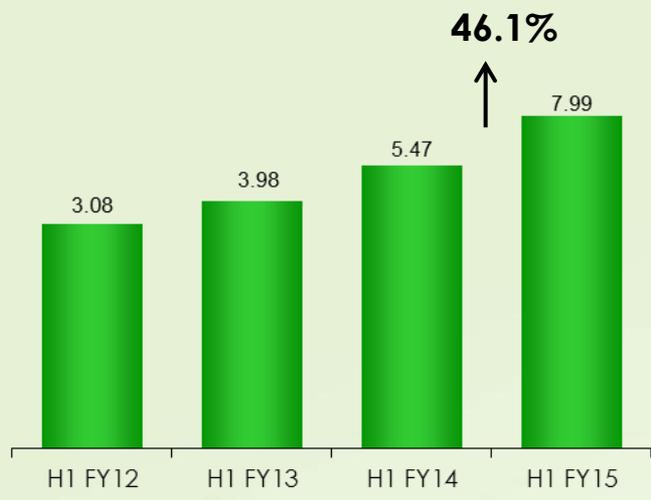
5/- FOR 20 SMS

Safaricom

# Data: Customers, usage & devices driving growth

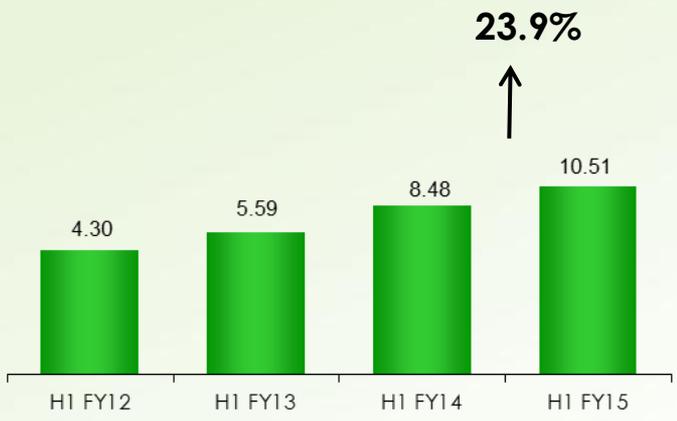
## Mobile Data & Fixed Service Revenue

Kshs. Billion



## 30-day Active Mobile Data Customers

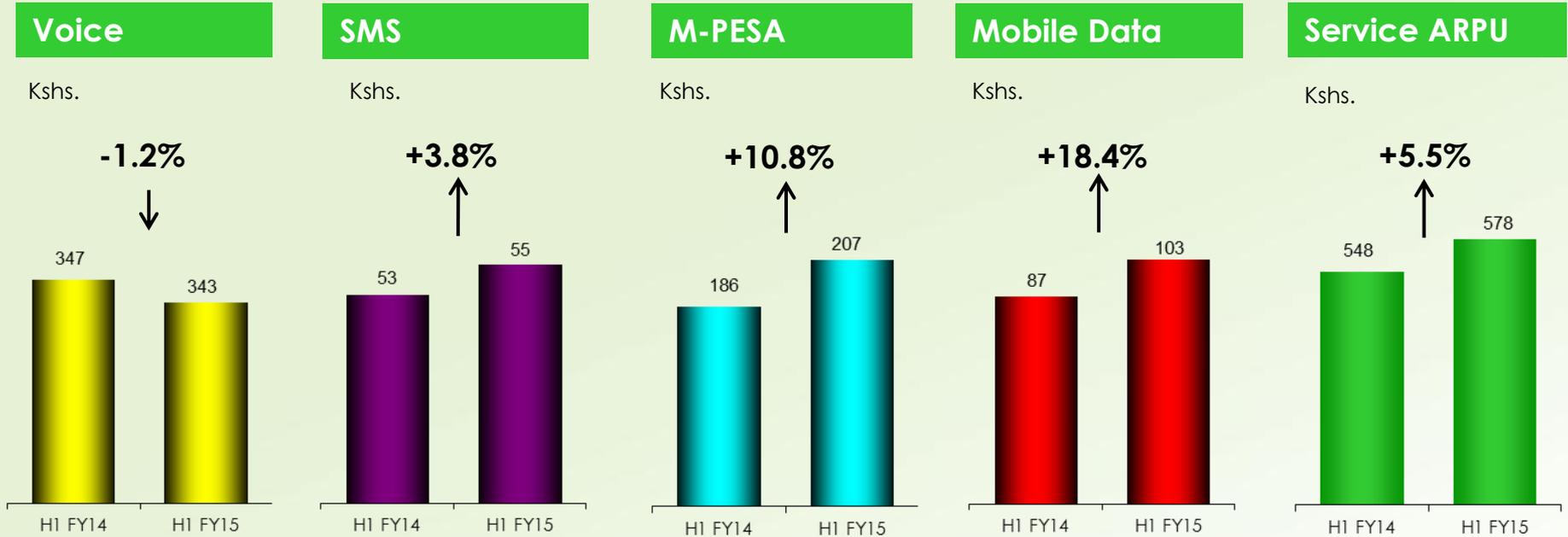
Million



- Mobile data revenue growth of 52.9% driven by:
  - 23.9% growth in 30 day active mobile data users to 10.51m – now 48% of our customer base
  - 24.3% increase in mobile data usage per customer while average price per MB declined by 3.7%
  - 104% growth in smartphone users to 3.1m
- Fixed service revenue growth of 22.1% driven by an 8.2% increase in customers to 7,499



# Sustained ARPU growth



Outgoing ARPU increased by 7.3%, but incoming ARPU declined by 25.1% due to a reduction in international inbound rates

Increased usage driven by affordable SMS bundles

10.9% growth in chargeable transactions per 30 day active customer

24.3% increase in mobile data usage

14.1% increase in service revenue driven by growth in non-voice services

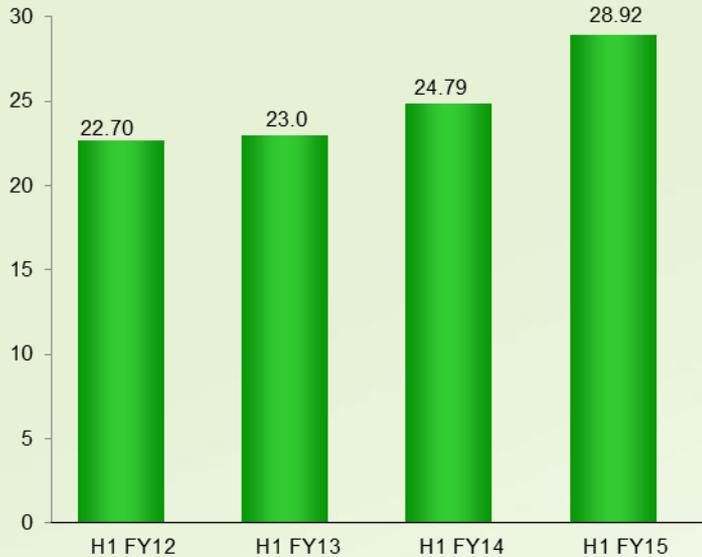
\* Voice, SMS and Service ARPU are calculated based on total mobile customers

\* M-PESA and Mobile Data ARPUs are calculated based on respective 30 day active customers

# Direct Costs increased by smartphone campaign

## H1 FY15 Direct costs

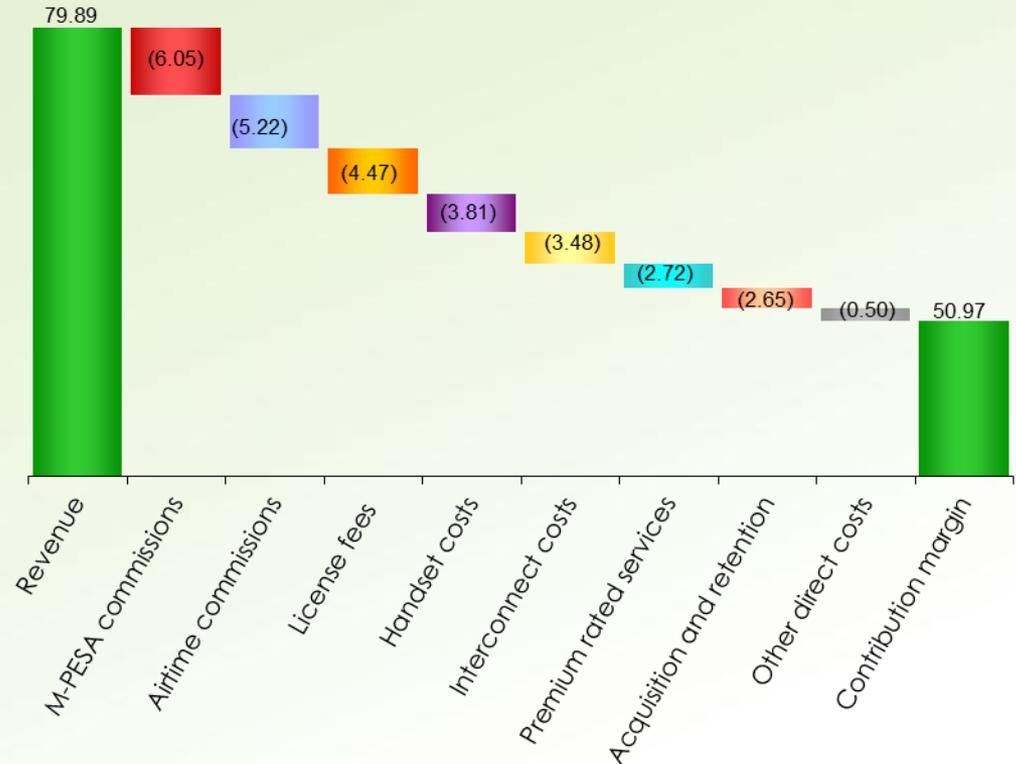
Kshs. Billion



- 16.7% increase in direct costs driven by increased handset costs from the July/August smartphone campaign where we sold smartphones at 30% below cost rather the usual 8%
- Contribution margin held steady at 64%

## H1 FY15 Direct costs breakdown

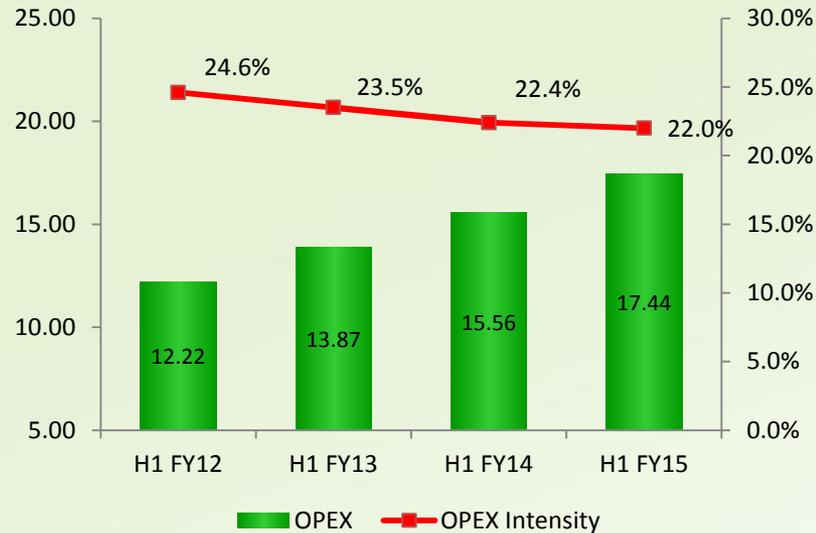
Kshs. Billion



# Continued focus on cost control initiatives

## H1 FY15 OPEX

Kshs. Billion



- Reduced operating costs as % of total revenue to 22.0% from 22.4%
- 12.1% increase in operating costs versus a 14.6% increase in total revenue

\* Operating costs relate to Payroll, Publicity, Leased Lines, Network & IT operational costs, and other costs (including rent, rates and insurances)

# Strong growth in EBITDA

## EBITDA

Kshs. Billion

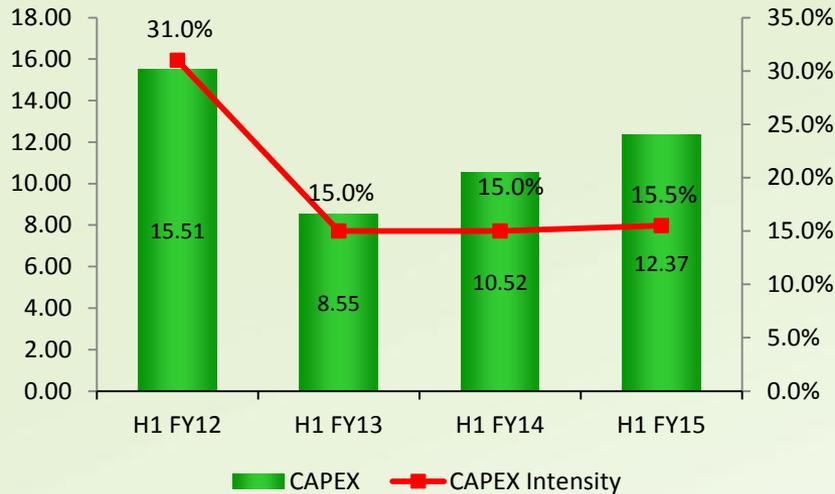


- 16.2% growth in H1 FY15 EBITDA to Kshs 33.5bn
- H1 FY15 EBITDA margin improvement of 0.27 ppt to 41.97%

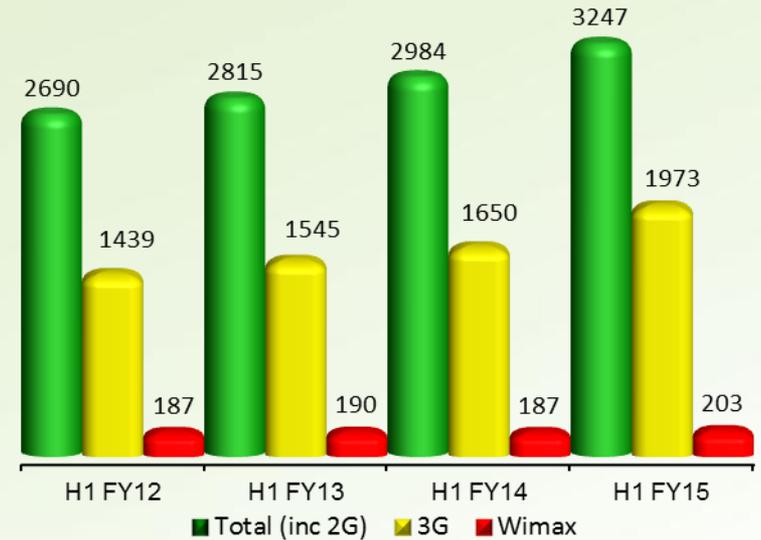
# Largest & Fastest Network in Kenya

## H1 FY15 CAPEX

Kshs. Billion



## Base stations



Capital expenditure of Kshs 12.37bn invested in:

- Fibre – 1,500km completed to date and 1,650km ongoing in key metro areas
- Modernization and upgrade of 2G and 3G networks to support growth and network quality
- Information system upgrades

Largest 2G and 3G network:

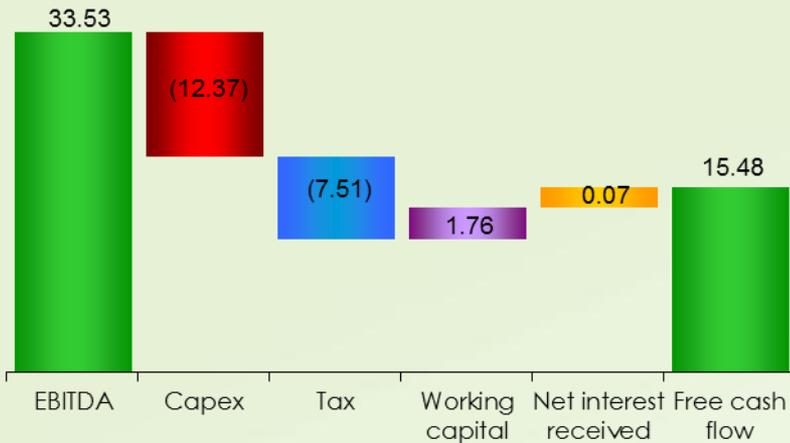
- 3,247 2G enabled base stations of which 1,973 are also 3G enabled (61%)
- 1,607 3G sites at 21mbps
- 1,028 3G sites at 42mbps



# Improved cash generation

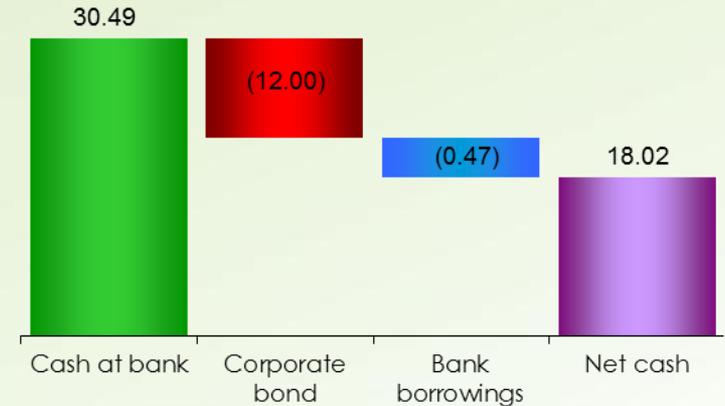
## H1 FY15 Free Cash Flow

Kshs. Billion



## H1 FY15 Net Cash

Kshs. Billion



- 12.7% growth in Free Cash Flow to Kshs 15.48bn from Kshs 13.74bn in H1 FY14
- Driven by improved trading results

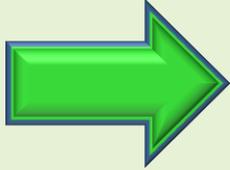
\* Free Cash Flow excludes M&A and spectrum purchases

- Kshs 7.5bn corporate bond at 12.25%, expires Nov 2014
- Kshs 4.5bn corporate bond at 7.75%, expires Dec 2015
- Kshs 0.47bn two year term loan facility at 91 day TB rate minus 1%

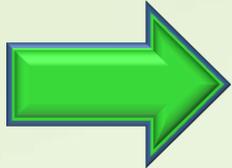
# Key Financials:

	H1 FY15	H1 FY14	% CHANGE
Voice revenue	43.67	41.04	6.4%
Messaging revenue	7.17	6.35	12.9%
Mobile data revenue	6.50	4.25	52.9%
Fixed service revenue	1.49	1.22	22.1%
M-Pesa revenue	15.59	12.50	24.7%
Other service revenue	1.18	0.90	31.1%
<b>Service Revenue</b>	<b>75.60</b>	<b>66.26</b>	<b>14.1%</b>
Handset revenue	3.10	2.22	39.6%
Acquisition and other revenue	0.64	0.73	-12.3%
<b>Total Revenue</b>	<b>79.34</b>	<b>69.21</b>	<b>14.6%</b>
Other income	0.55	0.01	>100.0%
Direct costs	(28.92)	(24.79)	16.7%
<b>Contribution margin</b>	<b>50.97</b>	<b>44.42</b>	<b>14.7%</b>
<i>Contribution margin %</i>	<i>64.0%</i>	<i>64.1%</i>	<i>-0.1%</i>
Operating costs	(17.44)	(15.56)	12.1%
<i>Operating costs % total revenue</i>	<i>22.0%</i>	<i>22.4%</i>	<i>0.4%</i>
<b>EBITDA</b>	<b>33.53</b>	<b>28.86</b>	<b>16.2%</b>
<i>EBITDA margin %</i>	<i>41.97%</i>	<i>41.70%</i>	<i>0.27%</i>
Depreciation, amortisation & impairment	(12.59)	(12.70)	-0.9%
Net Financing cost	0.17	(0.25)	-168.0%
Taxation	(6.40)	(4.65)	37.6%
<b>Net Income</b>	<b>14.71</b>	<b>11.26</b>	<b>30.6%</b>
Earnings per share	0.37	0.28	32.1%
Free Cash Flow	15.48	13.74	12.7%

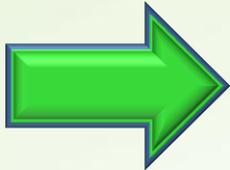
# Contents



H1 FY15 Highlights



H1FY15 Financial Review



**Strategic Focus and Guidance**

# Strategy Overview

- Best Network in Kenya
- Grow mobile and fixed data
- Partner of choice for business
- Deepen financial inclusion
- Grow, retain and reward our loyal customer base
- Grow youth appeal
- High performing innovative organization

# Best Network in Kenya

## What has been achieved

### Network Performance

- Highest data speeds averaging 4.3mbps
- Improvements in call drop rates

### Network Capacity & Quality Enhancement

- Initiated redeployment of UMTS 900 solution to increase 3G signal reach and improve indoor coverage
- 91% of our Radio Network now modernised

### Own fibre roll out

- 1,500kms of fiber completed to date and connection to our base stations ongoing
- Fiber To The Building (FTTB): 327 buildings connected to our own fiber

### Improvement of Network Stability & Resilience

- Significant investment in improving power stability
- 2 of our Data Centers at Tier 3 level of redundancy, highest achievable in Kenya
- Free cooling solutions in 400 base stations, resulting in 20% rise in energy efficiency

### Information Systems Upgrades

- Point of Sale system replaced for internal efficiency
- Upgrade of Enterprise Resource Planning (ERP) completed

# Best Network in Kenya...Cont'd

## Great Improvement in our Network Quality

Commissioned independent drive tests in 13 towns

- 5,500kms
- 20,000 voice calls
- 5,000 data sessions

Covered Safaricom and its three competitors



## Voice tests results

Operator	Call Setup Success Ratio (%)	Dropped Call Ratio (%)	Speech Quality {Mean Opinion Score}	Call Set up times{s}
Safaricom	98.3	0.2	2.8	4.2
Competitor X	98.7	0.3	2.7	4.0
Competitor Y	98.3	0.4	2.7	4.1
Competitor Z	97.3	0.3	2.3	5.7

Competitive performance with:

- Overall voice success ratio at par with competition
- The lowest dropped calls ratios
- Speech quality at par with competition

*The above results for each operator is only measured where that operator has coverage, so the fact that Safaricom has a greater coverage than the competitors is not reflected.*

## Data tests results

Operator	Mean User Data Rate Download 3MB [kbps]	Mean User Data Rate Upload [kbps]	Mean Web Browsing Session time - [s]	Youtube SD Reproduction Success Ratio w[%]
Safaricom	4,362	1,289	3.9	87.2
Competitor X	3,798	1,093	7.5	50.9
Competitor Y	3,277	1,128	4.4	68.1
Competitor Z	164	-	22.7	-

Safaricom ahead of the competition with

- Fastest web browsing
- Doubled broadband download throughputs
- Uploads throughputs
- Standard video downloads



# Best Network in Kenya...Cont' d

## Top Priorities

### Accelerated Rollout & Indoor Coverage

- Improve Indoor coverage in 292 Commercial buildings and deploy 155 Small Cell solutions
- Complete the UMTS 900 re-farming of 453 sites
- Deploy additional Spectrum from Essar for improved quality of service
- Roll out of additional 194 2G and 104 3G across the country.
- Complete ongoing construction of 52 Security sites in 13 counties

### LTE Deployment

- 184 LTE sites in Nairobi & 50 sites in Mombasa

### Own fibre Deployment

- Complete 1,650kms of fiber in 5 metro cities Nairobi, Mombasa, Kisumu, Nakuru & Eldoret
- Complete site migration to own fiber in the main metro cities.
- Fiber to the Building(FTTB): complete 934 commercial buildings

### Enterprise Solution

- Implementation of enterprise point of presence in 50% of the counties

### Network Stability & Resiliency

- Deploy solar solutions in 71 Base Stations and Free Cooling in additional 478 sites
- Deployment of Tier 3 level of redundancy to 2 additional Data Centers

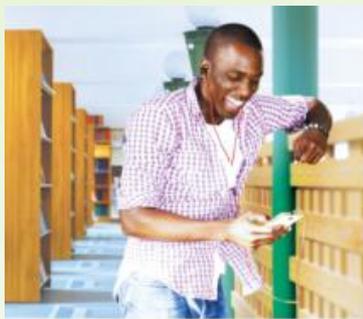
### Mpesa Stability & Enhancement

- Deploy the next generation (G2) M-PESA platform

# Grow Mobile Data

## What has been achieved

Active data users	<ul style="list-style-type: none"> <li>Grew active mobile data customers by 24% to 10.5m</li> </ul>
Smartphone users	<ul style="list-style-type: none"> <li>Increased smartphone users by 104% to 3.1m</li> </ul>
Daily bundles	<ul style="list-style-type: none"> <li>Enhanced daily bundles</li> </ul>
Okoa bundles	<ul style="list-style-type: none"> <li>Customers can access internet bundles and pay later</li> </ul>
myTunes	<ul style="list-style-type: none"> <li>Flexible and affordable mobile content downloads</li> </ul>
Top Priorities	<ul style="list-style-type: none"> <li>Increase smartphone and 3G penetration</li> <li>Stimulate in-bundle usage</li> <li>Expand partnerships with local &amp; global content providers</li> <li>Roll out LTE(4G) in 15 cities and towns</li> </ul>



**OKOA BUNDLES**  
Keep your internet going

Dial \*544# and select OKOA BUNDLES



ICL-90057

**SAMSUNG**

**WIN**  
the Ultimate upgrade

Buy any Samsung Phone or Tablet from any Safaricom Shop or Safaricom Dealer outlet nationwide and stand a chance to win 1 of 4 brand new BMWs plus exciting daily and weekly prizes.

**BMW 2014**

**Safaricom**



# Delighting our customers

## What has been achieved

### New SMS bundles

- More affordable SMS bundle options

### Loyalty program

- More flexible options for Customers to utilise their loyalty points

### Okoa Jahazi

- Retained minimum airtime borrowing at Kshs 5 with 5 days repayment period to improve customer experience and drive usage

### Customer experience

- Customers care through social media
- Introduced Web self care for our customers
- Affordable and flexible download of mobile content

### Top Priorities

- More self-care options to our customers
- More innovative offers and product propositions
- More loyalty offering to our customers

FOR KSHS 5  
GET 5MB  
+ 5 SMS

FOR KSHS 10  
GET 10MB  
+ 10 SMS

FOR KSHS 20  
GET 20MB  
+ 20 SMS

LIVE 24/7  
Dial \*544# & select daily internet bundles

New Deal

BONGA

Jisort is now  
**super flexible**

Buy any phone or tablet using your Bonga points and top up with cash at any Safaricom shop.

Dial \*126# and select 7

**Safaricom**

# Deepening financial inclusion using M-PESA

## What has been achieved

### M-PESA Everywhere

- 30 day active Lipa na M-PESA merchants at 32,300
  - monthly transactional value to Kshs 3.9bn
- 692 FMCG distributors
  - monthly transactional value to Kshs 2.7bn
- Paybill Accounts
  - monthly transactional value to Kshs 16bn

### Financial Inclusion

- M-Shwari active customers grew by 94% to 4.5m
- Launched Lock Box: a fixed savings product currently with 138k users

### Top Priorities

- Grow Lipa Na M-PESA active merchants through retail Point of Sale integration program(E-POS)
- Grow cashless distributors
- Grow bank to M-PESA transfers
- Drive uptake of savings and loans through M- Shwari

JOIN M-SHWARI AND MAKE IT HAPPEN  
Lock • Save • Achieve

MAASAI MARA TRAVEL  
SPECIAL OFFER  
FROM JULY 4th TO OCTOBER 31st  
Kshs. 35,000

I can't miss The Great Migration this year. I have locked my cash so I can experience the world's eighth wonder.

Logos: cba, M-Shwari, Safaricom, M-PESA

### M- Shwari Performance

	Sept 2014	March 2014
30 day active users	2.4 million	1.8 million
Active Customers	4.5 million	3.6 million
Net Deposits	4.1 billion	4.0 billion
Loan Balance	1.6 billion	1.2 billion
Non Performing Loans %	2.2%	2.7%

# Partner of choice of business

## What has been achieved

### Win In SME

- 63% growth in active SME customers to 37,466
- Partnered with KCB
- Rolled out dedicated SME support

### Deepening Wallet Share for Business

- Launched Managed Wide Area Network solutions, IT consulting, and managed Wi-Fi in partnership with Tech Mahindra
- Now have 514 fixed voice customers
- Fixed service revenue grew by 22.1% to 1.49bn

### Top Priorities

- Leverage on own fiber to grow fixed data and voice
- Commercialize the managed services
- Leverage on opportunities from the devolved government.
- Drive mobile data smart phone penetration
- Drive government payments through M-PESA
- Develop sector specific SME proposition

Tambua **BIASHAR@SMART** Dial\*484#



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ALL-IN-ONE OFFERS.

**DIAL\*484# NOW FOR FREE!**



LITE



MEDIUM



Pro

**Safaricom**

# Mobile Industry Performance: April - June 2014

	Safaricom		Airtel		Orange		Yu	
Quarter	June '14	Mar '14	June '14	Mar '14	June '14	Mar '14	June '14	Mar '14
Ending Key Indicator	June '14	Mar '14	June '14	Mar '14	June '14	Mar '14	June '14	Mar '14
Market Share by Subscribers (%)	68.0 ↑	67.8	15.7 ↓	16.5	8.3 ↑	7.7	8.0 ◆	8.0
Mobile Subscribers in Millions	21.93 ↑	21.57	5.12 ↓	5.25	2.69 ↑	2.45	2.56 ◆	2.56
Market Share by Voice Minutes (%)	78.1 ↓	78.5	9.8 ↓	10.9	4.0 ↑	3.1	7.5 ↓	7.6
SMS Market Share (%)	96.6 ↑	96.4	2.7 ◆	2.7	0.3 ↓	0.4	0.4 ↓	0.6
Mobile Data market share (%)	71.6 ↓	72.1	13.5 ↓	13.7	11.3 ↑	10.3	3.6 ↓	3.9
Mobile Data Subscriptions in Millions	9.97 ↑	9.56	1.88 ↑	1.82	1.57 ↑	1.36	0.50 ↓	0.51

Safaricom retains in market leader position in all key metrics

### Key

- ↑ - Increase
- ↓ - Decrease
- ◆ - No Change



# Grow youth appeal

## What has been achieved

### Brand strength

- Youth brand equity is now at 88% and Youth Net Promoter Score (NPS) at 55%

### Segment growth

- Acquired 463k subscribers from the youth segment

### Activation

- Engaged the youth through various activities; including the 7s rugby Series

### Recruitment

- Recruited youth ambassadors to increase youth subscribers through initiatives like Activ8

### Targeted loyalty

- Initiated youth targeted Bonga offering

### Top Priorities

- Improve understanding of the youth needs through more behavior analysis
- Create more products and propositions for the youth



# FY15 Guidance

## **Free Cash Flow:**

Expected to be in the range of Kshs 25bn - Kshs 26.5bn

This is an upgrade for our underlying business in this financial year after offsetting the cash impact of building part of the national security network for the Kenyan Police which was not included in our previous guidance.

**Free Cash Flow** as we present it excludes the impact of any M&A, license renewal fees, and spectrum purchases

# H1 FY15 Highlights

- Strong commercial and financial performance across all segments and metrics
- Continued investment and innovation in network and services
  - Capex investment of Kshs 12.37bn, up 18%
    - Significant improvements in voice and data service quality based on our ongoing Best Network in Kenya program
    - 1,500km of nationwide metro fibre completed to date and 1,650km ongoing
    - 139,600 Lipa na M-PESA merchants recruited of which 32,300 actively using the service
- Strong growth of 27% in non-voice service revenue, now 40% of total revenue
- Maintained position as Kenya's most admired brand, with an overall equity score of 86%\*, a Youthfulness score of 80%\* and a Net Promoter Score (NPS) of 52%\*\*
- Sustained progress on our initiative to transform lives, especially in financial inclusion

\*Internally commissioned research performed by Millward Brown

\*\*Internally commissioned research performed by TNS



# Q&A



## CELEBRATING 14 PROUD YEARS OF TRANSFORMING LIVES

Transforming lives is not easy. Today we celebrate 14 years of doing exactly that and doing it well together.

We celebrate staying ahead of the curve and supporting business; delighting our customers and powering Kenya's cashless economy. We celebrate making data accessible, our YOLO attitude and becoming Kenya's best network.

We also celebrate the future, the one that we shall conquer together.

*To many more years of transforming lives!*



Safaricom