

Safaricom Limited

FY 16 Results Presentation

11 May 2016



Safaricom

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FY 16 Highlights



FY 16 Financial Review



Strategic Focus and Guidance

FY 16 Highlights

- Maintained leading position as Kenya's most admired brand, with an overall brand equity score of 89%* and a Net Promoter Score of 66%**
- Rolled out a new Regional Sales and Operations structure
- Continued investment in network, IT infrastructure and innovation
- Significant improvements in voice and data service quality
- Maintained market share at 64.7% as at December 2015

*Internally commissioned research performed by Millward Brown **Internally commissioned research performed by TNS



What we have achieved...Cont'd

Customer First

- Launched segmented way of marketing to drive customer centricity in our propositions development
- Invested in the customer by optimizing the customer experience journey
 - “Hakikisha” (M-PESA name checking)
 - Free M-PESA E-statements to customers
 - Increased use of web self care
 - Strengthened distribution presence
 - Deployed Big Data analytics
 - Reduced roaming prices



What we have achieved...Cont'd

Relevant Products

Mobile Data

- Grew 30 day active data users to 14.1m up 21.5%
- Mobile data penetration now at 53.1% of total base
- Smartphone users have increased to 7.8m up 128%
- More affordable data plans, usage up 112%
- Entry level 3G smart phone now below US\$ 30
- 4G launched in 20 counties

Voice & Messaging

- Maintained growth in voice
- SMS penetration now at 72%

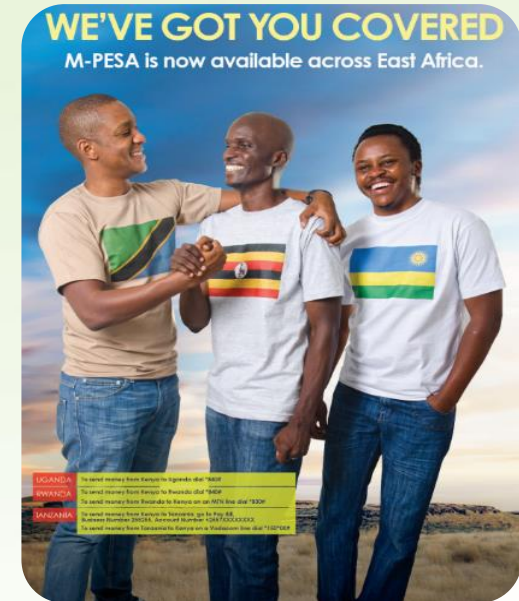


What we have achieved...Cont'd

Relevant Products

Deepening Financial Inclusion

- Continued M-PESA growth, with 30 day active users at 16.6m, up 19.8%
- Grew international money transfers to Kshs 13.1bn, up 64%
- Continued growth of cashless payments
- Increased uptake of our savings and loans products



What we have achieved...Cont'd

Relevant Products

Partner of choice for business

- Continued focus as a partner of choice for business

Supporting Innovations

- Funding the next big innovations through our Spark Fund
- Simplifying access to APIs to boost local development
- MTIBA: Partnership delivering health via mobile
- M-AKIBA: Increasing access to government bonds
- SHUPAVU 291: Delivering educational content one SMS at a time
- Mobile broadband access to Schools: Delivering content and access to data



What we have achieved...Cont'd

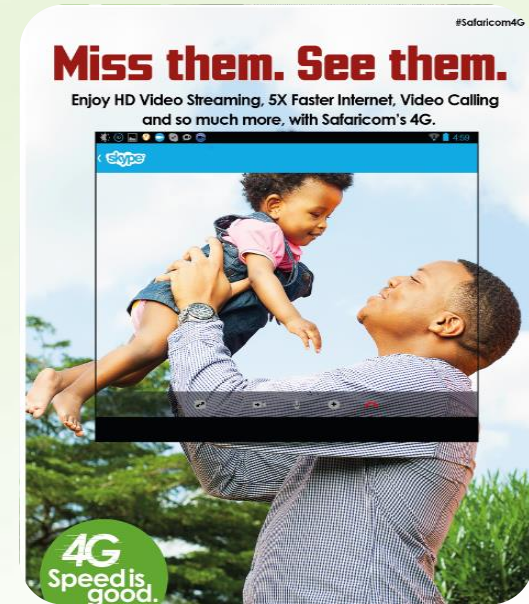
Operational Excellence

Regional Focus







- Implemented regional operations structure with six regions rolled out
- Localization of company strategy with tailor made regional promotions and offers

Best Network For You

- Bringing M-PESA Home: allowing for stability and growth
- Increased coverage and capacity resulting in improved usage and quality



Strong financial performance

SERVICE REVENUE		+14% to Kshs 177.8bn
NON-VOICE SERVICE REVENUE		+26% to Kshs 86.9bn
EBITDA		+17% to Kshs 83.1bn
NET INCOME		+19% to Kshs 38.1bn
FREE CASH FLOW		+10% to Kshs 30.4bn
PROPOSED DIVIDEND PER SHARE		+19% to Kshs 0.76

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FY 16 Highlights



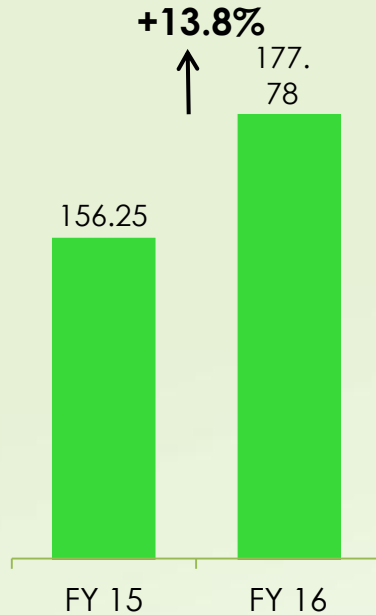
FY 16 Financial Review



Strategic Focus and Guidance

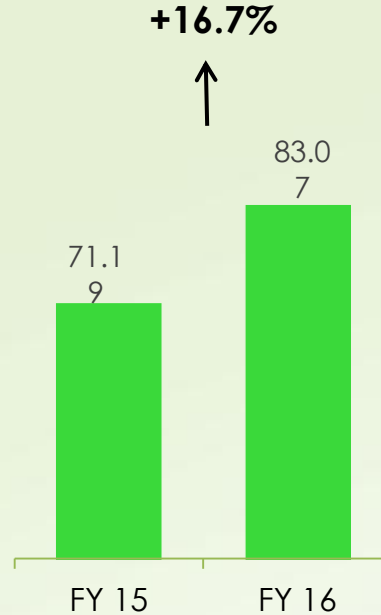
Delivering on strategy: Strong financial results

Service revenue Kshs. Billion



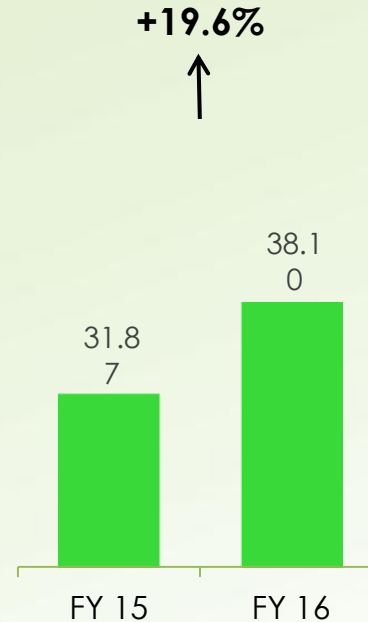
More subscribers using our products and services
Increasing ARPUs across Data and M-PESA

EBITDA Kshs. Billion



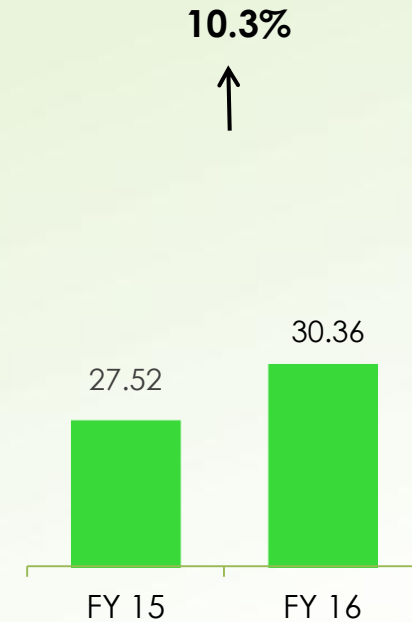
13.8% growth in service revenue and cost management.
Underlying EBITDA margin at 44.6%

Net income Kshs. Billion



Driven by growth in EBITDA

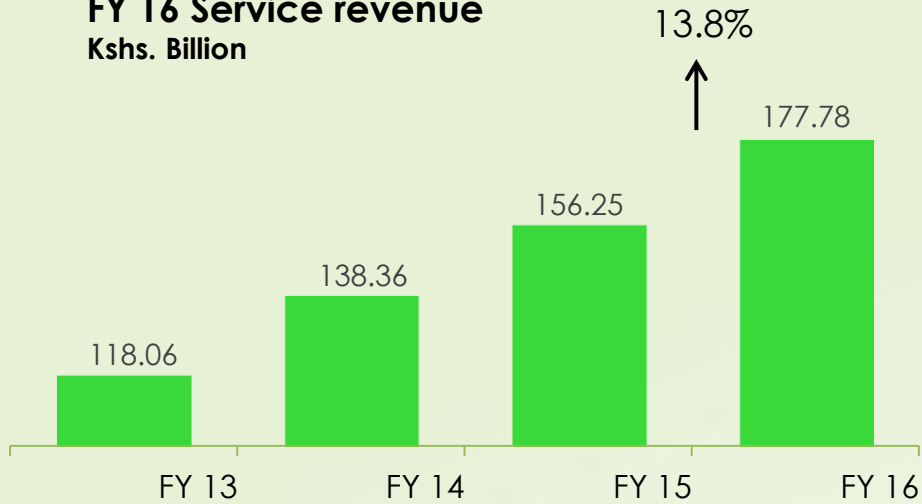
Free cash flow Kshs. Billion



Positive impact of favourable trading results

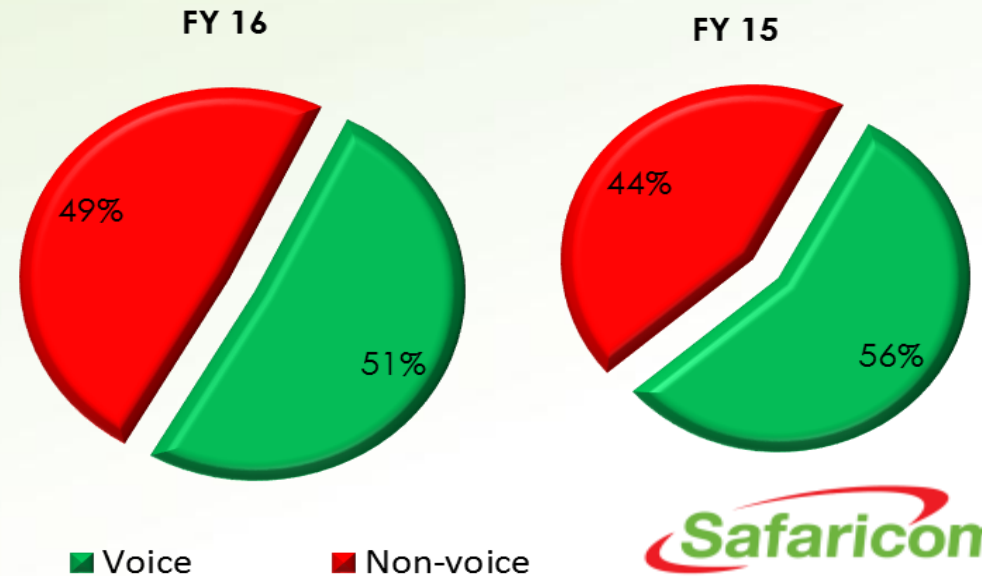
Service revenue: Sustained strong growth

FY 16 Service revenue
Kshs. Billion

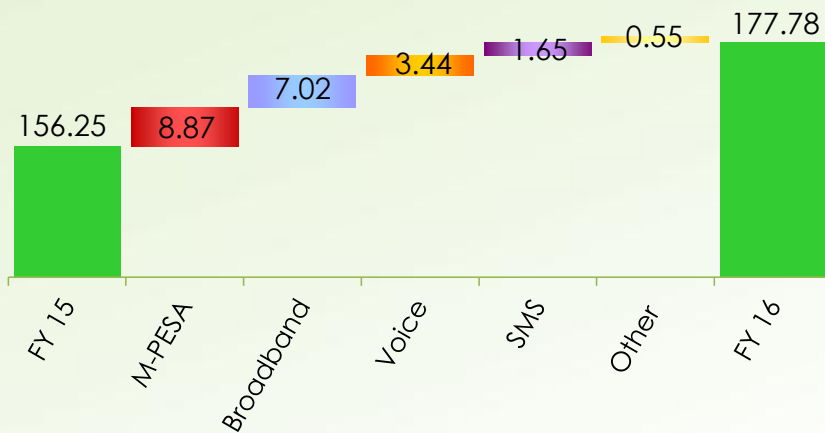


- 13.8% growth in service revenue
- 7.8% growth in customer base to 25.16m customers, despite removing 1.7m customers from the count
- Voice service revenue growth of 3.9% and non-voice service revenue growth of 26.3%

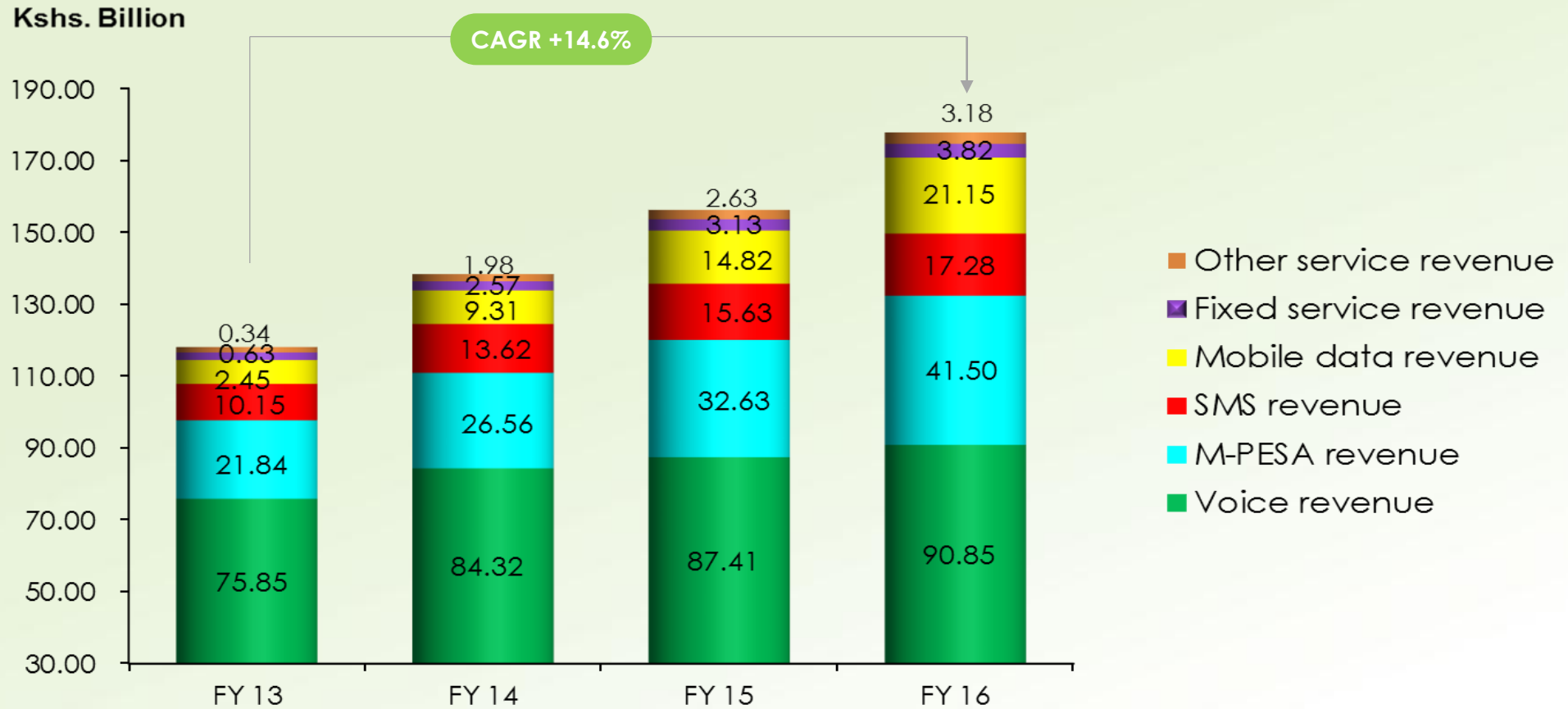
Service revenue breakdown
Kshs. Billion



Service revenue growth
Kshs. Billion

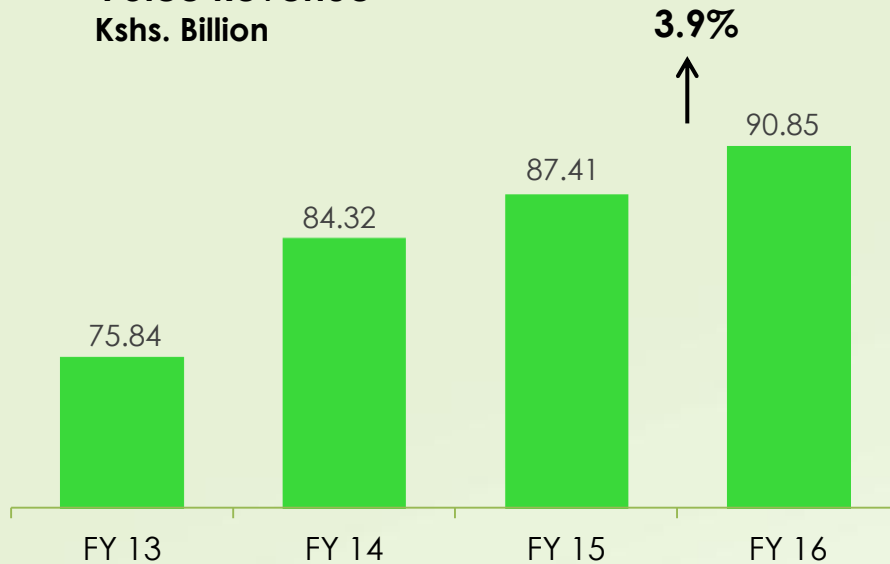


Service revenue: Growth across all segments



Voice: Resilient growth

Voice Revenue
Kshs. Billion



Total customers
Million

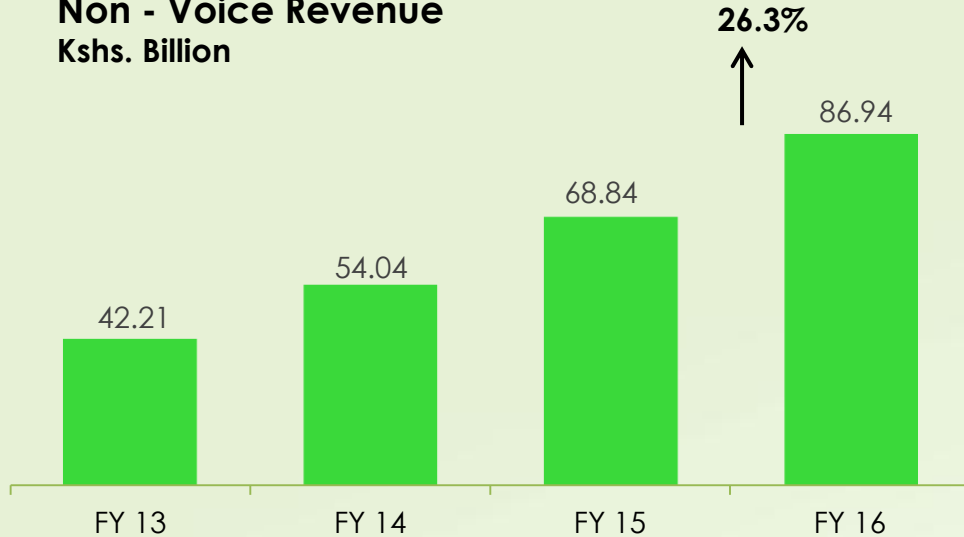


- 3.9% growth in voice service revenue
- 7.8% growth in total customers
- 42.3% of airtime top-ups directly through M-PESA
- 252,000 retailers actively sell Safaricom top-up cards
- 22.9% increase in emergency top ups (Okoa Jahazi)
- Average blended rate per minute is Kshs 2.52* for national outgoing calls, a 14.6% decline
- Minutes of use per customer per month for national outbound calls grew to 103.9, an 11.0% increase

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

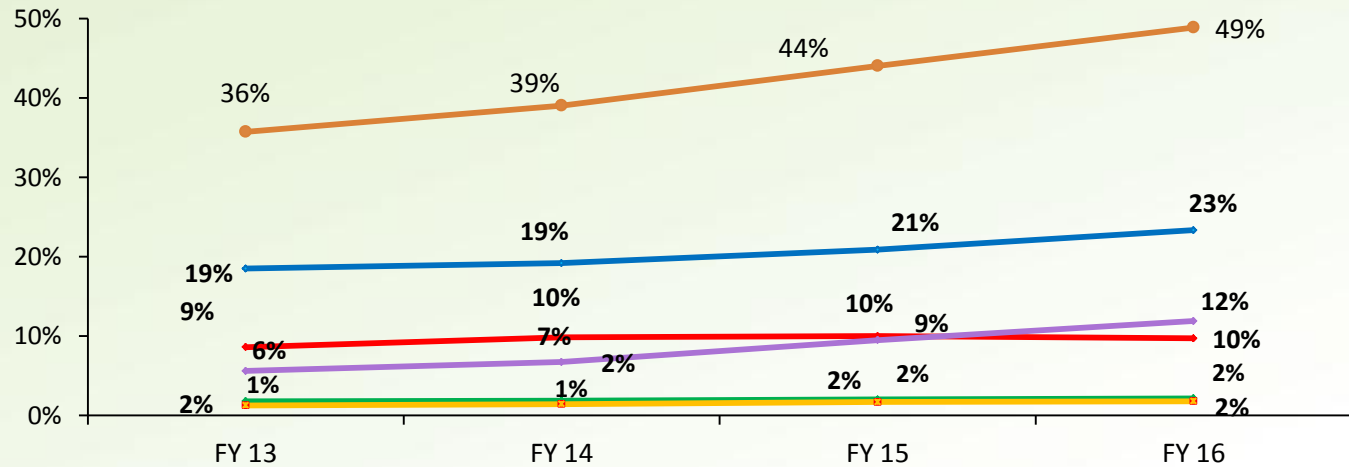
Strong growth in non-voice service revenue

Non - Voice Revenue
Kshs. Billion



- Non-voice service revenue grew 26.3%, now 49% of service revenue
- Revenue growth of:
 - M-PESA +27.2%
 - Mobile data +42.7%
 - SMS +10.6%
 - Fixed service +22.0%
 - Other service revenue +21.1% (*Okoa Jahazi*)

Non Voice(Data/M-PESA/SMS/Other service contribution to service revenue

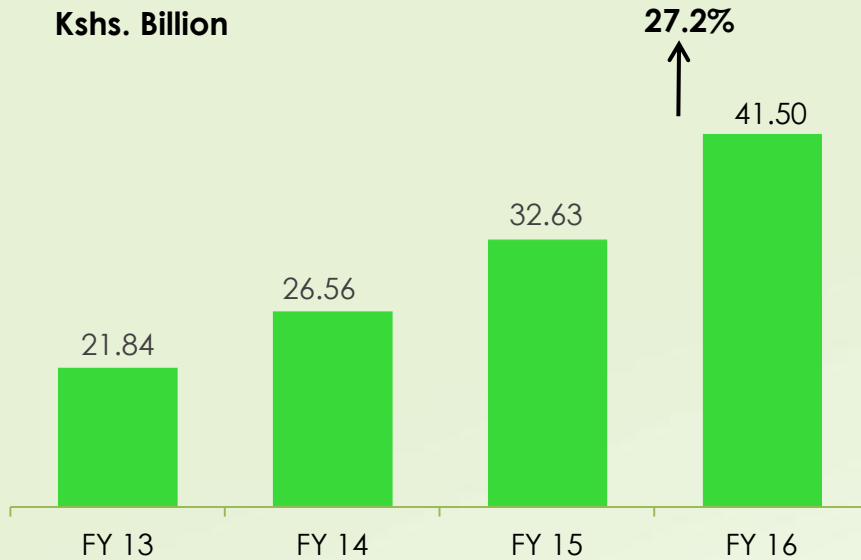


— M-PESA — SMS — Mobile data — Fixed Data — Other Service — Total Non-voice service revenue



M-PESA: Growing revenue & financial inclusion

M-PESA Revenue Kshs. Billion



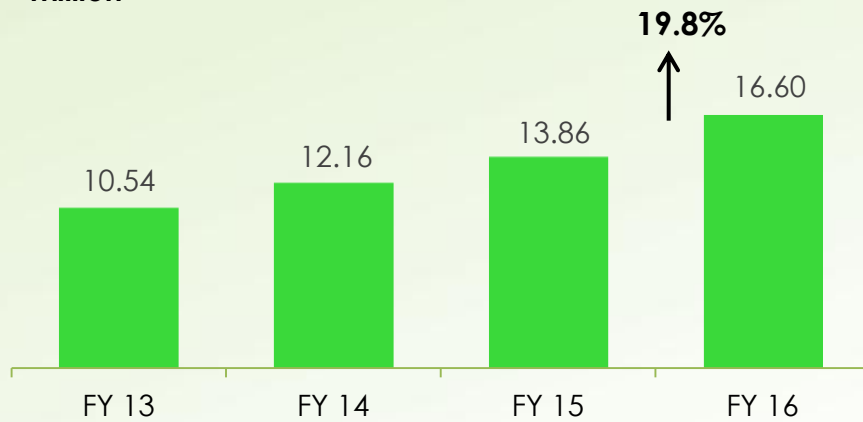
- 27.2% growth in M-PESA revenue, driven by:
 - 19.8% increase in 30 day active users to 16.6m
 - 7.43 chargeable transactions per 30 day active users (16% growth)

- Total M-PESA transactional value at Kshs 5.29tn, up 27%

- 17.5% growth in M-PESA agents, now at 100,744

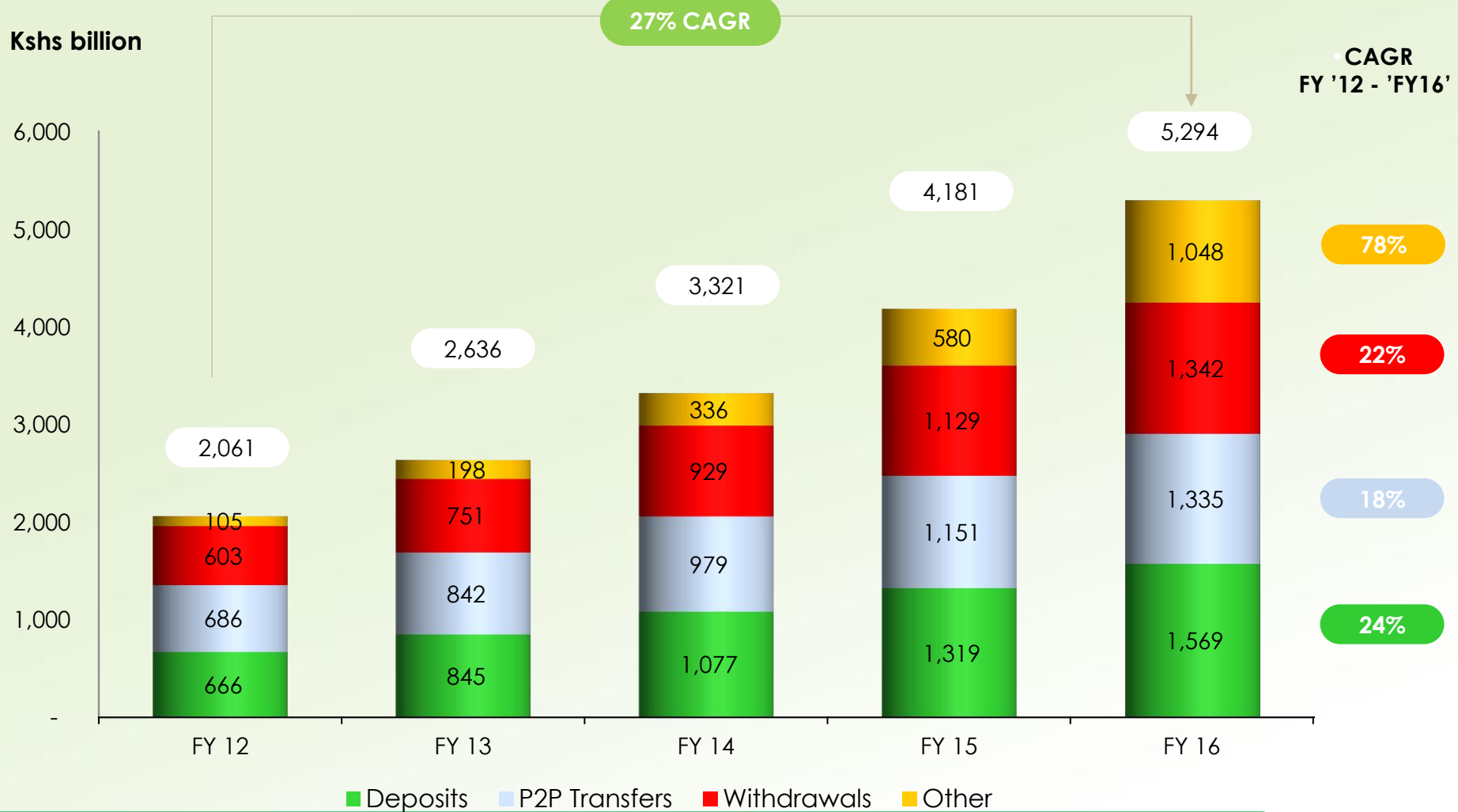
- M-Shwari: Increased 30 day active customers to 3.9m, Kshs 8.1bn on deposit and Kshs 7.4bn on loan as at 31st March 2016, with NPLs at 1.93%

30-day Active M-PESA Customers Million



- KCB - MPESA: 30 day active customers at 0.73m, Kshs 0.19bn on deposit and Kshs 1.47bn on loan as at 31st March 2016, with NPLs at 3.61%

M-PESA: Value transacted – Kshs 5.29tn in FY16

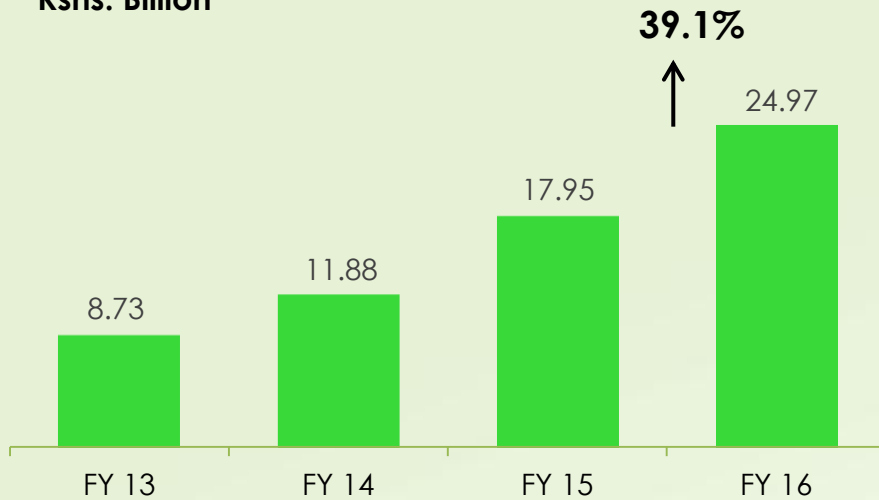


Value transacted approximately 38% of GDP
 Computation based on transfers and other payments (B2C, C2B, IMT, Buy goods, etc) and GDP of USD 60.94bn*
 *World Bank



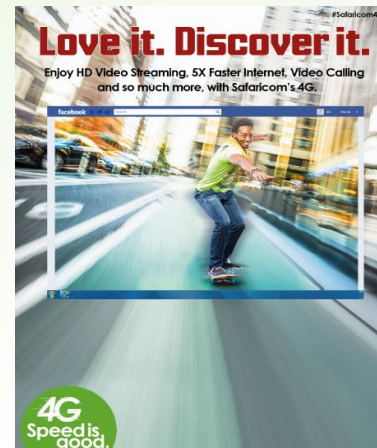
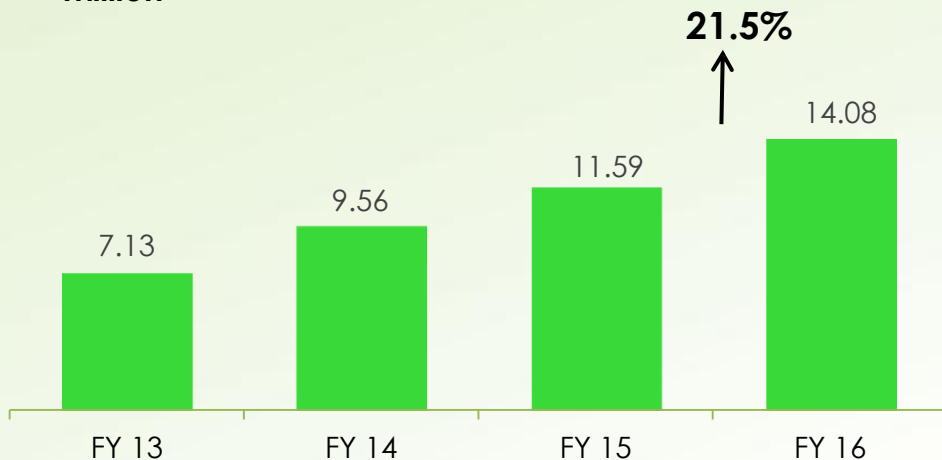
Data: Customers, usage & devices driving growth

Mobile Data & Fixed Service Revenue Kshs. Billion



- Mobile data revenue growth of 42.7% driven by:
 - 21.5% growth in 30 day active mobile data users to 14.08m – now 53% of our customer base
 - 77% increase in mobile data usage per customer while average price per MB declined by 33%
 - 128% growth in smartphone users to 7.8m
- Fixed service revenue growth of 22.2% driven by 21.6% increase in fixed customers to 10,490

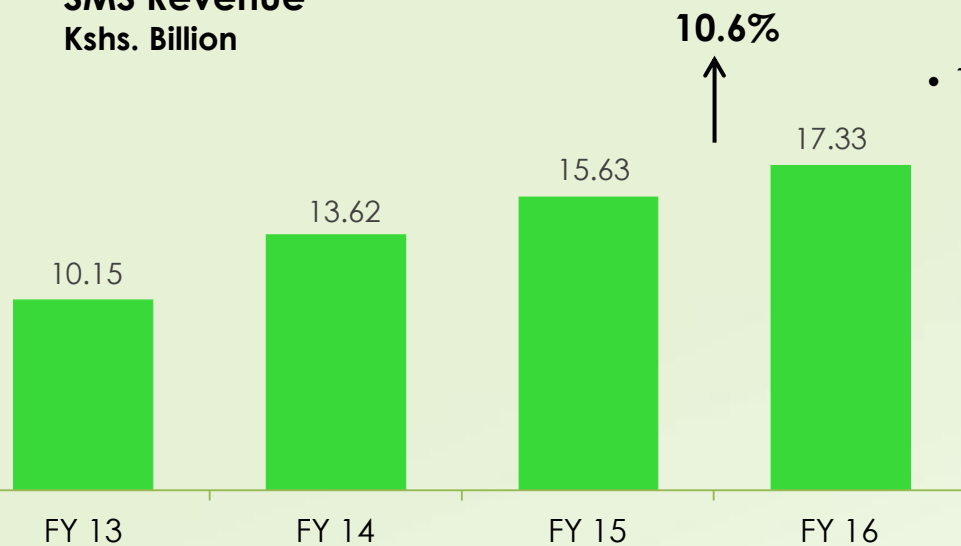
30-day Active Mobile Data Customers Million



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SMS: Active users, attractive bundles driving growth

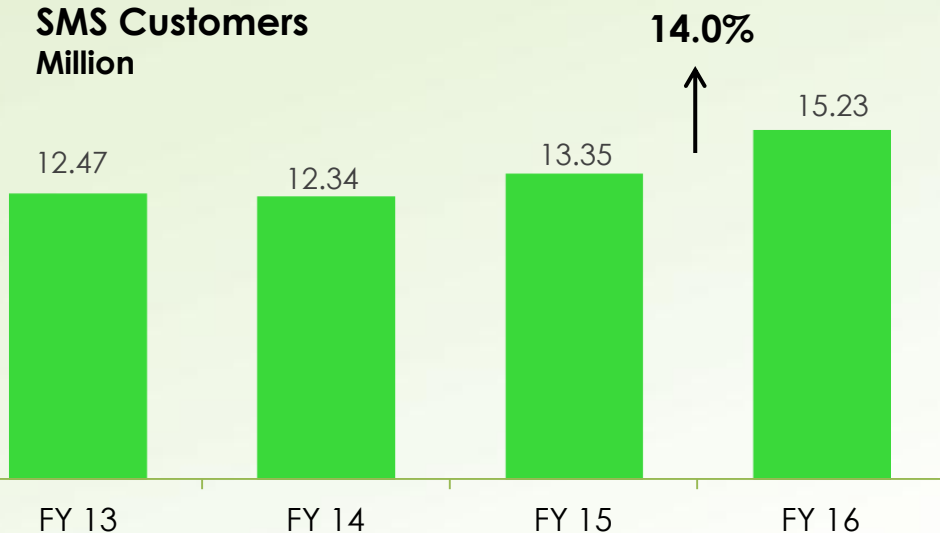
SMS Revenue
Kshs. Billion



- 10.6% growth in SMS revenue, driven by;

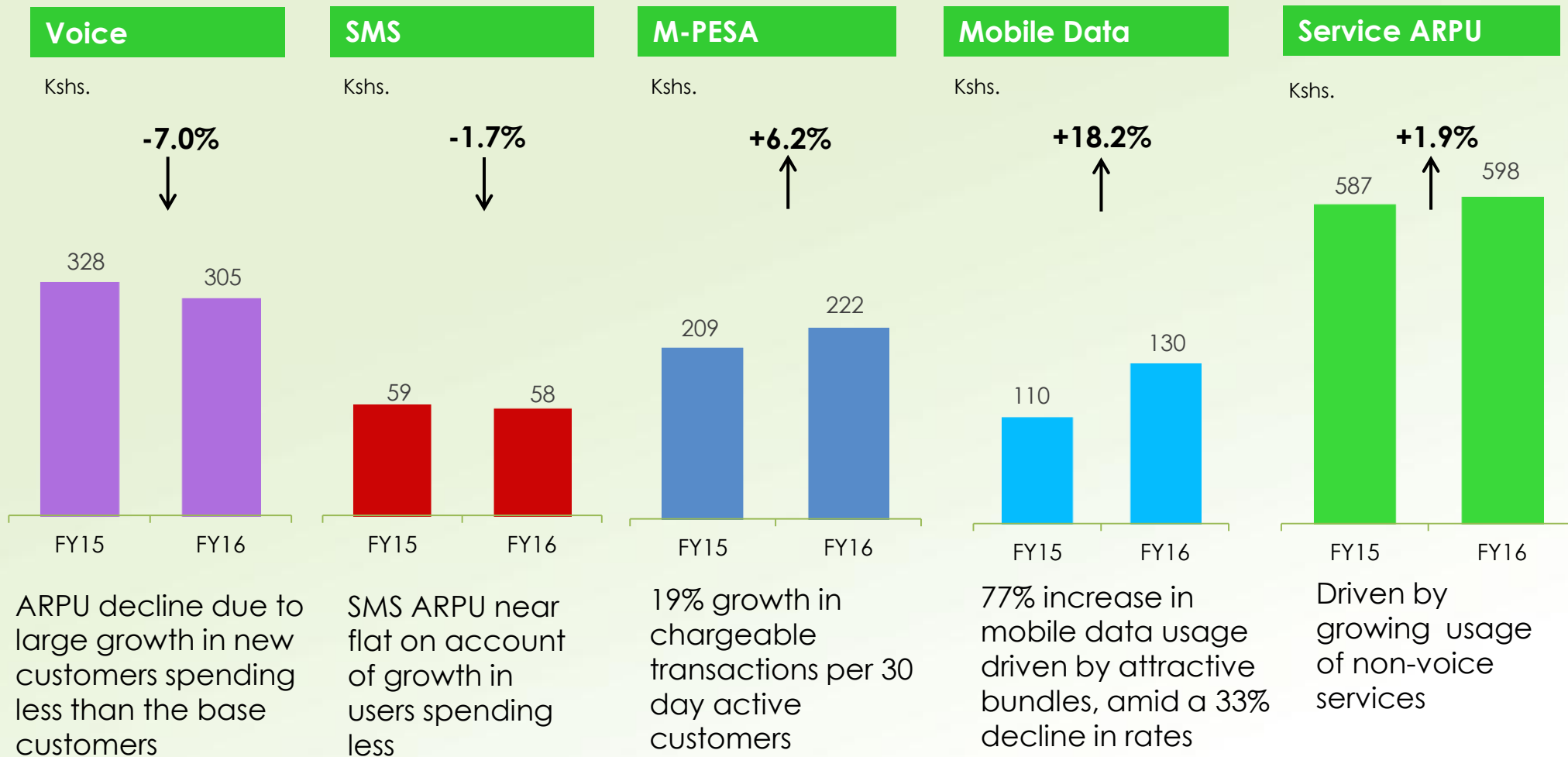
- 14.0% growth in 30 day active SMS users to 15.23m
- 24.1% growth in active SMS bundle users to 4.96m
- Growth in Premium rated services (Lottery and gaming)

SMS Customers
Million



Safaricom

Growth in usage: Driven by M-PESA and Data



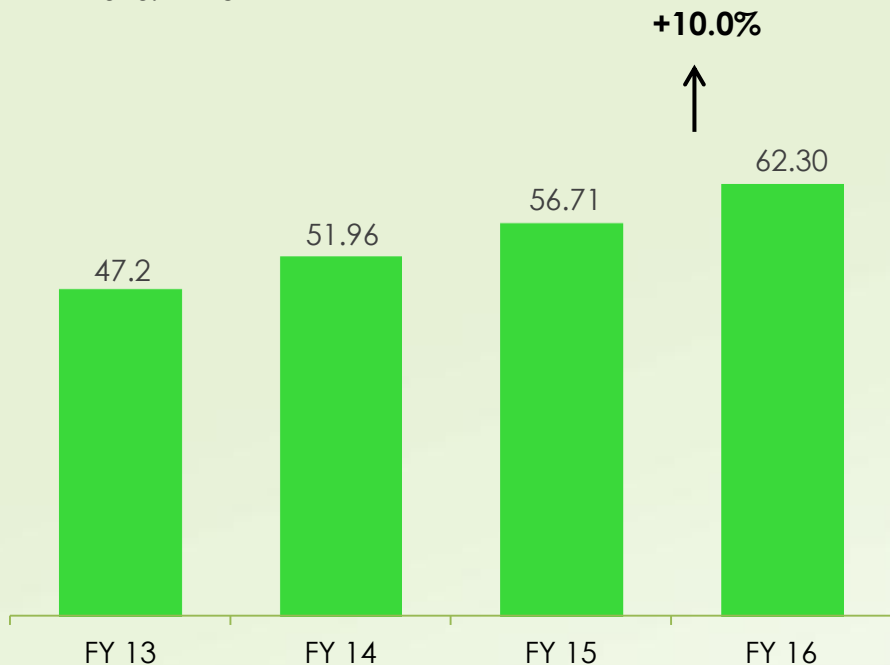
* Voice, SMS and Service ARPU are calculated based on 90 day active mobile customers

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

Direct costs control improves contribution margin

FY 16 Direct costs

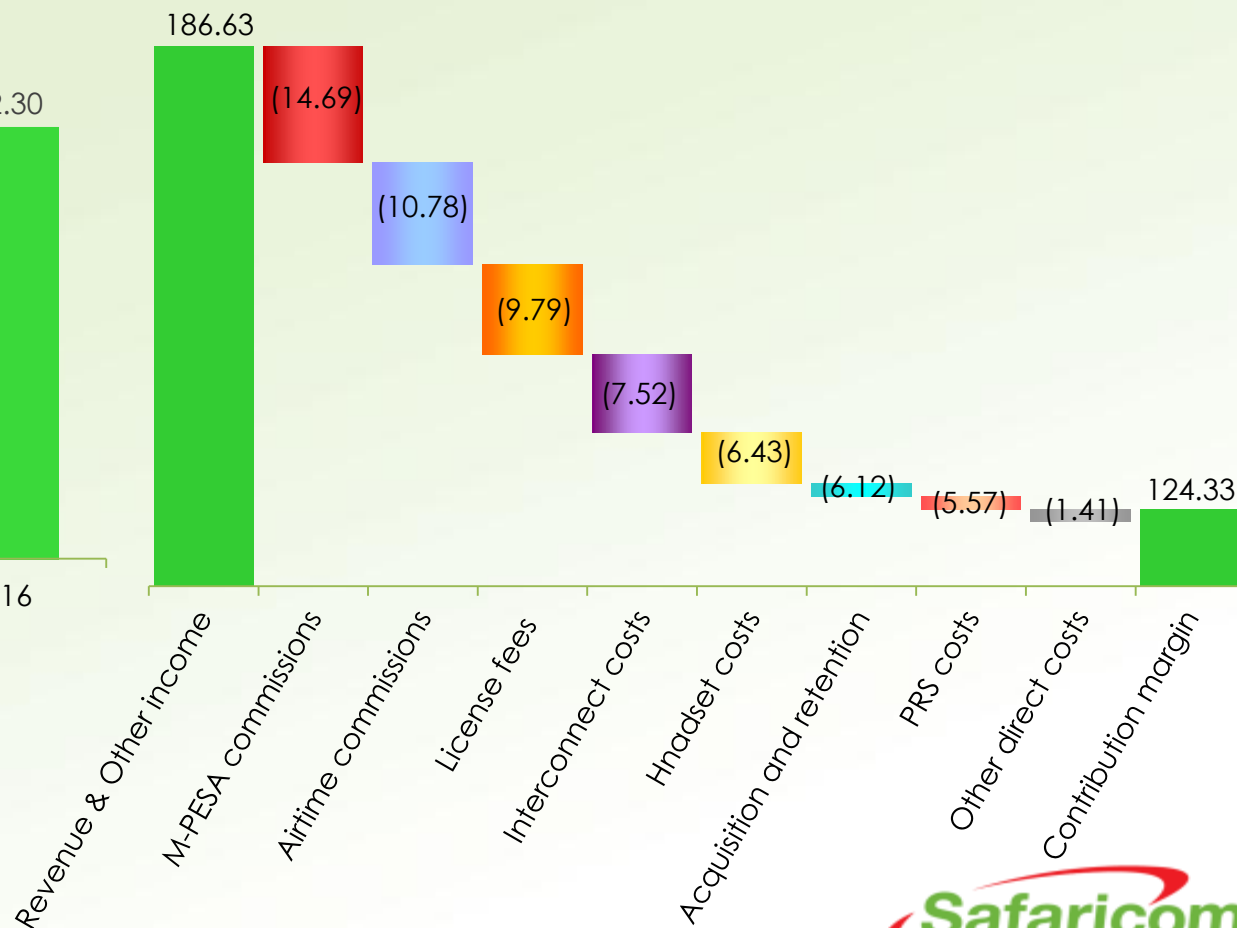
Kshs. Billion



- 10.0% growth in direct costs, lower than the 14.1% growth in total revenue (excludes construction revenue)
- Contribution margin improvement to 66.7%, up 1.1ppt

FY 16 Direct costs breakdown

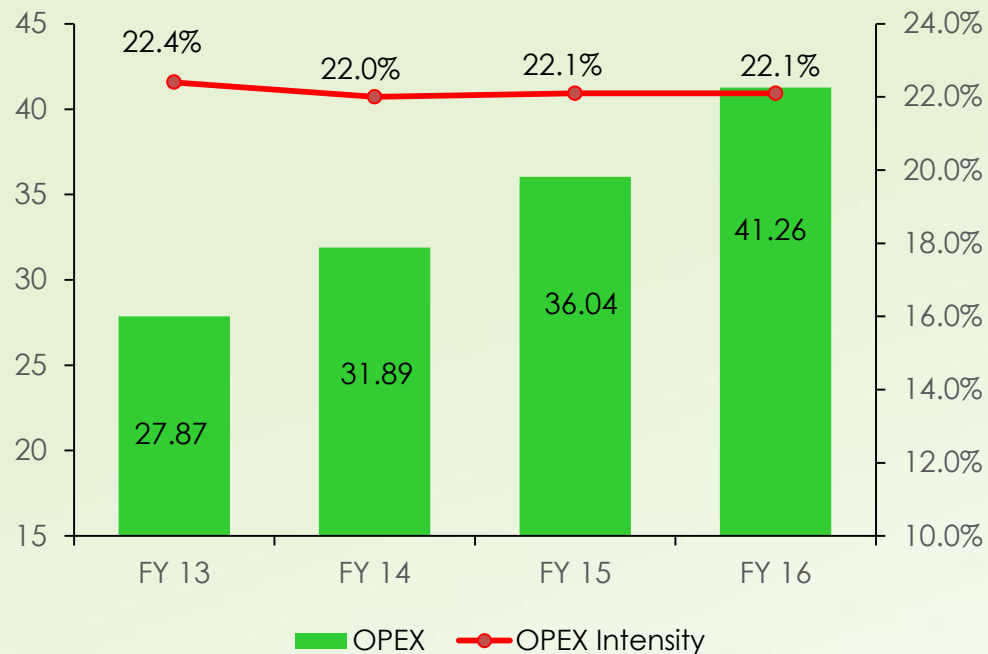
Kshs. Billion



Cost management through operational excellence

FY 16 OPEX

Kshs. Billion



- Maintained Opex as a % of revenue despite a 9.8% depreciation of the KES against the USD in the financial year
- Continued with cost optimization across the operations;
 - ✓ Improvements in site energy costs including conversion to free cooling, integration to solar power, connection to the power grid and deep cycle battery installation
 - ✓ IT and Network Support contracts rationalization and optimization
 - ✓ Increased use of own fiber for customers and own transmission requirements

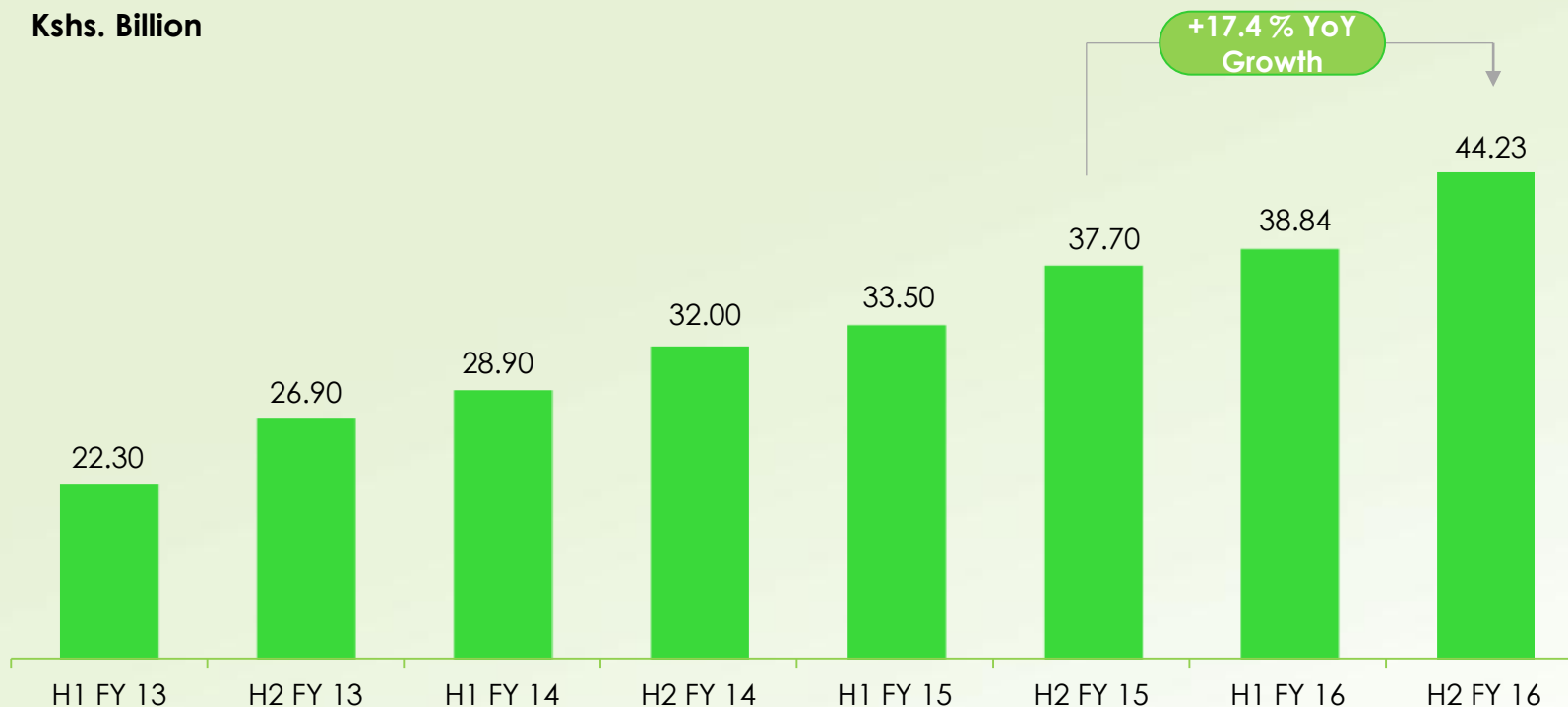
* Operating costs relate to Payroll, Publicity, Leased Lines, Network & IT operational costs, FX loss and other costs (including rent, rates and insurances)

* OPEX Intensity is based on total revenue less construction revenue

Strong growth in EBITDA

H1/ H2 EBITDA

Kshs. Billion



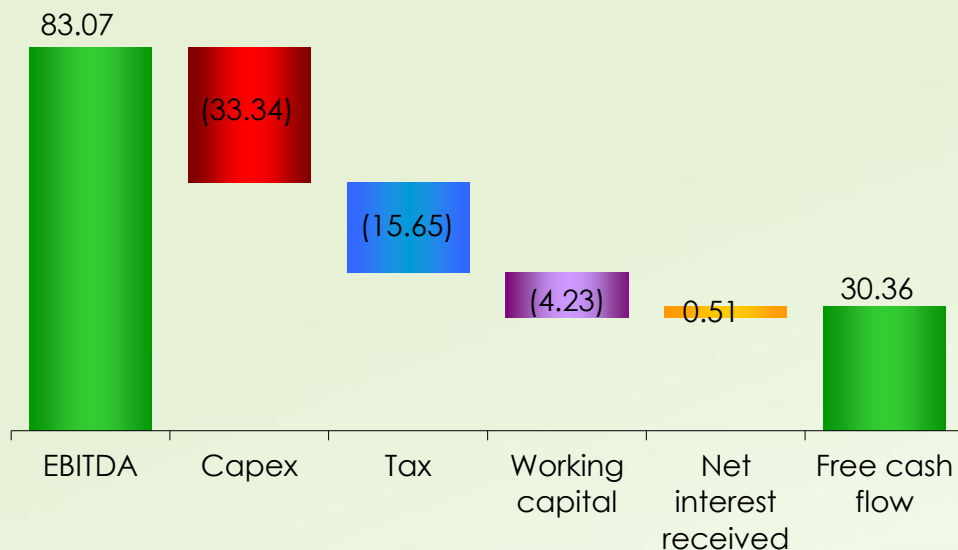
- 16.7% growth in FY16 EBITDA to Kshs 83.07bn
- FY 16 underlying EBITDA margin improvement of 0.9ppt to 44.6%*

* EBITDA margin is based on total revenue less construction revenue

Improved cash generation funding Capex

FY 16 Free Cash Flow & Net cash position

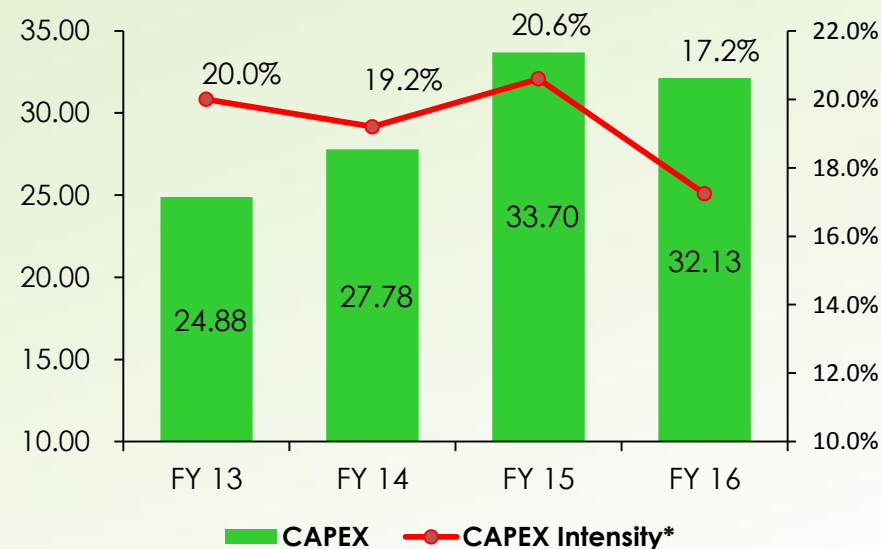
Kshs. Billion



- 10.4% increase in Free cash flow* attributed to improved trading results
- FY 16 ended with cash at bank of Kshs 8.50bn and no debt

* Free Cash Flow excludes M&A and spectrum purchases

FY 16 Capex



Capital expenditure* of Kshs 32.13bn invested in:

- Expansion of 2G, 3G & 4G networks to support customer growth & improve network quality
- Fibre roll out,
- Information System Upgrades

Network at a glance

95% 2G Population Coverage

78% Broadband Coverage

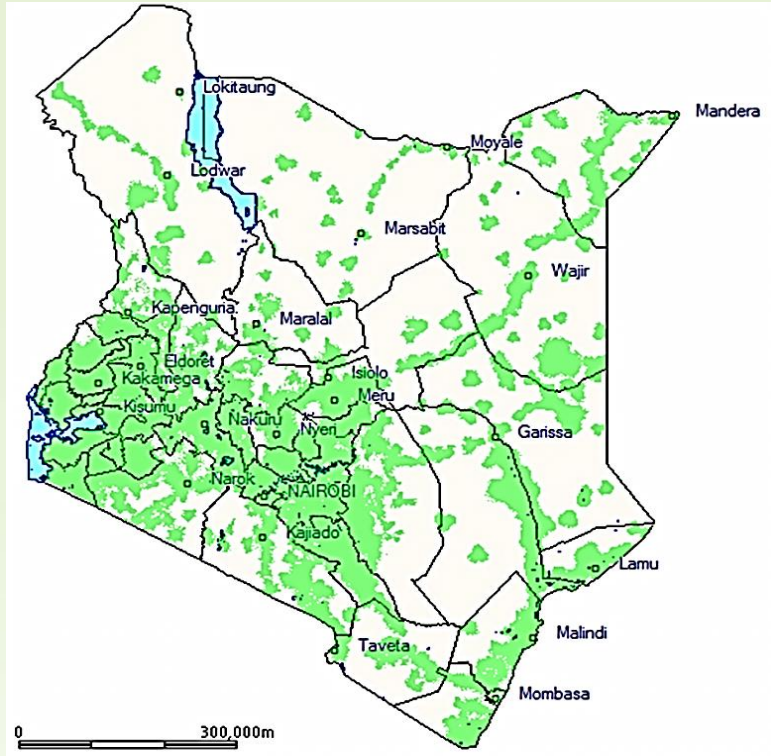
20M Active Voice customers

14M Active Data customers

HD Voice on 2G & 3G

100G optimized Packet Core

50% Local Traffic (CDN)



3,800 2G Sites

2,517 3G Sites

467 4G Sites

193 WiMAX sites

56 VSAT sites

Fiber

3,236 km

34% sites

16 towns

1,138 Buildings

6,848 Homes

Internal upgrades

- Fully converged billing
- MPESA (G2) – Stability

100G IP & Optical Backbone

25G Undersea Capacity

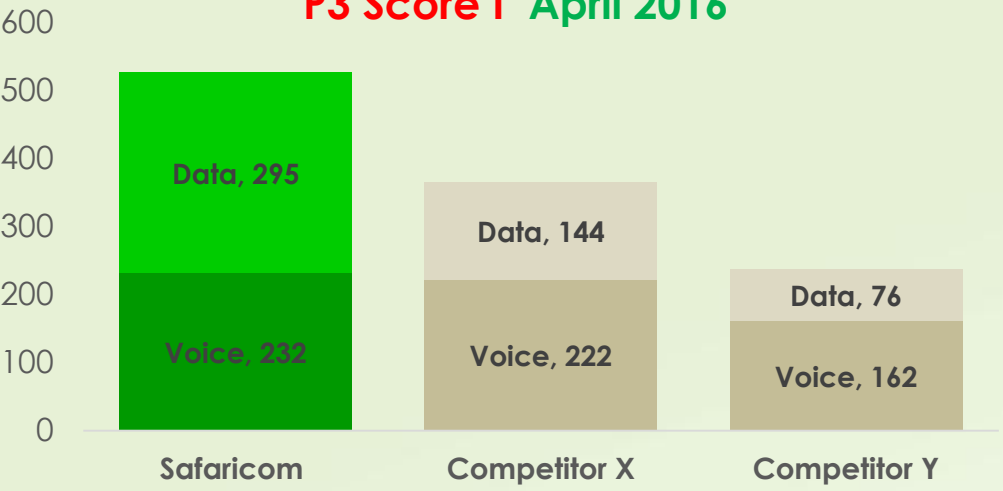
Data Centers

8 Main MSR's

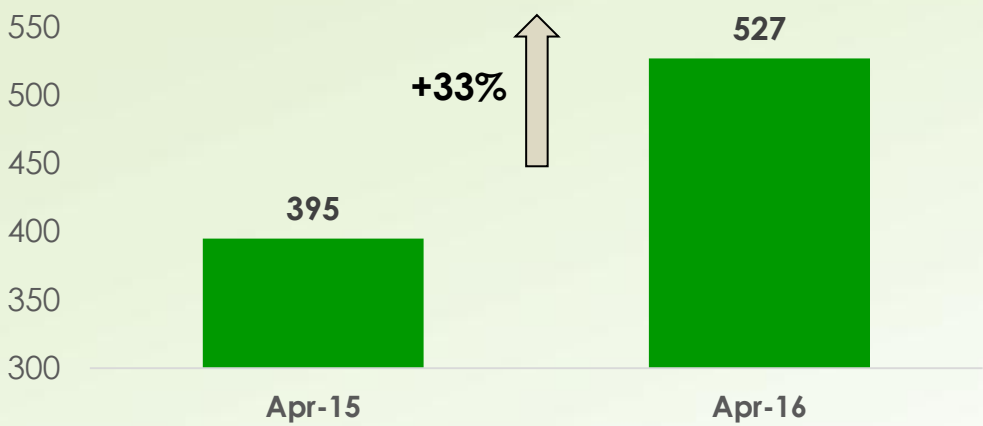
7 Satellite MSR's



P3 Score | April 2016



Safaricom P3 Score Trend



- 2nd year in a row “P3 Best in Test” certification
- Opportunities for improvement in Data especially on video and web browsing; and Voice in cities



	Apr-16	Apr-15
Voice	Best	Co-Best
Data	Best	Best



Key Financials: Kshs bn

	FY16	FY15	GROWTH	H2 FY16	H2 FY15	GROWTH
Voice - Outgoing	83.66	81.19	3.0%	42.03	40.46	3.9%
Voice - Incoming	7.14	6.18	15.5%	3.63	3.28	10.7%
MPesa revenue	41.50	32.63	27.2%	22.15	17.03	30.0%
Messaging revenue	17.33	15.63	10.6%	9.30	8.46	9.9%
Mobile data revenue	21.15	14.82	42.7%	11.99	8.32	44.1%
Fixed service revenue	3.82	3.13	22.0%	1.96	1.64	19.2%
Other service revenue	3.18	2.63	20.9%	1.81	1.46	24.6%
Service Revenue	177.78	156.25	13.8%	92.87	80.65	15.2%
Handset & other revenue	8.62	7.11	21.2%	4.75	3.38	40.7%
Construction revenue	9.28	-	-	0.84	-	-
Total Revenue	195.68	163.36	19.8%	98.46	84.03	17.2%
Other Income	0.23	0.58	-60.3%	0.16	0.02	>100%
Direct Costs	(62.30)	(56.71)	9.9%	(32.29)	(27.79)	16.4%
Construction costs	(9.28)	-	-	(0.84)	-	-
Contribution margin	124.33	107.23	15.9%	65.49	56.26	16.4%
<i>Contribution margin %</i>	<i>66.7%</i>	<i>65.6%</i>	<i>1.1%</i>	<i>67.1%</i>	<i>66.9%</i>	<i>0.2%</i>
Operating expenses	(40.99)	(35.96)	14.0%	(21.77)	(18.60)	16.2%
Forex loss on trading	(0.27)	(0.08)	>100%	0.51	-	-
<i>Opex & forex loss % of service revenue</i>	<i>22.1%</i>	<i>22.1%</i>	<i>-</i>	<i>21.7%</i>	<i>22.1%</i>	<i>-0.4%</i>
EBITDA	83.07	71.19	16.7%	44.23	37.66	17.4%
<i>EBITDA margin %</i>	<i>44.6%</i>	<i>43.6%</i>	<i>0.9%</i>	<i>45.3%</i>	<i>44.8%</i>	<i>0.5%</i>
Depreciation & Amortisation	(27.94)	(25.57)	9.3%	(14.40)	(12.98)	10.9%
Net Finance income / (cost)	0.51	0.22	>100%	0.18	0.15	20.9%
Forex gain / (loss) on cash & cash equivalents	0.39	0.21	85.7%	(0.30)	0.12	<100%
Fair value loss on investment property	(0.37)	-	-	(0.37)	-	-
Share of associate profit / (loss)	0.10	-	-	0.01	(0.00)	<100%
Asset purchase gain	-	0.11	<100%	0.00	0.11	<100%
Earnings Before Tax (EBT)	55.76	46.15	20.8%	29.36	25.05	17.2%
Tax	(17.66)	(14.28)	23.7%	(9.33)	(7.89)	18.3%
Net Income	38.10	31.87	19.6%	20.03	17.16	16.7%
Earnings per share	0.95	0.80	19.6%	0.50	0.43	16.7%
Free Cash Flow	30.36	27.52	10.3%	9.52	15.48	-38.5%
Recommended ord dividend	30.48	25.64	18.9%			
Recommended ord dividend per share	0.76	0.64	18.9%			

Contents



FY 16 Highlights



FY 16 Financial Review



Strategic Focus and Guidance

Future Outlook



Safaricom

Priorities going forward...cont'd

Customer First

- Accelerate acquisition and retention of subscribers
- Create a customized experience for all our customers
- Increase access to customer service points
- Reduce calls to call center
- Leverage Big Data insights
- Empower our customers to manage their services through the launch of the Safaricom App



Priorities going forward...cont'd

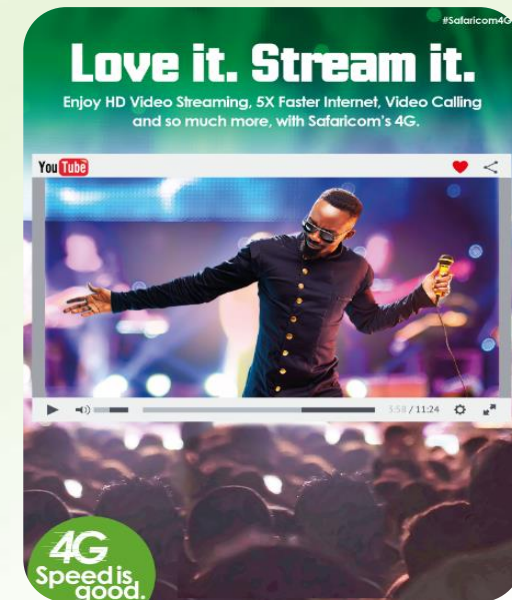
Relevant Products

Mobile Data

- Accelerate 3G and 4G smartphone penetration
- Grow our base of active data users
- Continue to drive affordability via bundle propositions
- Provide relevant content to increase usage in line with customer demand
- Deliver home internet connectivity through 4G and fiber to the home propositions

Voice & Messaging

- Aim to create unique experiences supported by best in breed technology.
- Continuous development to catalyze consumption for our various customer segments

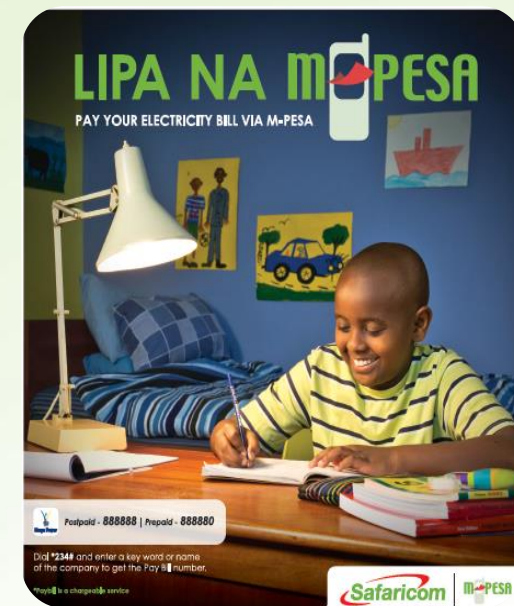


Priorities going forward...cont'd

Relevant Products

Driving Financial Inclusion

- Deepen M-PESA penetration and usage
- Grow our Lipa Na M-PESA merchants and increase activity level on the platform
- Partnerships with banks to deliver more real time Merchant settlements
- Fuel the expansion of business to business payments in the SME segment
- Increase uptake of savings and loans products
- Grow international money transfers



Priorities going forward...cont'd

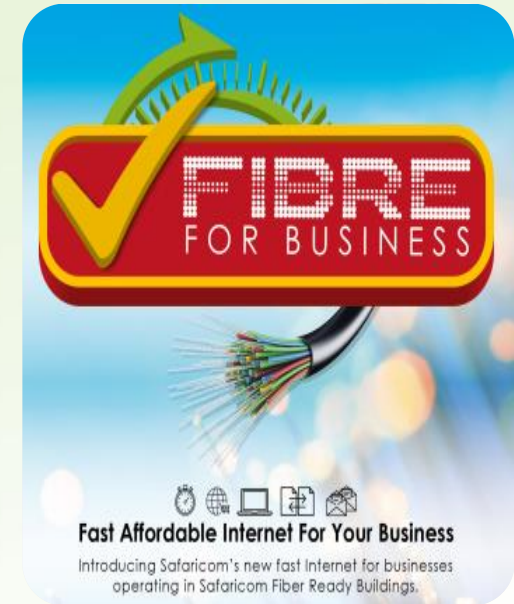
Relevant Products

Partner of Choice for Business

- Investment in fibre infrastructure to expand data footprint and provide better connectivity to business
- Invest in SMEs by partnering for success through co-creation of solutions to meet their business needs
- Deepen corporate engagements

Supporting Innovations

- Continue building Kenya's innovation ecosystem
- Enhance opportunities to develop capabilities among local developers
- Provide testing environment for developers to use SMS, USSD & M-PESA APIs
- Partnerships to support customer transforming innovations



Priorities going forward...cont'd

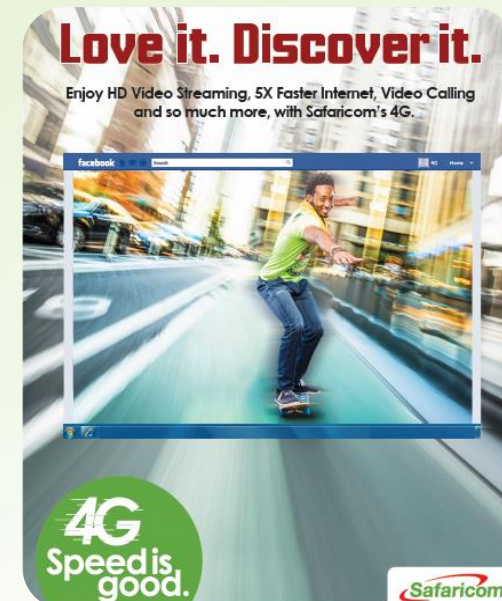
Operational Excellence

Customer Service

- Expand our customer service points countrywide
- Increase capacity at call centers
- Introduce voice bio-metric to fast track resolution

Best Network For You

- Increased accountability through network guarantees
- Democratize data by expanding 3G population coverage from 78% to 82%
- Continue investments in the network to deepen coverage and deliver best experience (2G, 3G, 4G)



FY 17 Guidance

EBITDA for FY 17

Expected to be in the range of Kshs 89bn - 92bn

Capital Expenditure for FY 17

Expected to be in the range of Kshs 32bn - 33bn

FY 16 Highlights

- Maintained leading position as Kenya's most admired brand, with an overall brand equity score of 89%* and a Net Promoter Score of 66%**
- Rolled out a new Regional Sales and Operations structure
- Continued investment in network, IT infrastructure and innovation
- Significant improvements in voice and data service quality
- Maintained market share at 64.7% as at December 2015

*Internally commissioned research performed by Millward Brown **Internally commissioned research performed by TNS



Safaricom Limited

FY 16 Results Presentation

11 May 2016



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Appendices



Industry Performance: Dec 2015 vs Dec 2014

Parameter	Safaricom			Airtel and YU			Orange			Finserve
	Dec '2015	Dec '2014	%	Dec '2015	Dec '2014	%	Dec '2015	Dec '2014	%	Dec '2015
Market Share by Subscribers (%)	64.70	67.40	↓-2.7ppt	19.20	22.60	↓-3.4ppt	12.40	10.00	↑+2.4ppt	3.70
Mobile Subscribers (mn)	24.41	22.66	↑ 7.7%	7.24	7.61	↓ -4.9%	4.66	3.36	↑ 38.7%	1.41
Market Share by Voice Minutes (%)	72.10	84.00	↓11.9ppt	16.80	9.80	↑+7.0ppt	10.80	6.20	↑+4.6ppt	0.30
Total Minutes (bn)	7.39	6.22	↑ 18.8%	1.72	0.72	↑ 138.5%	1.11	0.46	↑ 140.7%	0.03
SMS Market Share (%)	90.70	96.40	↓-5.7ppt	8.20	2.60	↑+5.6ppt	1.00	0.90	↑+0.1ppt	0.10
Total SMS (bn)	7.36	7.03	↑ 4.6%	0.67	0.19	↑ 254.0%	0.08	0.07	↑ 13.0%	0.01
Mobile Data market share (%)	63.00	72.22	↓-9.2ppt	18.00	14.69	↑+3.3ppt	14.00	13.46	↑+0.5ppt	5.00
Total Mobile Data Subscriptions (m)	14.99	11.80	↑ 27.0%	4.28	2.40	↑ 78.5%	3.33	2.20	↑ 51.4%	1.19

Key

↑ - Increase

↓ - Decrease

— - No Change



Update on accounting for the Police Network Project

Income Statement - Projected (Kshs m)								
	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	Total
Fixed data revenue		-	906	906	906	604		3,323
Service Revenue		-	906	906	906	604	-	3,323
Total revenue		-	906	906	906	604	-	3,323
Other income		9,280	773					10,053
Contribution margin		9,280	1,679	906	906	604	-	13,376
Network costs		-	(606)	(606)	(606)	(404)		(2,223)
Other operating costs	(214)	(9,280)	(773)	-	-	-	-	(10,267)
EBITDA	(214)	-	300	300	300	200	-	886
Taxation		-	(77)	(77)	(77)	(51)		(282)
Net Income	(214)	-	223	223	223	149	-	604
Cashflow - Projected (Kshs m)								
Trading Cash Flow	(214)	-	300	300	300	200	-	886
Working Capital Changes	(903)	(5,705)	2,493	925	925	1,276	988	-
Movement in Stocks	(7,227)	7,227	-	-	-	-	-	-
Movement in Debtors	-	(9,280)	5,165	925	925	1,276	988	-
Movement in Creditors	6,324	(3,652)	(2,672)	-	-	-	-	-
Operating Cash Flow/ Free Cash Flow	(1,117)	(5,705)	2,793	1,225	1,225	1,476	988	886