

News Release



SAFARICOM GROUP

SAFARICOM LIMITED ANNOUNCES UNAUDITED RESULTS FOR THE FIRST HALF ENDED 30th SEPTEMBER 2010

Opening Statement

Bob Collymore, Safaricom Group CEO commented;

"Once again, the Group delivered impressive results despite an increasingly competitive environment. This was the result of continued strong growth in all aspects of the business, augmented by a further expanded and enhanced network, a robust and superior distribution channel, innovative products and a clear focus on value added services and data offerings. As we anticipated, data is proving to be the next frontier, delivering significant benefits"

Key Highlights

1. Growth in;
 - Active customers by 15.2% to 16.7m compared to 30 September 2009
 - Revenue by 15.9% to Kshs 47.1bn
 - EBITDA by 13.8% to Kshs 18.8bn
 - Net Profit by 15.1% and Earnings per Share to Kshs 0.193
2. Growth in total data;
 - 23.8% of total revenue compared to 17.7% as at 30 September 2009
 - Mobile and fixed data revenue by 68.5%
 - M-PESA revenue by 63.9%
 - M-PESA registered users to 13.5m equating to 81% of our customer base
3. EBITDA margin of 40.0%
4. 166.7% growth in free cash flow
5. As in previous years the Directors do not propose the payment of an interim dividend.

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Major initiatives in the period

Safaricom defended its market share in the period under review despite increased competitor activity. According to the Communication Commission of Kenya (CCK), total mobile phone customers at the end of September 2010 were 21.78m with Safaricom customers at 16.71m. This represents a market share of 76.7%. Innovative products, services and promotions have continued to defend our customer market share.

Safaricom has continued to invest heavily in its data infrastructure. The number of 3G enabled sites has increased significantly to 829 in the period, and the Wimax network has grown to a total of 164 sites with both networks offering coverage to a large proportion of the Kenya population. In order to strengthen our position in the data market, the company was finalising and has subsequently concluded the acquisition of 100% stake in two Wimax service providers namely, IGO Wireless Ltd and Instaconnect Ltd. This will add 7MHz of spectrum to the existing 15MHz Wimax frequencies in the 3.5 GHz band. Safaricom is now positioned to provide better and faster mobile & fixed data products and services to corporate, medium sized enterprises and individual customers.

Safaricom is connected to two of the undersea cables, TEAMS and SEACOM and this has greatly improved the speed of internet and data services as well as the quality of international voice services. This has allowed us to retire the bulk of expensive satellite capacity, thereby increasing bandwidth and reliability and lowering our underlying related costs

In addition to facilitate increased data penetration Safaricom continues to actively engage handset and laptop vendors to drive down the cost of devices. Over 8,000 laptops, 45,000 data modems and 400,000 data enabled handsets were sold in the period, contributing greatly to the impressive overall data revenue growth.

The popularity of the M-PESA service continues to grow, with 13.5m customers registered representing 81% of the Safaricom customer base. The M-PESA customers can access M-PESA at over 20,000 agent outlets countrywide. In May 2010 the M-KESHO service was launched in partnership with Equity Bank with the aim of deepening financial access of M-PESA customers. M-KESHO is a mobile-centric bank account linked to M-PESA where customers can deposit and withdraw money from their bank account, purchase insurance and apply for overdrafts. Initial take-up of M-KESHO is very encouraging with over 613,000 registered in the first 5 months.

Safaricom is now facilitating payments to more partners with over 400 organisations now accepting Bill Payment via M-PESA. Safaricom will again be using M-PESA to pay dividends to shareholders following the success of this exercise last year. More and more companies are using the service to pay salaries, promotion payments and cash transfers.

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Future outlook

The business environment in Kenya continues to improve. Interest rates have declined in the period to lower single digit levels. The forecast GDP rate is expected to be above 5% in 2011 underpinned by faster global growth and rising confidence among local households and firms.

The telecommunications sector continues to be vibrant and we are confident that the sector will continue to experience significant growth with expectations that mobile penetration will increase to between 60-70% over the next 2-3 years from the current levels of over 50%. This reflects a significant opportunity for future growth.

Over the last two months we have seen increased competition and regulatory interventions and we expect this to continue. Voice tariffs and mobile termination rates have fallen by 50%. With internet and PC penetration estimated to still be below 10%, there is huge potential for ongoing growth in data revenues. The Communications Commission of Kenya (CCK) is implementing Mobile Number Portability and new regulations covering fair competition have been gazetted by the Ministry of Information and Communications.

The future growth in the number of customers and the recently reduced voice tariffs is expected to result in a further decline in voice ARPU and total contribution of voice revenues to total customer ongoing revenues. However, the continued growth in data is anticipated to partially alleviate the declining voice ARPU.

With the only 3G network in Kenya, the largest Wimax network nationally, significant capacity on fibre optic cable and the largest distribution network, Safaricom is the best placed telecommunications company to benefit from the growth in non voice revenues over the next few years.

Our capital investment level is expected to remain high to support the growth in the number of customers, rollout of data products and investment in capacity, coverage and network quality of our voice networks. To support this growth we will continue with the ongoing technology upgrade initiatives of our network management and billing systems, product offerings and network optimisations that will guarantee a more diverse and robust portfolio of services to our customers.

M-PESA remains the most significant mobile money transfer system globally and further expansion of the customers and products offered will ensure future growth for M-PESA revenues. This October the company launched an innovative service where customers can now pay for goods at the tills of participating supermarkets via the 'Nunua na M-PESA' service.

Safaricom will pay a Kshs 8bn dividend in November, the second since being listed, representing a growth of 100% over the prior year.

In March 2011, the company will complete the repayment of its syndicated loan currently standing at Kshs 7bn. The company has in place a Domestic Medium Term Note of Kshs 12bn out of which Kshs 7.513bn has already been issued, the balance of which is planned to be issued during Q4 2010. Safaricom will continue to review options for future funding requirements to leverage the balance sheet and support its aggressive growth strategy.

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Key indicators and summary financial information

The following are the key highlights of the results compared to the prior period ending 30th September 2009:

Condensed consolidated statement of comprehensive income

Kshs Bn	H1 30 September 2010	H1 30 September 2009	% Increase/ (Decrease)
Revenue (ref to Analysis I - Revenue analysis)	47.112	40.661	15.9
Operating expenses	(21.619)	(18.871)	14.6
Selling, general and administrative expenses	(6.662)	(5.237)	27.2
EBITDA	18.831	16.553	13.8
Depreciation and amortisation	(7.903)	(6.655)	18.8
Operating profit	10.928	9.898	10.4
Net financing costs	(0.484)	(0.764)	(36.6)
Profit before taxation	10.444	9.134	14.3
Taxation	(2.813)	(2.502)	12.4
Profit after taxation	7.631	6.632	15.1
Earnings per share (Kshs)	0.193	0.168	14.9
<u>Key indicators</u>			
Customers (m)	16.714	14.514	15.2
Registered M-PESA users (m)	13.543	7.991	69.5
Churn (%)	31.2	27.6	
EBITDA margin %	40.0	40.7	
Operating profit margin %	23.2	24.3	
Net profit margin %	16.2	16.3	
Effective taxation rate %	26.9	27.4	
Net debt/EBITDA (times)	0.188	0.464	

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Analysis I: Revenue analysis

Kshs Bn	H1 30 September 2010	H1 30 September 2009	% Increase/ (Decrease)
Voice	32.494	31.553	3.0
Total Data	11.202	7.203	55.5
• SMS	3.669	2.645	38.7
• M-PESA	5.277	3.219	63.9
• Data (mobile & fixed)	2.256	1.339	68.5
Other revenue	0.811	0.351	131.1
Ongoing Revenue	44.507	39.107	13.8
Acquisition revenue	2.605	1.554	67.6
Total revenue	47.112	40.661	15.9
Data revenue % total revenue	23.8	17.7	
Mobile service revenue ARPU	456.6	466.5	(2.1)

Voice revenues continued to increase along with our customer growth despite increased competitive pressure.

Total non voice revenues increased by 60.5% to Kshs14.62bn. The overall contribution of total data revenue increased to 23.8% from 17.7% of total revenue in line with our strategy to diversify our products, services and related revenue streams.

The increase in operating expenses was attributed to growth in revenue-related expenses, principally commissions, cost of value added services, licence fees and customer acquisition initiatives. However, savings were realised through prudent procurement of scratch card vouchers and through increased distribution efficiencies achieved in delivering airtime to customers through M-PESA. The growth in network coverage was 15.7% but the company managed to maintain network costs largely in line with last year due to various cost efficiency initiatives.

Selling, general and administrative expenses grew predominantly due to the increase in marketing and publicity costs where accelerated growth was in tandem with the increased market activity and consequent need to further engage our customer base with our expanding portfolio of product and service offerings. Payroll and personnel related costs increased as a result of yearly increases and augmented headcount to support our aggressive growth strategy. In addition, the growth in the number of retail shop outlets by 24% has resulted in corresponding increases in related cost structures.

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Condensed consolidated statement of financial position

Kshs Bn	As at 30 September 2010	As at 30 September 2009	% Increase/ (Decrease)
Equity and non-controlling interest	61.925	53.779	15.1
Borrowings	7.615	4.051	88.0
Other liabilities	0.395	-	100.0
Capital employed	69.935	57.830	20.9
Non-current assets	84.180	76.475	10.1
Current assets			
Inventories	4.043	3.148	28.4
Receivables and prepayments	12.105	9.527	27.1
Cash and cash equivalents	12.100	7.925	52.7
	28.248	20.600	37.1
Current liabilities			
Payables and accrued expenses	(26.471)	(23.383)	13.2
Dividend	(8.000)	(4.000)	100.0
Borrowings	(8.022)	(11.862)	(32.4)
	(42.493)	(39.245)	8.3
Net current liabilities	(14.245)	(18.645)	(23.6)
Net assets	69.935	57.830	20.9
Net gearing (borrowing less cash) (%)	4.5	11.5	
Gross gearing (gross borrowing) (%)	20.1	22.8	

Capital employed increased in line with the strong growth in shareholder funds, from the favourable trading results and from proceeds obtained from issuance of the Domestic Medium Term Note of Kshs 7.513bn in November 2009.

The increase in the current assets was driven by high purchases of low end data enabled phones and laptops to support our robust data growth strategy, and an increase in accounts receivables due to delayed settlements that have been received subsequently.

The increase in current liabilities was due to the accrual for the final declared dividend of Kshs 8bn compared to Kshs 4bn in September 2009.

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Net Debt

Kshs Bn	As at 30 September 2010	As at 30 September 2009	% Increase/ (Decrease)
Cash and cash equivalents	(12.100)	(7.925)	52.7
Bank borrowings	8.124	15.913	(48.9)
Debt - corporate bond	7.513	-	100.0
Total net debt	3.537	7.988	(55.70)
Net debt/EBITDA (times)	0.188	0.464	

Net debt declined as a result of the repayment of a portion of the syndicated loan and a short-term bridge facility during the period, however this was complemented by proceeds from the first tranche of our corporate bond and an increase in cash mainly from operating activities.

We will continue to review our long term funding requirements to adequately leverage the balance sheet at favourable margins to support future growth plans.

Capital Investments

Kshs Bn	H1 30 September 2010	H1 30 September 2009	% Increase/ (Decrease)
Gross capital expenditure	10.009	6.587	52.0
Capex intensity (%)	21.2	16.2	
Investments	-	1.952	
Total Gross Capital Investments	10.009	8.539	17.2

Capital expenditure increased during the year in line with our continued strategy of expanding and improving the quality of the network. The main expenditure areas in the period were in fixed data, 3G equipment, fibre, and the upgrade of existing 2G coverage to support the growth in customers.

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Free cash flow

Kshs Bn	H1 30 September 2010	H1 30 September 2009	% Increase/ (Decrease)
Operating cash flow	15.753	14.520	8.5
Total capital expenditure cash flow	(9.084)	(11.877)	(23.5)
Operating free cash flow	6.669	2.643	152.3
Interest paid	(0.508)	(0.538)	(5.6)
Taxation paid	(3.723)	(1.191)	212.6
Free cash flow	2.438	0.914	166.7

Cash flow from operating activities remained strong during the period. The increase was as a result of an increase in operating cash flow combined with a positive impact of working capital optimization initiatives.

Interest paid declined due to more favourable interest rates during the period.